



**LUND**  
UNIVERSITY

---

# Impact Investing in Kenya: Practises and Potential

---

Albert Lundberg  
Carl Broomé

Date: June 2015  
Supervisor: Carl-Johan Asplund  
External supervisor: Björn Forslind  
Program: M.Sc. Industrial Engineering and Management



## Preface

Foremost we would like to express our sincere gratitude for all the help from Carl-Johan Asplund, our supervisor at Lund University, and Björn Forslind, our helping hand in Nairobi, Kenya. Without you this paper would not have been possible to complete. We would also like to thank SIDA who have sponsored this thesis. Furthermore we are grateful for the help Mina Stiernblad has been giving. Both by introducing us to key people in Nairobi and by helping us feel at home in a foreign country. We would also like to give a special thank you to Nonnie Wanjihia at EAVCA for letting us use her extensive network. Finally we wish to express our genuine thanks to all the people who took the time and answered our questions.

Albert Lundberg

Carl Broomé

---

---





Figure 1 Map of Kenya (Nationsonline 2015)

<b>Capital</b>	Nairobi	<b>GDP per capita (PPP)</b>	\$3.138
<b>Official languages</b>	English and Swahili	<b>GDP real growth rate</b>	5,7% (2014 est.)
<b>Government</b>	Presidential republic	<b>GDP composition</b>	
<b>President</b>	Uhuru Kenyatta	- Agriculture	29,3%
<b>Population</b>	45 million	- Industry	9,6%
- Living in rural areas	75%	- Services	53% (2014 est.)
<b>Year of independence</b>	12 December 1963	<b>Labour force employed</b>	
<b>Inflation</b>	6,9%	- In agriculture	75%
<b>HDI (2013)</b>	0,535 low (147th)	- In industry & services	25%

Table 1 Fact table (Wikipedia 2015, CIA 2015)

## Abstract

<b>Title</b>	Impact Investing in Kenya: Practices and Potential
<b>Authors</b>	Albert Lundberg, Industrial Engineering and Management class of 2015, Lund University, Faculty of Engineering; Carl Broomé Industrial Engineering and Management class of 2015, Lund University, Faculty of Engineering
<b>Supervisors</b>	Carl-Johan Asplund, Department of Industrial Management and Logistics, Production Management, Faculty of Engineering, Lund University; Björn Forslind, Entrepreneur and helping hand in Kenya
<b>Background</b>	<p>There is a widespread consensus that aid alone will not be able to solve the development challenges facing Africa, with Kenya being no exception. The challenges are simply too great. One potential way to facilitate growth while also making it more inclusive is to use impact investing. Impact investing could be defined as investments made with the intention of yielding a financial return while also having a positive social and/or environmental impact that is continuously measured. East Africa is one of the centres of global impact investing and Nairobi is the regional hub of East African impact investing.</p>
<b>Purpose</b>	<p>The purpose of this Master's thesis is to examine how the phenomenon of impact investing is practised in Kenya, mainly from a fund manager's perspective. From the main purpose four sub-purposes are derived.</p> <ul style="list-style-type: none"><li>• To explore whether impact investing fills a gap in Kenya's investing market and what that gap may look like.</li><li>• To examine how impact investors in Kenya weigh social impact against financial return.</li><li>• To investigate what role DFIs play and how they differ from impact investors.</li><li>• To explore what incentives exist for impact fund managers as well as how impact investing itself could change market incentives.</li></ul>
<b>Delimitations</b>	<ul style="list-style-type: none"><li>• In line with the stated purpose of using a fund manager's perspective as well as limited time and resources, pure asset owners and entrepreneurs were not interviewed.</li></ul>

- In agreement with the qualitative nature of the study as well as due to limited data access, financial statements such as annual reports were disregarded.
- The authors have no ambition to compare practises of different funds in a normative way, consequently such comparisons are absent.

## **Method**

The thesis combines an exploratory & descriptive, abductive and stakeholder focused approach. The study is qualitative and based on 16 in-depth interviews with people active in the Kenyan investing space. Findings are analysed and discussed based on data gathered, and a conceptual framework developed, through a literature study.

