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# EAST AFRICA CATALYTIC SUSTAINABLE AGRIBUSINESS INVESTMENT (CSAI) ACTIVITY

## *Assessment of Lessons Learned*

*Final Report*

*August 31, 2018*

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Sponsors of the activity: **USAID Bureau for Africa and Bureau of Economic Growth, Environment and Education, and USAID Bureau for Food Security**

USAID FROM THE AMERICAN PEOPLE

SNV

CLIMATEFOCUS

UNIQUE forestry and land use

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## List of Acronyms

| | |
|---|---|
| CSA | Climate Smart Agriculture |
| CSAI | East Africa Catalytic Sustainable Agribusiness Investment Project |
| FtF | Feed the Future |
| FY | Fiscal Year |
| GDP | Gross Domestic Product |
| GHG | Greenhouse Gas |
| GIIN | Global Impact Investing Network |
| GoK | Government of Kenya |
| KCIC | Kenya Climate Innovation Center |
| PACE IRP | Partnering to Accelerate Entrepreneurship - Investment Readiness Program |
| SNV | Netherlands Development Organization |
| USAID | United States Agency for International Development |

## EXECUTIVE SUMMARY

This report presents the findings of an assessment of lessons learned during implementation of the East Africa Catalytic Sustainable Agribusiness Investment (CSAI) activity. Funded in 2016 for a two-year period by USAID's Feed the Future (FtF) initiative, the overall goal of the CSAI activity was to identify innovative climate smart agriculture (CSA) ventures in Kenya, Uganda, and Ethiopia and support their development through business incubation, acceleration, and investor matching services to ultimately scale-up private and public investment. Implemented by a consortium led by SNV, with UNIQUE forestry and land use GmbH and Climate Focus, the CSAI activity had three mutually reinforcing strategic objectives: (i) create an enabling environment for investment in CSA; (ii) incubation of inclusive businesses engaged in CSA; and (iii) acceleration of capital into scalable CSA businesses. Several policy briefs have been produced under CSAI and shared across a variety of important platforms, including Agrilinks. As the CSAI Activity was nearing completion in July 2018, there was a need to document, review, and disseminate key lessons learned regarding the activity's approach to developing investment-ready CSA ventures and mobilizing capital for CSA businesses in East Africa from investors, including impact or social return-oriented investors.

The increasingly severe effects of climate change have been drastic for agriculture in Kenya and throughout the East Africa region: from on-going droughts and encroaching desertification to unseasonably heavy rains and flooding. The urgency for rural households to build greater resilience and reduce harmful greenhouse gas (GHG) emissions to cope in an environment of decreasing natural resources is driving the need for climate-smart agricultural solutions.

In order to rapidly transition from conventional to climate smart agriculture, significant investments are required both at the farm level, as well as in innovative ventures seeking to transform the agricultural value chain. The public sector is increasingly interested in leveraging private capital since public resources are considered insufficient to address the capital needs of the sector. Impact or social return-focused investors have emerged as an obvious initial, though not exclusive, source of capital considering their declared intention to generate social and environmental impact alongside a financial return (i.e., "triple bottom line").

In 2015, more than USD 9.3 billion in impact capital was disbursed in East Africa with approximately half of it invested in Kenya[1]. Despite this impressive sum, early stage CSA ventures struggle to attract finance. Based on key informant interviews (**see Annex 2**), the majority of investors in Kenya are seeking enterprises who are in the acceleration phase, i.e. ventures that are considered investment ready with a few years' experience, revenue history, and an ability to absorb larger volumes of capital. The CSAI portfolio consisted primarily of enterprises not yet ready for acceleration investment (i.e., later incubation or early acceleration). More mature enterprises, on the other hand, were already attracting investment and were not in need of CSAI services. As a single incubator/accelerator program focused specifically on CSA enterprises, the scope and range of outreach for CSAI was limited relative to other incubator/accelerator programs servicing Kenya.

The ecosystem for climate smart agricultural investments consists of CSA-related *enterprises* seeking capital, *investors* interested in supporting sustainable agriculture, the enabling environment for investments, and *service providers* or *facilitators* supporting CSA investments. A summary of key challenges faced by these various actors is presented below.

<u>CSA Enterprise Challenges</u>

- Lack of sufficient capacity/skills in business planning, finance, etc.

[1] "Ethiopian Agribusiness Impact Investment Challenges", Learning Brief, June 2018

- The investment policies in East Africa are not conducive to stimulating CSA investments. The policies and terms often do not much the risk and cash flows of agricultural businesses.
- CSA benefits are not necessarily valued in economic terms, investors often do not have a clear idea of how to access CSA benefits
- Investors are not willing to accept bigger risks just because there are CSA benefits
- Limited market access and value chain integration of small-scale agricultural enterprises.
- Challenge to balance and measure the impact objectives of CSA investments.

<u>Investor Challenges</u>

- Due diligence of smaller CSA enterprises is expensive.
- Prevalence and preferences of foreign-based investors (described in more details in section 2.2).
- Policy and regulatory barriers to agricultural and CSA investments.
- Burdensome bureaucratic procedures for CSA investment.

<u>Support Service Provider / Facilitator Challenges</u>

- Few agricultural or CSA businesses are ready for investment
- Outside of the CSAI activity, facilitators showed limited CSA-specific expertise hindering their ability to support businesses on climate related issues

In response to many of the major challenges to CSA investments summarized above, and in line with its strategic objectives, the CSAI Activity pursued three components or "work packages": (i) project management and support of an enabling environment for private sector CSA investments; (ii) incubate climate smart and inclusive businesses; and (iii) accelerate and mobilize public support and private finance for scalable CSA enterprises.