## **Conclusions**

- Impact investing in Kenya is in an early stage but growing
- Practises vary across firms, with funds still trying to figure out how to best practice the phenomenon
- Impact investors claim that they accept higher risk and exercise more patience than traditional investors
- Impact funds tend to be structured in similar ways to traditional PE and VC funds
- DFIs play an important role by influencing actors and shaping the market
- Impact funds do not incentivise employees based on social and/or environmental impact
- Impact investing implies a stakeholder model of governance that takes the needs of several stakeholders into consideration
- Impact investing moves beyond strategic CSR and puts social impact at the heart of the business model

## **Keywords**

*Impact Investing, CSR, Kenya, DFI, Stakeholder*

## Sammanfattning

<b>Titel</b>	Impact investing i Kenya: Praktik och potential
<b>Författare</b>	Albert Lundberg, Industriell ekonomi 2010, LTH, Carl Broomé, Industriell ekonomi 2010, LTH
<b>Handledare</b>	Carl-Johan Asplund, Institutionen för produktionsekonomi, LTH; Björn Forslind, Entreprenör och hjälpande hand i Kenya
<b>Bakgrund</b>	<p>Det råder en bred enighet kring att enbart bistånd inte kommer räcka till för att lösa de enorma utvecklingsutmaningar som Afrika står inför och Kenya utgör inget undantag. Utmaningarna är helt enkelt för stora. Ett möjligt instrument att använda för att främja tillväxt och samtidigt göra den mer inkluderande är 'impact investing'. Impact investing kan definieras som investeringar som görs med avsikt att ge finansiell avkastning samtidigt som de har mätbar positiv social eller miljömässig inverkan. Östra Afrika är ett av flera globala centrum för impact investing och Nairobi utgör det regionala navet för dessa investeringar.</p>
<b>Syfte</b>	<p>Syftet med denna magisteruppsats är att undersöka hur fenomenet impact investing praktiseras i Kenya, främst ur ett fondförvaltarperspektiv. Fyra delsyften har härletts från detta huvudsyfte.</p> <ul style="list-style-type: none"><li>• Att utforska huruvida impact investing fyller något gap i Kenyas investeringsmarknad, samt hur detta gap i så fall ser ut.</li><li>• Att undersöka hur impact investerare i Kenya väger social nytta mot finansiell avkastning.</li><li>• Att utreda vilken roll DFI:er spelar samt hur de skiljer sig från impact investerare.</li><li>• Att undersöka vilka drivkrafter som finns för fondförvaltare som gör impact investeringar, samt hur impact investing som fenomen kan förändra drivkrafter på marknaden.</li></ul>
<b>Avgränsningar</b>	<ul style="list-style-type: none"><li>• I enighet med syftet att utgå från ett fondförvaltarperspektiv har rena kapitalägare samt entreprenörer inte intervjuats.</li><li>• I enighet med studiens kvalitativa utgångspunkt har kvantitativ data från exempelvis delårsrapporter och årsredovisningar inte studerats.</li></ul>



- Studien har ingen ambition att normativt jämföra hur olika fonder praktiserar impact investing, varför denna typ av jämförelser och bedömningar ej genomförts.

## Metod

Studien kombinerar ett explorativt & deskriptivt, ett abduktivt och ett intressentfokuserat tillvägagångssätt. Studien är kvalitativ och baseras på 16 djupintervjuer med personer som är aktivt involverade i Kenyas investeringssektor. Rön och resultat har analyserats och diskuterats utifrån ett utvecklat konceptuellt ramverk samt data insamlat genom en litteraturstudie.

## Slutsatser

- Impact investing i Kenya är ett fenomen som befinner sig i ett tidigt skede, samtidigt som det växer snabbt.
- Olika fonder praktiserar impact investing på olika sätt och hur fenomenet ska praktiseras på bästa sätt utifrån respektive fonds utgångspunkt är inte fullständigt klarlagt.
- Impact investerare hävdar att de är villiga att ta mer risk och är mer tålmodiga än traditionella investerare.
- Impact-fonder är mestadels strukturerade som traditionella PE- eller VC-fonder.
- Hittills finns inga system för att förmå fondförvaltare att uppnå social eller miljömässig impact med hjälp av finansiella incitament.
- DFI:er spelar en viktig roll genom att influera fonder och forma marknaden.
- Impact investing kan länkas till företagsstyrning baserat på ett intressentperspektiv, där flera intressenters önskemål beaktas.
- Impact investing rör sig bortom strategisk CSR och kopplar det sociala perspektivet direkt till affärsidén.

## Taxonomy

BoP	Bottom of the Pyramid
CSR	Corporate Social Responsibility
DFI	Development Finance Institution
EAVCA	East Africa Venture Capital Association
ESG	Environmental Social Governance
GIIN	Global Impact Investing Network
OECD	The Organisation for Economic Co-operation and Development
PE	Private Equity
SRI	Socially Responsible Investment
SSA	Sub-Saharan Africa
VC	Venture Capital
WEF	World Economic Forum

## Definitions

BoP	In economics, the bottom of the pyramid is the largest, but poorest, socio-economic group. In global terms, this is the 3 billion people who live on less than US\$2.50 per day.
Carried interest	A share of any profits that the general partners of a fund receive as compensation. A sort of performance fee that reward managers for beating the hurdle rate.
CSR	Companies taking responsibility for their impact on society.
DFI	A Development finance institution is an alternative financial institution that provides credit in the form of higher risk loans, equity positions and risk guarantee instruments to private sector investments in developing countries. Several countries, such as Germany, the Netherlands, Sweden and Norway have set up DFIs and fund them by diverting a share of their aid budget.
ESG	Stands for environmental social, and governance. It is a set of standards, related to these three areas, for a company's operations that socially conscious investors use to screen and evaluate investments.
Hurdle rate	In capital budgeting, hurdle rate is the minimum rate that a company expects to earn when investing in a project. Hence the hurdle rate is also referred to as the company's required rate of return or target rate. In order for a project to be accepted, its

internal rate of return must equal or exceed the hurdle rate.

- PE In finance, private equity is an asset class consisting of equity securities and debt in operating companies that are not publicly traded on a stock exchange. A private equity investment will generally be made by a private equity firm, a venture capital firm or an angel investor.
- Social Enterprise A social enterprise is an organization that applies commercial strategies to maximize improvements in human and environmental well-being - this may include maximizing social impact rather than profits for external shareholders.
- SRI An investment that is considered socially responsible because of the nature of the business the company conducts. Common themes for socially responsible investments include avoiding investments in companies that produce or sell addictive substances (e.g. alcohol, drugs, gambling).
- VC Venture capital is financial capital provided to early-stage, high-potential, growth start-up companies. The venture capital fund earns money by owning equity in the companies it invests in.

<b>1. INTRODUCTION</b> .....	<b>2</b>
1.1 BACKGROUND AND CONTEXT .....	2
1.2 BRIEF OVERVIEW OF IMPACT INVESTING .....	2
1.3 WHY PAY ATTENTION? .....	4
1.4 THE CASE OF KENYA.....	5
1.5 MAIN PURPOSE .....	6
1.6 SUB-PURPOSES .....	6
1.7 DELIMITATIONS .....	7
1.8 TARGET AUDIENCE .....	7
1.9 OUTLINE OF THE THESIS .....	8
<b>2. THEORETICAL FRAMEWORK</b> .....	<b>10</b>
2.1 EVALUATION OF THE EXISTING BODY OF KNOWLEDGE.....	10
2.1.1 Definition .....	10
2.1.2 Brief History .....	12
2.1.3 The current situation .....	13
2.1.3.1 What the data says .....	13
2.1.4 Impact Investing in SSA and Kenya .....	15
2.2 THE FOUNDATION FOR A CONCEPTUAL FRAMEWORK.....	17
2.2.1 Weighing of financial and social goals.....	17
2.2.2 Corporate social responsibility .....	18
2.2.3 Stakeholders.....	20
2.2.4 Putting the pieces to the puzzle .....	23
2.3 WHERE THIS RESEARCH FITS IN.....	23
<b>3. METHODOLOGY</b> .....	<b>24</b>
3.1 RESEARCH APPROACH .....	24
3.1.1 Exploratory & descriptive approach .....	24
3.1.2 Abductive approach .....	24
3.1.3 Stakeholder focused approach .....	25
3.2 RESEARCH PROCESS .....	25
3.2.1 Qualitative process approach.....	26
3.2.2 Triangulation .....	26
3.2.3 Data collection.....	26
3.2.3.1 Literature study.....	26
3.2.3.2 Interviews .....	27
3.2.4 Data analysis .....	28
3.2.4.1 Interview analysis.....	28
3.2.4.2 Literature analysis .....	29
3.3 DATA CREDIBILITY.....	29
3.2.5 Reliability .....	29
3.2.6 Validity.....	30
<b>4. FINDINGS</b> .....	<b>32</b>
4.1 FUND OVERVIEW .....	32
4.2 MARKET-GAP .....	33
4.3 WEIGHING SOCIAL IMPACT AND FINANCIAL RETURN .....	35
4.4 THE ROLE OF DFIS .....	37