Taking into consideration the challenges to CSA impact investing in East Africa, as well as the CSAI activity implementation challenges and lessons learned, recommendations are grouped into the three CSAI-project related implementation work packages:

*Recommendations: Enabling Environment and Project Management*

- ✓ engage government to enact and administer incentives for CSA investments
- ✓ increase collaboration among donors and other investment support programs
- ✓ mainstream CSA approaches and innovations through public institutions
- ✓ curate a CSA investment information platform, easily accessible by all stakeholders

*Recommendations: Incubation of CSA Enterprises*

- ✓ focus capacity-building on key factors for investor decision-making
- ✓ develop an exit strategy for donor-funded investment support and facilitation
- ✓ improve aggregation to expand market access for CSA enterprises

*Recommendations: Acceleration and Mobilization of CSA Investments*

- ✓ match expectations and needs of CSA enterprises and investors for mutual benefit
- ✓ encourage investors to expand pipelines to include a range of geographic and/or sector focus areas
- ✓ incentivize and promote local investors and local expertise for CSA investments
- ✓ promote an array of finance (debt, equity, and grants) based on CSA enterprise needs
- ✓ assess the inclusion of private investors as program implementation partners

*Recommendations: Improve Aggregation to Expand Market Access for CSA Enterprises*

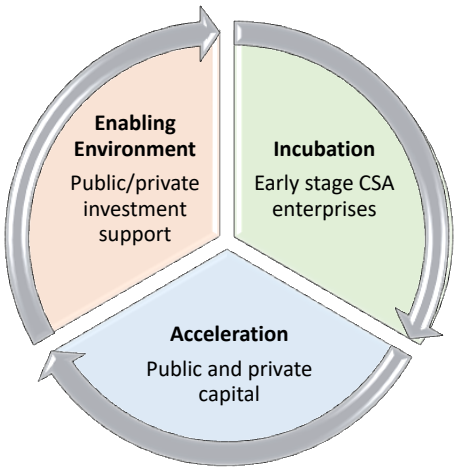
- ✓ to address small-scale agricultural and CSA enterprises lack of access to larger markets, adapted aggregation model (that have been used successfully in targeted countries) can be applied
- ✓ use corresponding long-term contracts with large-scale buyers, including premium prices and/or guaranteed volume purchases to provide incentives for farmer participation and investment.

## I. BACKGROUND

This report presents the findings of an assessment of lessons learned during implementation of the East Africa Catalytic Sustainable Agribusiness Investment (CSAI) activity. Funded in 2016 for a two-year period by Feed the Future (FtF), the overall goal of the CSAI activity was to identify innovative CSA ventures in Kenya, Uganda, and Ethiopia and support their development through business incubation, acceleration, and investor matching service to ultimately scale-up private and public investment. Implemented by a consortium led by SNV, with UNIQUE forestry and land use GmbH and Climate Focus, the CSAI activity had three mutually reinforcing strategic objectives: (i) create an enabling environment for investment in CSA; (ii) incubation of inclusive businesses engaged in CSA; and (iii) acceleration of capital into scalable CSA businesses (see Figure 1). SNV was the CSAI consortium leader and primarily responsible for the incubation component, while UNIQUE and Climate Focus managed the acceleration and enabling environment interventions respectively.

The project was initially set out to focus on Ethiopia, Kenya and Uganda. Uganda was later dropped due to the limited time and budget. Implementation largely happened in Kenya, with activities in Ethiopia mainly happening in the second year of implementation.

**Figure 1. CSAI Activity Components**




As the CSAI activity was nearing completion in July 2018, there was a need to document, review, and disseminate key lessons learned regarding the activity's approach to developing investment-ready CSA ventures and mobilizing capital for CSA businesses in East Africa from investors, including impact or social return-oriented investors. Therefore, the objectives of this assessment report are to:

- contextualize the current environment for investment in CSA enterprises in East Africa, particularly Kenya;
- list primary investors and donors currently working in or supporting this area;
- assess current gaps and challenges as barriers for investment in CSA enterprises;
- identify relevant challenges faced during implementation of the CSAI activity; and,
- provide recommendations for both enterprises and investors to improve investment in CSA enterprises, and to improve future programming in this area.

The report is divided into four main sections. Activities carried out and context for CSA investments in Kenya are shown in Section I, and major challenges for agricultural and CSA investing are presented in Section II. The specific interventions implemented by the CSAI activity in Kenya and key lessons learned are summarized in Section III. Recommendations for future growth and facilitation of CSA investments are then proposed in Section IV.

## 1.1 Activities and Methodology

A desktop review and research of existing reports, briefs, similar projects, and other relevant literature on investing and CSA in Kenya was conducted. Additional in-country primary data collection took place in Nairobi from June 18-21, 2018 (**see Annex 1**). Efforts were made to conduct key informant interviews with representatives from various CSAI-supported enterprises, investors, and facilitating support agencies and partner organizations.

Another major source of information were the discussions and proceedings of the CSAI event entitled "*Bridging the Gap: A Learning & Sharing Exchange"* held on June 21, 2018 at The Trademark Hotel in Nairobi. Over 43 participants from 30 organizations/companies attended, representing CSAI-supported enterprises (57% of total attendants), support service providers and facilitators (30%), and investors (13%). See **Annex 2** for a list of key informants interviewed and participating companies and organizations.