4.5	INCENTIVES .....	38
4.6	ADDITIONAL FINDINGS .....	41
<b>5.</b>	<b>DISCUSSION .....</b>	<b>44</b>
5.1	DOES IMPACT INVESTING FILL A GAP IN KENYA? .....	44
5.2	HOW ARE SOCIAL AND FINANCIAL GOALS WEIGHED? .....	46
5.3	WHAT ROLE DO DFIS PLAY? .....	47
5.4	WHAT ROLE DOES INCENTIVES PLAY? .....	48
5.5	DISCUSSIONS RELATED TO ADDITIONAL FINDINGS .....	49
5.5.1	Agricultural and health care sectors important .....	49
5.5.2	Equity the weapon of choice .....	50
5.6	IMPACT INVESTING: BEYOND STRATEGIC CSR .....	50
5.7	MOVING FORWARD: HOW TO GROW IMPACT INVESTING IN KENYA .....	51
<b>6.</b>	<b>CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>54</b>
6.1	CONCLUSIONS .....	54
6.2	CONTRIBUTION TO KNOWLEDGE .....	56
6.3	SUGGESTIONS FOR FUTURE RESEARCH .....	56
6.4	IMPLICATIONS OF FINDINGS .....	56
<b>7.</b>	<b>SOURCES .....</b>	<b>58</b>
7.1	LITERATURE .....	58
7.2	INTERVIEWEES .....	61
<b>8.</b>	<b>APPENDIX .....</b>	<b>64</b>
8.1	STANDARD QUESTIONNAIRE .....	64



# 1. Introduction

*The first chapter gives the reader a brief introduction to the subject of impact investing. It then outlines the purpose and delimitations of the thesis.*

## 1.1 Background and Context

There is a widespread consensus that aid alone will not solve the development challenges facing Africa, with Kenya being no exception. The challenges are in financial terms simply too big (UNDP 2014, 11). While aid has an obvious and vital role to play in many situations it does not create resources. This limits its scope and scale. As expressed in a report by the Monitor Institute: ‘The magnitude and nature of the problems humanity faces ... requires the harnessing of additional investment capital’ (Freireich and Fulton 2009, 8). The rapid economic growth seen in sub-Saharan Africa over the last decade has so far largely failed to trickle down to large parts of the population. Despite having more than quadrupled the size of its economy over the last fifteen years (World Bank (a) 2015), 40% of Kenyans are stuck in extreme poverty, living on less than \$1.75 a day (Otieno and Morogo 2015). In fact, the share of Kenyans living in poverty remained flat between 2006 and 2012 (Irungu 2015), despite strong economic growth. It is obvious that even if the growth seen over the last decade in Kenya is laudable, it has so far not been sufficiently inclusive to reduce poverty to a wide enough extent.

## 1.2 Brief Overview of Impact Investing

One potential way to facilitate growth while also making it more inclusive is to use the phenomenon of impact investing. First coined in 2007 at a conference held at the Rockefeller Foundation’s Bellagio Center (Rockefeller Foundation, 2015) the term has gained momentum over the last half decade, spurring interest not only from philanthropic foundations but also from investment firms like JP Morgan, Credit Suisse and more recently Bain Capital (Malon 2015).

So far there is no final definition of the concept set in stone, but the basic premise is that it describes a capital investment made with the intention of providing the asset owner with a financial return (or at least an opportunity to get the principal back) while also having a measureable (and actively measured) positive social or environmental impact (WEF 2013, 3, Saltuk, Bouri, Leung 2011, 3). Impact can be delivered in various ways: Through jobs and higher income, better education, access to clean water, or through the spread of clean energy, to name a few. The definition might seem similar to its perhaps better-known relative, SRI (Socially Responsible Investing). Impact Investing, however, goes further. SRI involves mainly so-called negative screening, where investors disregard certain businesses or even sectors if they are considered to have a negative social or environmental impact (Investopedia, 2015). Impact investing, on the other hand, specifically targets investment objects that are considered to have a positive impact.

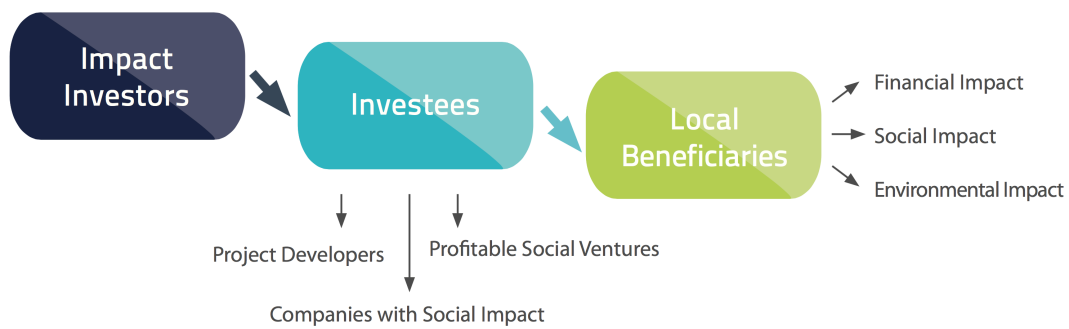


Figure 2 The impact investment process (UNDP 2014, 10)

Impact investing is not confined geographically or in terms of sectors. Neither is it confined to certain asset classes. As described by the WEF (World Economic Forum), it is an investment approach, not an asset class (WEF 2013, 7). It stands to reason that potential should be significant in markets where poverty and environmental degradation is widespread and capital is scarce. If impact investing is defined partly as investing for social impact it seems reasonable to assume that social impact per dollar invested is higher in places where human development is low and a majority of the population lives in poverty, lacking the most basic human needs. In order for an impact investment to be considered successful however, the second part of the definition, financial return, has to be fulfilled as well. This is what distinguishes impact investing from traditional aid. Investments earning a financial return produce resources; this creates a potential for sustainability as well as scalability that traditional aid cannot compete with. In order to attract impact investment dollars, a huge need for poverty alleviation and social improvement is not enough. Skilled, motivated and hungry entrepreneurs as well as a functional capital market is just as important. While figure 2 shows a simplified version of the impact investing process, figure 3 gives a brief overview of the impact investing industry, showing different stakeholders and their respective roles. Asset owners looking to place their capital in a way that yields a social or environmental impact alongside a financial return look for an asset manager that can achieve the desired goals. Impact investors are asset managers that specialise in these investments. They are typically structured as a VC (Venture Capital) or PE (Private Equity) fund. The funds look for impact investees, often in the form of a social enterprise. These are companies that, as part of their business model, want to have a social or environmental impact. The companies can come in many different shapes and sizes, some of which are listed in figure 3. The impact created can be financial, social or environmental and have various beneficiaries.



Role	IMPACT INVESTORS		IMPACT INVESTEEES	ENABLING ENVIRONMENT ACTORS
	ASSET OWNERS	ASSET MANAGER		
Examples of Actors	<ul style="list-style-type: none"> <li>• High net worth individuals/families</li> <li>• Corporations</li> <li>• Foundations</li> <li>• Institutional Investors (e.g. pension funds)</li> <li>• Retail or investment banks</li> <li>• Governments agencies</li> </ul>	<ul style="list-style-type: none"> <li>• Investment advisors/managers</li> <li>• Impact investment funds</li> <li>• Venture capital funds</li> <li>• Private equity funds</li> <li>• Development finance institutions (DFIs)</li> <li>• Government agencies (or development agencies)</li> </ul>	<ul style="list-style-type: none"> <li>• Early-stage entrepreneurs</li> <li>• SMEs / Small and Growing Businesses</li> <li>• Social enterprises and non-profits</li> <li>• Microfinance Institutions</li> <li>• Corporations</li> <li>• Project developers (e.g. water, energy, housing)</li> <li>• Community actors (associations, cooperatives, etc.)</li> <li>• Sustainable agriculture initiatives</li> <li>• Health / Education facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Professional networks</li> <li>• Foundations developing the infrastructure of the sector (impact evaluation standards, information, legislation, advocacy)</li> <li>• Consulting firms for business development and investment support</li> <li>• Accelerators and Incubators</li> <li>• Government programs</li> <li>• Research Institutions</li> </ul>

Figure 3 A brief overview of the impact-investing sector (UNDP 2014, 11)

### 1.3 Why Pay Attention?

Judging from the capital committed globally to impact investing, which reached approximately US\$40 billion in 2013 (WEF 2013, 3), impact investing is still a fringe concept in the world of finance. One can reasonably argue that in under-developed sub-Saharan economies more or less any investment will have a social impact. The rise of the East Asian ‘tiger economies’ was surely not driven by regard for social or environmental concerns. Nonetheless hundreds of millions of people have been lifted out of poverty. Why then should any attention be paid to this new phenomenon playing such a small role in the global financial system? Why not focus on the traditional role business and capitalism have played, and continues to play across the world, in lifting people out of poverty and increasing prosperity? To use a famous quote attributed to the late economist Milton Friedman: ‘The business of business is business’.

Well, this view is becoming increasingly disputed (Porter and Kramer 2011, 1). The increased importance of, and focus on, CSR (Corporate Social Responsibility) over the last decades is one testament to this. Widespread concern over inequality and the perceived, justly or not, widespread prevalence of greed in the financial sector in the wake of the greatest financial crisis since the Great Depression is another. Consumers are in the end people and the wants and needs of people change over time. A 2012 study of over 5000 Millennials from 18 different countries conducted by the consulting firm Deloitte

found that the primary purpose of business according to 36% of the respondents was ‘to improve society’. The full result can be seen in figure 4.