**Figure 2. Picture from "*Bridging the Gap: A Learning & Sharing Exchange*" (Nairobi, June 2018)**

## 1.2 Context for CSA Investments in Kenya

Agriculture remains a critical sector in Kenya, supporting the livelihoods of 80 percent of the population and contributing approximately a quarter of GDP.[2] The increasingly severe effects of climate change have been drastic for agriculture in Kenya and throughout the East Africa region – from on-going droughts and encroaching desertification to unseasonably heavy rains and flooding. The urgency for rural households to build greater resilience and reduce harmful GHG emissions to cope in an environment of decreasing natural resources is driving the need for climate smart agricultural solutions. CSA is therefore an integrated approach to address the interlinked challenges of food security and climate change, through the core pillars of increased productivity, enhanced adaptation or resilience, and reduced GHG emissions.[3]

In order to rapidly transition from conventional to climate smart agriculture, significant investments are required both at the farm level, as well as in innovative ventures seeking to transform the agricultural value chain. The public sector is increasingly interested in leveraging private capital, as public resources are considered insufficient to match capital needs. Impact or social return-focused investors have emerged as an obvious initial, though not exclusive, source of capital, considering their declared intention to generate social and environmental impact alongside a financial return (i.e., "triple bottom line")[4]. See Table 1 for a list of investors that are either actively, or engaged by CSAI to explore, providing capital to CSA enterprises in Kenya – through debt, equity, and/or grants.

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[2] FAO in Kenya, *The Agriculture Sector in Kenya*, Kenya at a Glance.
[3] World Bank, Climate-Smart Agriculture.
[4] Global Impact Investing Network (GIIN), *What is Impact Investing*?

**Table 1. Investors Interested in CSA Enterprises in East Africa**[5]

| Interested in CSA Enterprises | Investing in CSA Enterprises |
|---|---|
| ABC Bank | AHL Venture Capital Partners |
| Africa Enterprise Challenge Fund | Attraxx Group & Stratera Capital |
| AgResults | Catalyst Principal |
| Agricultural Finance Corporation | Conservation International Ventures Fund |
| Agrivie | Cooperative Bank of Kenya |
| Beyond Capital | Equity Bank Limited |
| BioCarbon Group | Expo Live Fund (Expo 2020 Dubai) |
| Century Microfinance Bank | Grofin |
| CoolCap Fund | ICDC |
| Crossboundary | Kenya Climate Venture Fund (KCV) |
| DoB Equity | LGT Impact Investors |
| FactorE | MCE Social Capital |
| Global Partnerships | Oiko Credit |
| Inuka Microfinance Institution | Okavango Capital |
| Irish Aid | Rabo Bank Foundation |
| Jihudi Kilimo | Techno Zilla |
| Micro-Enterprises Support Programme Trust | Tony Elumelu Foundation |
| Moringa Fund | Transatlantic Bank |
| Norad | Voxtra |
| One Billion Lives | |
| Rafiki Microfinance Institution | |
| ResponsAbility Investments | |
| Root Capital | |
| Soros Economic Development Fund | |
| USAID Dev. Credit Authority | |
| VentureWell | |

Support service providers for agricultural investments, including facilitating organizations or public sector programs, are shown in Table 2. However, it should be noted that the classifications of "investor" or "support service provider" are not definitive; many companies and organizations play multiple roles simultaneously. The categories used in the tables describe a company/organization's major, though not necessarily exclusive, investment function.

**Table 2. Support Service Providers for Investments (including agriculture) in East Africa**

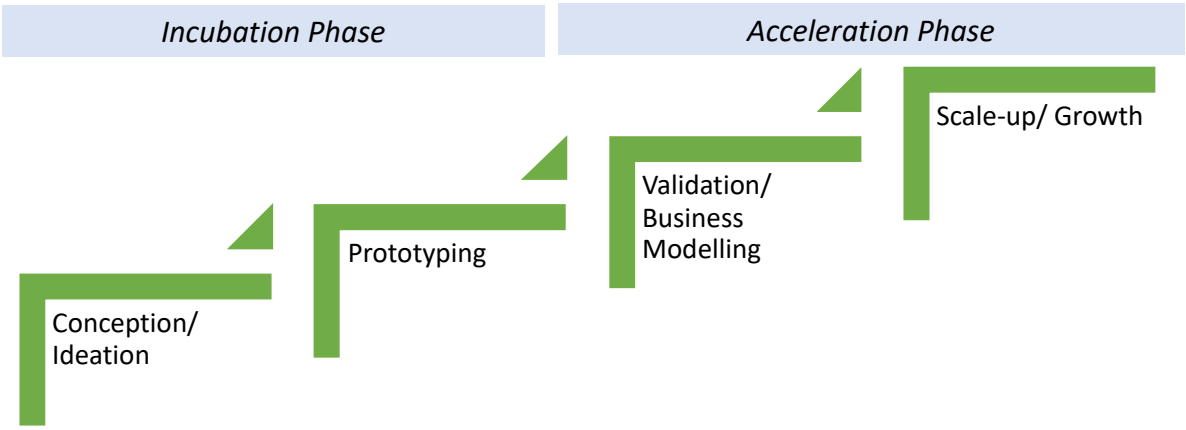
| Provider Type | Companies / Organizations | |
|---|---|---|
| ***Incubators / Accelerators*** | BiD Network | Kenya Climate Innovation Centre (KCIC) |
| | Enablis | Kenya FtF Innovation Engine [USAID] |
| | FabLab Nairobi | Kenya Kountry Bus. Incubator |
| | Green Pioneer Accelerator | Mara Foundation |
| | Growth Africa | Nailab |