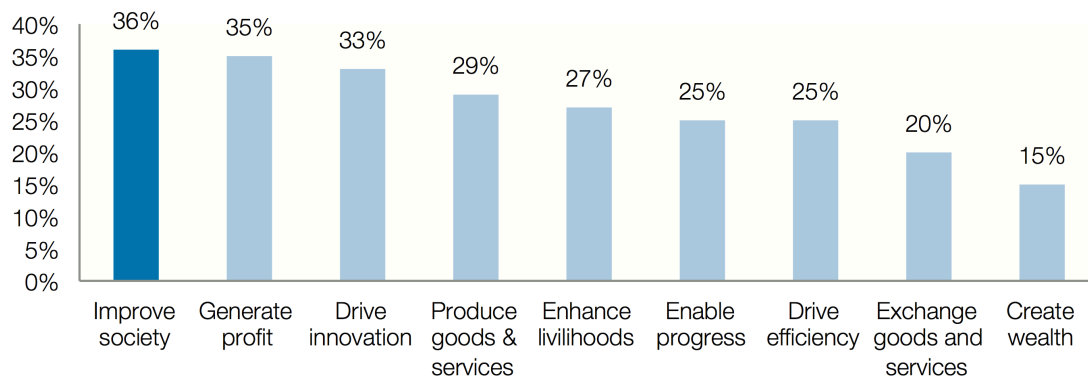


Figure 4 Primary purpose of business according to millennial generation, % of survey respondents (WEF 2013, 5)

So even if the business of business *is* business, adapting to a world of increasingly conscious consumers might mean looking at the wider impact of the business at hand. Johnson, Scholes and Whittington argue that the view among managers increasingly is that businesses need to take a socially responsible position, not solely for ethical reasons but because it makes sense from a business point of view (2009, 104). If consumers want products and services that not only guarantee the safety and well being of their ultimate providers but that also have a positive impact on society in a more general sense, then that is where investment money will be headed.

Asset owners, investees and consumers influence each other in tandem, changing incentives for different actors over time. Socially conscious asset owners wish to invest in enterprises that have a positive social impact. The presence of impact investment money could incentivise entrepreneurs to start social enterprises. Socially conscious consumers shift demand towards products that have a positive impact, affecting both investors and businesses. A greater supply of products and services produced in a way that generates positive social impact can help drive interest and draw attention to more positive ways of doing business, increasing demand from consumers.

Impact investing started mainly as a mean to an end, i.e. a way to exploit instruments typically used in the private commercial sector in order to achieve economies of scale and scope in the efforts to reduce global poverty (Harji and Jackson 2012, iii). The future will show whether it will be able to develop further, and if so, if it can help transform the modern capitalistic system in a meaningful way.

#### 1.4 The case of Kenya

Kenya is not only East Africa’s largest economy; it is also emerging as an African financial services hub (Herbling 2015). Its financial sector is more developed than any of its neighbours’. In their 2015 report *Eyes on the Horizon* JP Morgan and the GIIN (Global Impact Investing Network) describe East Africa as ‘one of the centres of global impact

investing', with Kenya in general and Nairobi in particular singled out as the regional hub of East African impact investing (Saltuk et al. 2015, 29-30). Investing momentum in Kenya in general is strong. Foreign direct investments more than doubled between 2013 and 2014, reaching approximately \$1.2bn (Masinde 2015). GDP Growth has been relatively strong and stable over the last half decade with growth rates hovering between five and six per cent annually since 2011 (World Bank (b) 2015). It is predicted to increase over the coming years: recent numbers from the World Bank predict that annual growth in 2015-2017 will be between six and seven per cent (Malingha 2015). According to the same report private consumption, driven by a rise in real incomes, is to a large extent responsible for the recent uptick in growth. With a young population that is expected to increase by more than 50% over the coming 20 years (UN, 2015), demand for goods and services will surely increase. Investments that benefit the BoP (Bottom of the Pyramid) and help to broaden the middle class have not only the potential to create a huge social impact, it will also create tomorrow's customers and clients.

### **1.5 Main purpose**

The purpose of this Master's thesis is to examine how the phenomenon of impact investing is practised in Kenya, mainly from a fund manager's perspective. By doing so the authors hope to expand the knowledge of how and why impact-investing funds are operating and interacting in the country. By taking a sectorial approach, the study aims to investigate how fund managers as well as other stakeholders in the market interact, and what role impact investing has to play in Kenya's investing space. Other stakeholders include, but are not limited to, asset owners, entrepreneurs, advisors and industry associations. Impact investing in general, and in Kenya in particular, is a relatively new and unexplored subject (Wilson, Silva and Richardson 2015, 11). Another purpose is therefore to find and use a conceptual framework to best describe, analyse and discuss impact investing in Kenya.