[5] Based on data from CSAI FY 2018 Annual Report (draft 2018), and GIIN/Open Capital Advisors (Aug 2015)

| Provider Type | Companies / Organizations | |
|---|---|---|
| | iHub | Sinapis |
| | iLab Africa | Intellecap |
| | Impact Amplifier | |
| ***Technical Assistance or Consultants*** | BizCorps | GVEP Intl. |
| | Dalberg Advisors | I-DEV |
| | Genesis Consult | Innovare Advisors |
| ***Research*** | Africa Assets | Gearbox |
| | Egerton University | |
| ***Investor Network or Donor Programs*** | Africa Angels Network | East Africa Trade and Investment Hub [USAID] |
| | VC4Africa | Global Ag. and Food Security Program |

In 2015, more than USD 9.3 billion in impact capital was disbursed in East Africa with approximately half of it invested in Kenya. Despite this impressive sum, early stage CSA ventures struggle to attract finance[6]. As innovative ideas become viable business ventures, a series of progressive steps are usually followed: from detailed initial concepts, prepared and pilot- tested prototypes, to validated and refined business models, and scale and growth strategies. While "incubation" may refer to the first two steps and "acceleration" for the latter steps, there is a great deal of overlap with various businesses and support organizations defining incubation and acceleration differently. But the distinction can be characterized as follows: "Business incubators mentor companies through *childhood* while business accelerators guide them through *adolescence* into *adulthood*." [7]

**Figure 3. Stages of Enterprise Development and Support from Incubation to Acceleration**




Based on key informant interviews, the majority of investors in Kenya are seeking entrepreneurs who are in the acceleration phase, i.e. ventures that are considered investment ready with a few years' experience, revenue history, and an ability to absorb larger volumes of capital. Enterprises in the incubation phase are still developing their business and general lack a robust track record, so it is difficult to attract adequate capital for growth. Due to the higher risks associated with ideation and pilot-testing of concepts, investment for innovations in

[6] Ethiopian Agribusiness Impact Investment Challenges - Learning Brief (Jun 2018), TAP Consultancy Service
[7] "*The Difference Between a Business Accelerator and a Business Incubator*?", Fernando Sepulveda.

general, and CSA in particular, is constrained in Kenya. See Figure 3. The CSAI portfolio consisted primarily of enterprises not yet ready for acceleration investment (i.e., later incubation or early acceleration). More mature enterprises, on the other hand, were already attracting investment and were not in need of CSAI services. As a single incubator/accelerator program focused specifically on CSA enterprises, the scope and range of outreach for CSAI was limited relative to other incubator/accelerator programs servicing Kenya.

To better understand the current landscape and context for CSA investments in East Africa, the broad challenges to agriculture and CSA investments are identified (Section II); followed by the specific CSAI Activity-level challenges and implementation lessons learned (Section III). Recommendations for future CSA investment programs (Section IV) are based on an assessment of these two levels of challenges.

## II. CHALLENGES TO AGRICULTURAL AND CSA INVESTMENTS

The ecosystem for climate smart agricultural investments consists of CSA-related *enterprises* seeking capital, *investors* interested in supporting sustainable agriculture, the enabling environment for investments, and *service providers* or *facilitators* supporting CSA investments. A summary of key challenges faced by these various actors is presented below; further details can be found in a related CSAI Activity Policy Brief "Barriers to Investment in Climate-Smart Agriculture in Kenya" (Aug 2017).

### 2.1 CSA Enterprise Challenges

*Agricultural enterprises lack sufficient capacity/skills in business planning, finance, etc.*[8]: To complete an investor application and due diligence process, entrepreneurs must have access to basic skills in strategic planning, marketing, financial management, accounting, etc. Intensive capacity building is required but a shortage of skilled technical staff, and resources to attract them, are on-going challenges for these CSA enterprises. For agricultural or impact-focused investors, local CSA entrepreneurs also struggle to communicate and demonstrate a compelling positive climate impact story for their venture.

*Agricultural finance currently available in East Africa does not entice CSA investments*: The terms and requirements of prevailing agricultural finance in East Africa (i.e., pricing, collateral policies, etc.) does not encourage CSA investment. This is especially challenging for agricultural innovations and early-stage CSA enterprises who may not have the revenue stream nor financial models to access finance currently available in the market. Few investors specifically seek CSA investments and are able to offer concessional terms for these projects in recognition of climate mitigation and adaptation benefits.

*Limited market access and value chain integration of small-scale agricultural enterprises*: Agricultural value chains in Kenya are often disaggregated and based on relational or familial ties. Without structured connections to inputs, distribution channels, and markets smaller-scale agricultural or CSA enterprises lack the integration necessary to show the potential for growth and scale – key criteria for investors. In addition, weak infrastructure and poor rural road networks increase the transportation and logistical costs for smaller remote agricultural enterprises.

*Challenge to balance and measure the impact objectives of CSA investments*: Agricultural enterprises seeking external investment find it challenging to balance their core business targets

[8] "*Barriers to Investment in Climate-Smart Agriculture in Kenya*" (Aug 2017)

with the impact objectives of investors. For example, certain CSA enterprises must be able to cost-effectively measure and report CSA related impact . Yet, the time and resources required for this may detract from their primary business concern of expanding market opportunities for their CSA products.

## 2.2 Investor Challenges

*Due diligence of smaller CSA enterprises is expensive:* The due diligence process and requirements for investors are essentially the same, regardless of the venture size or capital needs. Investors therefore struggle to justify the due diligence costs for CSA enterprises with smaller scale and upside potential. Given the additional time and resources required to verify the investment-readiness of agricultural enterprises, many investors rely on public sector/donor-supported programs and service providers to assume or subsidize these expenses. The additional nuance of CSA investments compared to conventional agriculture due diligence is the need for investors to understand (and measure) the potential climate-related impact.

*Prevalence and preferences of foreign-based investors*: In Kenya, most investors are not based in-country and those that are operate primarily from Nairobi. With few local senior decision makers, these investors may not be aware of viable CSA enterprises in other parts of the country and lack on-the-ground expertise. As a result, there appears to be a general investor preference for expatriate-owned or controlled ventures compared to local agribusinesses. With greater exposure to external finance and markets, foreign-owned or managed enterprises are more familiar to investors and conducive for possible investment engagement. While the overall shortage of investment-ready agricultural CSA enterprises has been noted, the implicit bias of foreign-based investors towards local ventures outside of the usual areas and sectors remains an on-going challenge.

*Policy and regulatory barriers to agricultural and CSA investments*[9]: In Kenya, there are few fiscal incentives to encourage CSA-specific investments. This is further compounded by weak policy integration and coordination among key political institutions and stakeholders. The prevailing lack of financial and capital market regulations, high or capped interest rates, collateral requirements, and tax policies are all barriers to investors potentially interested in CSA ventures. These barriers are detailed in the policy brief "Barriers to Investment in Climate-Smart Agriculture in Kenya." There is some interest in renewable energy, "green" infrastructure, and innovative technologies but CSA is not considered a distinct investment class with proven attractive returns among impact investors.

*Burdensome bureaucratic procedures and policies for CSA investment*: The numerous procedures and policies needed to conduct business and build an agricultural investment portfolio in East Africa are costly and time-consuming. Specific local regulations will differ by country, but in Kenya the requirements are burdensome for several investment-related issues including: foreign currency conversion, business registration, investor licensing and investment certification, property title and transfer, tax payment administration, contract enforcement, employment regulations, utility access, etc.

## 2.3 Support Service Provider / Facilitator Challenges

*Few agricultural or CSA businesses are ready for investment*: Many agricultural enterprises in Kenya are relatively small-scale, informal family-based operations. Most investors seek enterprises with a feasible plan to achieve scale and the proven capacity to absorb and utilize capital effectively. There is a dynamic market for agricultural investments in Kenya with many foreign-based investors, but the number of agribusinesses capable of meeting specific investor

[9] Ibid.

criteria is quite limited. Accelerator or investment matchmaker programs will then compete for the same small pool of investment-ready businesses.

*Access to technical CSA expertise and experience is limited*: A centrally maintained source of current information on CSA that is easily accessible to farmers, businesses, investors, etc. does not currently exist. Thus, practical knowledge and exposure to improved dissemination methods and application of CSA technologies in East Africa is very limited.

## III. CSAI ACTIVITY IMPLEMENTATION AND LESSONS LEARNED

### 3.1 Lesson Learned from CSAI Implementation

Throughout implementation of the CSAI activity, numerous lessons have been documented and absorbed by SNV and consortium partners[10]. During the two-year implementation period, CSAI supported 32 enterprises (27 in Kenya & 5 in Ethiopia). Additional enterprises expressed an interest in joining the activity but were unable to join due to the time frame of the project. CSAI support was tailor-made and customized to the specific enterprise needs, making it effective and efficient. Some of the enterprises were referred by other enterprises that were already part of the project, which signified high confidence levels in the CSAI approach for technical assistance.

CSAI engaged a number of investors resulting in more than USD 1 million of investment and a strong pipeline of over USD 8 million. Investors have appreciated the diversity of CSAI enterprises both in terms of agricultural sectors and stages of development. Though most of the enterprises were at startup stages, investors appreciated the innovations being tested, and some investors have engaged the enterprises for further TA support with the aim of eventual investment. The fact that CSAI has been open to connect the enterprises to various investors is unusual for most incubators who try to protect their pipelines for specific investors.

However, the project also faced a number of challenges at the activity level that are summarized below under their respective work packages.

**Table 3. Work Package 1 (Enabling Environment / Project Management): CSAI Activity Lessons Learned**

| CSAI Activity Challenges | Implementation and Lessons Learned |
|---|---|
| Various regulatory and enabling environment challenges for CSA investment in East Africa | To address the specific foreign currency barriers for agricultural investments in Ethiopia, CSAI identified investors with experience in-country and the ability to lend in local currency. *Lessons: ensure foreign investor timelines align with local political context and contingency plans or exit strategies developed accordingly. For currency conversions, find enterprises with export revenue or ability to repay foreign currency-based finance.* |
| Uncertainty of Kenya's extended election period | The volatile political environment delayed decision-making among businesses and investors. CSAI monitored political development closely until presidential election results were complete, and a new president situated. *Lessons: fast track least affected interventions until situation normalizes.* |
| Challenge to maintain momentum of incubation with a short project timeframe | Due to on-going business obligations and lack of availability, enterprise staff were not able to participate/lead in targeted technical assistance efforts. CSAI co-shared costs for key technical resources, such as accountant services and marketing to fill gaps. *Lessons: identify additional human resources required when developing enterprise incubation plans; encourage businesses to continue working with technical resources as staff or through incentive-based contracts.* |
| | |

[10] Based on data from CSAI Activity Annual Reports for FY 2017 (Oct 2017) and FY 2018 (draft Jul 2018).