### **1.6 Sub-purposes**

To properly explore the thesis's purpose of examining impact investing in Kenya it has been divided into four sub-purposes. The four sub-purposes are based on previous research on impact investing as well as the authors' own thoughts and ideas developed by reading reports and interacting with people active in Kenya's investing sector. Fulfilling the four sub-purposes are considered to provide enough information to let the authors analyse the phenomenon at hand while also painting a broad-stroked picture of what role impact investing plays, and could potentially play, in Kenya. The four sub-purposes to be fulfilled are, listed in no particular order:

- **To explore whether impact investing fills a gap in Kenya's investing market and what that gap may look like.** For the sector to have an impact on Kenya's economy it needs to provide investment capital for projects that otherwise would

not have been funded. In order to assess what role impact investing plays in the Kenyan economy this is one of the most fundamental areas to explore.

- **To examine how impact investors in Kenya weigh social impact and financial return.** To be able to properly analyse what role impact investors play in Kenya it is important to assess whether impact investors are primarily interested in creating social impact or generating a financial return. This is important since intentionally creating social impact is what allegedly differentiates impact investors from traditional commercial investors.
- **To investigate what role DFIs play and how they differ from impact investors.** As state-funded investors with the explicit aim to promote social impact DFIs are not only closely related to impact investors, they also interact with impact investors on a regular basis, both as investors into impact funds and as co-investors in specific projects.
- **To explore what incentives exist for impact fund managers as well as how impact investing itself could change market incentives.** Money incentivises actors in the financial sector as well as in the broader society. Are fund managers incentivised primarily to create social impact or to generate financial returns? Does the presence of impact capital change the motivations and aspirations of entrepreneurs?

### 1.7 Delimitations

The study is limited in several regards, described in the bullet points listed below.

- In line with the stated purpose of using a fund manager's perspective as well as limited time and resources, entrepreneurs and pure asset owners (as opposed to DFIs that are considered both as asset owners and as investment funds) were not interviewed.
- In agreement with the qualitative nature of the study, as well as due to limited data access, financial statements such as annual reports were disregarded.
- The study has no ambition to compare practices of different funds in a normative way, consequently such comparisons are absent.

### 1.8 Target Audience

This thesis aims to appeal to three groups:

- Students and researchers
- Existing and potential impact investors
- Active and prospective entrepreneurs in Kenya

Students and researchers are one of the target groups because the thesis hopes to inspire further research into the subject as well as increase interest and knowledge. The objective of the study is to enhance the existing body of knowledge by adding a qualitative

perspective to the Kenyan impact-investing scene. By doing this, the study also hopes to give investors a better picture of how impact investing is practiced in Kenya and the aspects that can be improved. Therefore it should appeal to both aspiring and existing investors. Lastly, entrepreneurs should be able to get a better picture of what potential investors want and how they operate.

### **1.9 Outline of the thesis**

Chapter one gives the reader a brief introduction to the subject of impact investing. It then outlines the purpose and delimitations of the thesis.

Chapter two specifies the theoretical framework used to analyse and discuss the results of the study. It is foremost based on previously written reports on impact investing. The definition of impact investing as well as a brief overview of the history of the subject is outlined alongside a brief overview of what the impact-investing sector looks like currently on a global scale. Literature on stakeholder theory and CSR is used to lay a foundation for a conceptual framework that is used to analyse and discuss the findings of the study.

Chapter three deals with the methodological choices made. First selected approaches are described, followed by the data gathering process. Finally an elaboration of the credibility is presented. The chapter aims to provide the reader with sufficient information to be able to replicate the study.

In chapter four the reader will find the results of the interviews conducted. The layout of the presented findings is based on the previously mentioned sub-purposes, along with certain additional findings the authors found interesting, complemented by a few quantifiable data entries.

In chapter five the results and findings of the study are discussed based on the theoretical framework as well as the authors' insights and thoughts.

Finally, conclusions of the findings are presented in chapter six as well as recommendations for further research.



## 2. Theoretical framework

*Below is a description of the theoretical framework used to collect and analyse the findings and results of the conducted study. The theoretical framework is primarily based on previous reports written on impact investing. First an evaluation of the existing body of knowledge is presented, followed by theories and models regarding CSR and stakeholders that lay the foundation for a conceptual framework later used to analyse and discuss the study's findings. Finally a brief explanation of where this study fits in is presented.*

### 2.1 Evaluation of the existing body of knowledge

As noted in section 1.5, impact investing is a relatively new phenomenon; hence the scope of existing research is limited. A steadily increasing, but so far relatively small, number of reports have been written on the subject on a global and regional scale, not least contributed to by global investing firm JP Morgan. Other organisations such as the WEF, UN, OECD (the Organisation for Economic Cooperation and Development) and Credit Suisse have also contributed over the last few years. While the fact that the subject is quite young means that the existing research is limited, it should also mean that the research that does exist is relatively new and relevant. At the same time it is important to acknowledge that rapid development can make even relatively new information obsolete. Research specifically considering impact investing in Kenya is even more limited. The freshness of the subject also means that the current body of knowledge is, to a large extent, based more on predictions and prophecies rather than proven experiences. This is especially true for Kenya where the young sector so far has seen few market exits. Sections 2.1.1-2.1.4 below are based on the research reports written by the aforementioned organisations as well as a few additional ones.