**Table 4. Work Package 2 (Incubation): CSAI Activity Lessons Learned**

| CSAI Activity Challenges | Implementation and Lessons Learned |
|---|---|
| Businesses were slow to prepare materials for investor review and due diligence | Due to limited resources and need to maintain business operations, enterprises failed to complete investment paperwork. CSAI prepared documentation on behalf of businesses but was not good practice; investors need to see business engagement and ownership. *Lessons: have all relevant materials prepared prior to engaging investors; ensure businesses have relevant materials prior to meetings with potential investors.* |
| Difficult to sufficiently incubate and secure investments for target enterprises during CSAI project timeframe. | The two-year duration of the CSAI Activity was considerably shorter than originally anticipated during its design. As a result, CSAI focused its efforts on more established agribusiness enterprises (i.e., closer to being investor-ready) that could take on significant investment capital. The needs of smaller CSA enterprises remained unmet. *Lessons: extend Activity timeframe and resources to enable CSAI to expand outreach and support of smaller locally-based CSA ventures.* |
| Significant competition for businesses in the incubation/ acceleration space. | CSA enterprises seeking investments is limited so incubator and accelerator organizations work with the same pool of investor-ready agribusinesses. *Lessons: expand network but realize that climate impacts are not always appropriate; understand priorities of target investors and use "climate-smart" to attract those open to CSA.* |
| Companies are reluctant to share internal information, which increases CSAI's overall portfolio risk. | Developed an MOU to clarify roles and responsibilities of all stakeholders, and to build trust and transparency with CSA enterprises. *Lessons: educate agribusiness partners on benefits of sharing (and investor needs for) information. Formal MOUs also provide CSAI with an opportunity to exit if CSA enterprises cannot meet required profile for incubation or investment.* |
| Many enterprises are more interested in free technical support and grants rather than investment. | Investment objectives have been clearly stated in MoU with CSA enterprises but requiring in-kind contributions has been challenging. The prevalence of and over-reliance on grant funding is an obstacle for sustainable agricultural enterprise development in East Africa. *Lessons: assess whether external investment is actually needed for target enterprises and confirm other support they may be receiving. Coordinate with other support service providers to discuss investment strategies to increase cost-sharing or in-kind contributions as part of collaboration agreements.* |

**Table 5. Work Package 3 (Acceleration and Mobilization of Investments): CSAI Activity Lessons Learned**

| CSAI Activity Challenges | Implementation and Lessons Learned |
|---|---|
| Difficult to match CSA enterprises in pipeline to appropriate investors (with extremely specific investment criteria) | The challenge is that enterprises seeking investment are CSA specific, but the investors are not necessarily interested in CSA. Match-making becomes a mix of investor research and revising the pitch for CSA enterprises accordingly. CSAI attended impact investor conferences and expanded its investor network to better match the needs of partner CSA enterprises. But developing new investor networks was time-consuming for CSAI and delayed the investor-matching process. *Lessons: expand investor network focused on developing deals based on select investor requirements (especially those with an interest in CSA) and offer investors the opportunity to support/engage CSA businesses in their pipeline.* |
| Lack of grant funding or seed capital for early-stage CSA enterprises. | Without an explicit grant component, the CSAI project was less attractive to CSA enterprise partners than other donor-funded programs that offered direct grants. *Lessons: encourage local ownership and stake of partner CSA enterprises via co-financing or cost-sharing of technical assistance and specialized equipment.* |
| Impact investors seek innovative enterprises with inclusive social returns and compelling impact. | Any venture seeking investment from impact investors must understand their priority focus areas and develop a compelling impact pitch accordingly. *Lessons: help CSA enterprises to articulate a proven, scalable impact story to attract socially-oriented investors. It* |

| CSAI Activity Challenges | Implementation and Lessons Learned |
|---|---|
| | *is difficult for some partner enterprises to clearly and convincingly present their climate impact stories.* |

## IV. RECOMMENDATIONS

Taking into consideration the challenges to CSA impact investing in East Africa, as well as the CSAI project implementation challenges and lessons learned[11], recommendations are grouped into the three CSAI-related work packages.

### 4.1 Enabling Environment and Project Management

***Engage government to enact and administer incentives for CSA investments***: Early and on-going government engagement is critical to stimulating CSA investments and improving the enabling environment for agricultural development in general. Targeted fiscal incentives and strengthened regulatory policies can have multiplier effects throughout the value chain. Specific activities to promote CSA investments include:

- develop a strategic roadmap to align financial sector policies with long-term investment standards for CSA innovations;
- target performance-driven public grants and guarantees for financial intermediaries to encourage private sector CSA investment;
- extend liabilities for climate and other environmental impacts, including application of the 'polluter-pays principle';
- introduce tax credits and allowances to leverage private investment in energy efficiency and green infrastructure, and encourage climate-smart farming practices;
- streamline bureaucratic procedures to harmonize business registration and reduce time and costs; and,
- explore use of green and impact bonds to mobilize private sector capital for CSA sector.

More detailed policy recommendations for CSA investments can be found in the CSAI Activity Policy Brief "Increasing CSA Investment Through Fiscal Incentives."

***Increase collaboration among donors and other investment support programs***: With a relatively small pool of investment-ready CSA enterprises, improved collaboration among investment support programs is needed to prevent duplicating efforts or financial resources to the same business. The timeframe for effective incubation and validation of business models is long and can extend beyond the duration of a single project; so, sharing pipelines across various support programs can increase outreach and exposure for more CSA enterprises. Usually driven by the need to attribute its impact, donor programs should avoid developing a sense of ownership over assistance to individual businesses in their portfolio.

***Mainstream CSA approaches and innovations through public institutions***: To address knowledge gaps in public institutions and promote institutional synergies, CSA could be mainstreamed into different levels of government with long-term educational programs and information services for all stakeholders. Incorporating mentorship and coaching on entrepreneurship in the public education system can also improve baseline knowledge of entrepreneurs.

[11] Findings from a similar USAID-funded project in East Africa ("Partnering to Accelerate Entrepreneurship - Investment Readiness Program PACE IRP"), also validated and underpinned many of these recommendations.

***Curate a CSA investment information platform, easily accessible by all stakeholders***: Participants at the "CSAI Learning and Sharing Exchange" suggested among other possible solutions to CSA investment challenges the development of a database that houses information on investors interested in CSA related investments and enterprises seeking capital. Without such a resource, many enterprises that are not part of accelerator or incubator programs lack ready access to information about possible investors and their requirements. Investors on the other hand have limited access to or awareness of innovative CSA ventures with growth and impact potential. Basic information on agricultural enterprises and potential investors is available from a variety of sources but is neither CSA-focused nor is it frequently updated and maintained. As a first step, existing resources should be screened and communicated to investors and enterprises to avoid duplication.

## 4.2 Incubation of CSA Enterprises

***Focus capacity-building on key factors for investor decision-making:*** Building the investor-readiness of CSA enterprises was a major aspect of the CSAI project, but the effectiveness of capacity-building can be mixed without focus. It is essential for CSA enterprises and related support programs to understand the key factors that investors consider when reviewing potential ventures. A compiled list of factors that many investors in East Africa use to assess business potential and capacity for investment can be found in Table 6.

**Table 6. Key Factors for Investor-Readiness and Interest** [12]

| | | | |
|---|---|---|---|
| *Growth Stage* | ✓ stage of business | *Team* | ✓ entrepreneur's experience<br>✓ team depth |
| *Documents* | ✓ quality of business plan (written/unwritten)<br>✓ strength of financial records<br>✓ status of capital usage plan | *Impact* | ✓ impact core to business focus<br>✓ impact goals achieved through volume or magnitude |
| *Market* | ✓ market size<br>✓ level of proof<br>✓ competitive presence<br>✓ geography | *Distribution and Input Approach* | ✓ robust strategies to scale in place<br>✓ direct vs. indirect approach to distribution<br>✓ in-house vs. outsourced sourcing |
| *External Relations* | ✓ quality of partnerships<br>✓ prior funding<br>✓ recognition | | |

Each investor has their own criteria for capital investment decisions and will weigh these elements differently. Incubation and capacity-building support should concentrate on key factors in investor decision-making to help CSA enterprises save time and resources by getting either positive or "fast no" indications early in the process. Accordingly, technical training should be based on the actual needs and critical skill gaps of CSA entrepreneurs rather than a pre-determined curriculum of standard topics.

The main factors affecting CSA investments under CSAI were: growth stage and market (i.e., relative small-scale CSA businesses, and typically more early stage CSA enterprises in the CSAI portfolio) and documents (i.e., inability to demonstrate ability to effectively absorb and utilize investment resources. As CSA businesses are more typically early stage, stage of business was the most relevant factor.

***Improve aggregation to expand market access for CSA enterprises***: Small-scale agricultural and CSA enterprises lack access to larger markets/buyers which inhibits their growth and attractiveness to investors. Aggregation models (e.g. agro-industrial parks, farmer cooperatives

[12] Ibid. (from the PACE resource at the bottom of p. 9?)

or clusters, collection points, etc.) have been successfully used in Kenya and could be adapted for CSA-related farmers. Corresponding long-term contracts with large-scale buyers, including premium prices and/or guaranteed volume purchases, also provide incentives for farmer participation and investment.

***Develop an exit strategy for donor-funded investment support and facilitation***: Incubation and acceleration costs for early stage (i.e., higher risk) CSA enterprises are often subsidized by public or donor initiatives, therefore transition from public to private provision of support and facilitation can ensure sustainability. As part of its exit strategy, CSA investment programs should engage a diversified range of private sector partners early in the design and implementation process. To establish commercial rather than donor-oriented relationships, private providers can charge success or performance-based fees to client CSA enterprises and/or investors.

## 4.3 Acceleration and Mobilization of CSA Investments

***Match expectations and needs of CSA enterprises and investors for mutual benefit***: The needs and expectations of CSA enterprises and investors should be understood for matchmaking to be mutually beneficial. According to a CSAI-supported entrepreneur, conferences and networking events were fairly useful but he found most investors lacked the sector expertise and value-addition (beyond capital) that his venture needed. For some early-stage CSA enterprises with appropriate scale potential and capital needs, investment may be needed before a minimum viable product or operational revenue is possible. On the other hand, investors seek entrepreneurs that can utilize capital efficiently, keep their business simple, build on competitive strengths, and remain focused on the core mission.

***Encourage investors to expand pipelines to include a range of geographic and/or sector focus areas***: Local entrepreneurs are beginning to see CSA as opportunities to simultaneously reduce climate risk and achieve attractive returns. There has been a growing number of investment service providers who are active investors in Kenya, but the pipeline of potential businesses has continued to be relatively homogenous. Expanding investor pipelines and sourcing outside of the conventional sectors or geographic areas can improve outreach to CSA enterprises often overlooked and underserved.

***Incentivize and promote local investors and local expertise for CSA investments***: To bridge the inclusivity gap and improve local buy-in, local CSA investments by local investors could be incentivized and promoted by effectively documenting and disseminating information on who the local CSA investors are – their focus areas and investment criteria. The number of local investors is still small but can be more patient, risk tolerant, and cognizant of local business growth challenges than foreign-based investors. Local CSA investors could also enhance development of agricultural value chains through the use of local supply chains and distribution channels. Beyond local investment, local networks and expertise should be used for CSA venture pipeline screening (i.e., cross-check trends, assumptions, and ground truth submitted information). Local knowledge is especially needed for foreign investors without in-country decision makers.

***Promote an array of finance (debt, equity, and grants) based on CSA enterprise needs***: Various forms of finance should be available to match CSA enterprise needs and off-set risk during various stages of growth (i.e., grants for innovation ideation, angel investments for prototyping, private equity for expansion and growth, etc.). Although investment capital is readily available for agribusinesses transitioning to commercial scale, for early stage CSA enterprises grants and patient or concessionary capital is difficult to find. Future initiatives could potentially entice more early stage investors to enter the CSA space in East Africa by

reducing investment risk through: (1) access to/availability of concurrent incubation and technical support of CSA enterprises, (2) use of development credit guarantees or other public funds to partially offset initial investments, and other approaches.

***Assess the inclusion of private investors as program implementation partners***: The CSAI project supported acceleration and showcased selected CSA enterprises with targeted investors. This required significant effort to identify and encourage investors to consider CSAI-assisted enterprises in their pipeline. An alternative approach taken by similar incubation and acceleration programs (e.g. PACE IRP) is to include multiple private investors as consortium partners[13]. Private partner investors are offered the right of first refusal for CSAI-supported enterprises, with the investment assessment based on the investor's own independent review and due diligence process. To avoid any conflict of interest, the program does not advise nor participate in the investment decision. There were challenges associated with private investors being part of the implementation team but the benefits and results to date are worth consideration by other programs.

[13] "*Learnings from the USAID PACE Investment Readiness Program*", Open Capital Advisors (Jun 2018).

**ANNEXES**

# Annex 1. Lessons Learned Assessment Activities Conducted

| DATES | ACTIVITIES |
|---|---|
| *May 24 – Jun 1, 2018* | – key informant interviews (initial): SNV Kenya and SNV USA |
| *Jun 1 –15* | – desktop review and research on CSA and investing in Kenya<br>– develop/finalize methodology for assessment of CSAI lessons learned |
| *Jun 17 (Sun)* | – travel to Nairobi from Washington DC |
| *Jun 18 (Mon)* | – key informant interview: Biogas Intl.<br>– review session plan and materials for "*CSAI Learning & Sharing Exchange*" |
| *Jun 19 (Tue)* | – key informant interview: KCIC<br>– key informant interview: Intellegap Advisory Services |
| *Jun 20 (Wed)* | – finalize materials and slides for "*CSAI Learning & Sharing Exchange*" |
| *Jun 21 (Thu)* | – conduct "*CSAI Learning & Sharing Exchange*"<br>– key informant interviews (initial): UNIQUE and Climate Focus<br>– depart Nairobi for Washington DC |
| *Jun 25 – 29* | – draft report preparation and submission |
| *Jul 2 – 13, 2018* | – additional key information interviews<br>– final report preparation and submission (incorporating draft comments) |

# Annex 2. Participating Companies and Organizations

***Key Informant Interviews***

| Type | Company / Organization |
|---|---|
| CSA Enterprise | Flexi Biogas Intl. |
| Investor/Service Provider | KCIC |
| Investor/Service Provider | Intellecap Advisory Services |
| Investor | Open Society Foundations |
| Facilitator [CSAI] | SNV USA |
| Facilitator [CSAI] | SNV Kenya |
| Facilitator [CSAI] | Climate Focus |
| Facilitator [CSAI] | UNIQUE forestry and land use |

***Participants - Learning & Sharing Exchange***

| Type | Company / Organization |
|---|---|
| CSA Enterprise | Amba Plc |
| CSA Enterprise | Biofit |
| CSA Enterprise | Biofit |
| CSA Enterprise | Biogas International Ltd. |
| CSA Enterprise | Biogas International Ltd. |
| CSA Enterprise | Business Consultant |
| CSA Enterprise | Dry Land Seed Ltd. |
| CSA Enterprise | Ekule Ltd. |
| CSA Enterprise | Elite Innovations Ltd |
| CSA Enterprise | Euro Fresh |
| CSA Enterprise | Transu Ltd. |
| CSA Enterprise | LVF |
| CSA Enterprise | Menagesha Biotech |
| CSA Enterprise | Hydroponics Africa |
| CSA Enterprise | Ruhamah Enterprises |
| CSA Enterprise | Ruhamah Enterprises |
| CSA Enterprise | Selina Wamucii |
| CSA Enterprise | Selina Wamucii |
| CSA Enterprise | Selina Wamucii |
| CSA Enterprise | Kitui Industries Ltd. |

| Type | Company / Organization |
|---|---|
| CSA Enterprise | Rift Valley Hay |
| CSA Enterprise | LishaBora Ltd. |
| Facilitator | GoK |
| Facilitator | GoK |
| Facilitator | GoK |
| Facilitator | Nairobi City Council |
| Facilitator [CSAI] | Climate Focus |
| Facilitator [CSAI] | Climate Focus |
| Facilitator [CSAI] | SNV Kenya |
| Facilitator [CSAI] | SNV USA |
| Facilitator [CSAI] | SNV Ethiopia |
| Facilitator [CSAI] | UNIQUE forestry and land use |
| Facilitator | USAID |
| Facilitator / Investor | KCIC |
| Facilitator / Investor | FICCF |
| Facilitator / Investor | Intellecap Advisory Services |
| Investor | Rafiki Microfinance Bank Ltd |
| Investor | Root Capital |

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