#### 2.1.1 Definition

There is no clear set-in-stone definition of the term impact investing. Nevertheless, the existing literature converges along somewhat similar lines. Impact investing is largely defined as investments made with the intention of yielding a financial return while also having a positive social and/or environmental impact that is continuously measured. OECD defines it as ‘the provision of

finance to organisations addressing social needs with the explicit expectation of a measureable social, as well as financial return’ (Wilson, Silva and Richardson 2015, 10). The WEF characterise impact

*‘An investment approach intentionally seeking to create both financial return and positive social impact that is actively measured’*

WEF's definition of impact investing

investing as ‘an investment approach intentionally seeking to create both financial return and positive social impact that is actively measured’ (WEF 2015, 3). Figure 5 shows how impact investing could be seen as a mix of traditional philanthropy and pure for-profit investments. As the figure shows there are several different stages between impact investing and the outliers ‘pure social’ and ‘pure profit’. ESG for example is focused on measuring and reporting but does not demand that the investee’s business model

explicitly incorporates social impact. The more socially focused forms of investments and donations to the left of impact investing on the other hand do not require a financial return to the asset owner. Even if a competitive market-rate return is not necessarily part of the definition of impact investing, the figure still shows how impact investing could be viewed as an offspring of both traditional investing and philanthropy. While the former exclusively regard profits as indicator of success, the latter in the best-case scenario focus on impact, and in the worst-case focus on the amount of money donated. Impact investing wants to take the best practises of both philanthropy and commercial investments in order to have a lasting social and/or environmental impact, while simultaneously delivering a financial return.

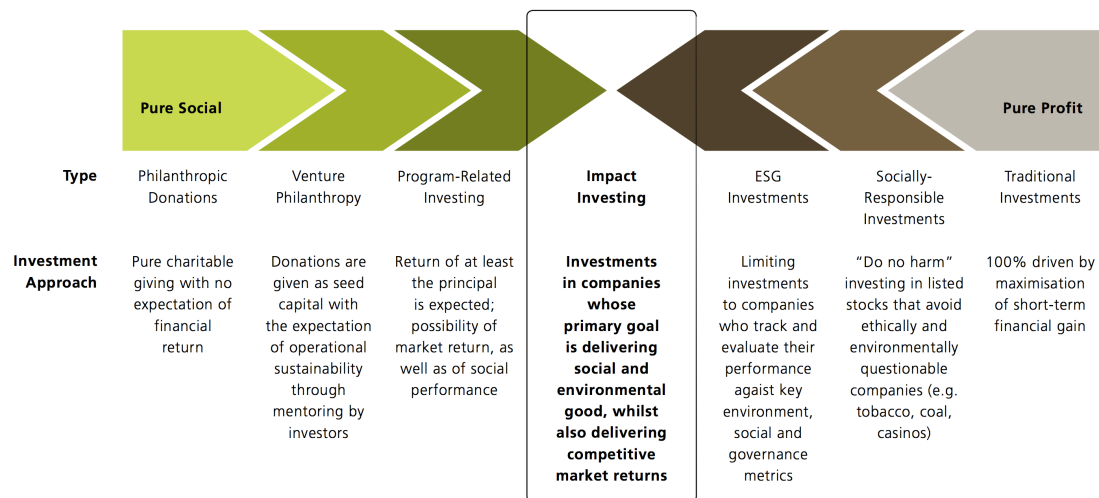


Figure 5 The investment spectrum (Avantage analysis report 2011, 19)

Even if a consensus on how impact investing should be defined is starting to emerge, the devil remains in the details. Where opinions tend to differ (although not necessarily substantially) is where to emphasise and how. Is the intention first and foremost social impact or financial return? How are those goals weighed against each other? Credit Suisse for example has decided to define the concept as ‘investments made with the primary intention of creating a measurable social impact, with the potential for some financial upside. The investment may face some risk of financial downside, but no deliberate aim of consuming capital as with a charitable donation’ (Credit Suisse 2012, 5). As an asset owner it is obviously important to know how different asset managers define impact investing.

Even if the definition that Credit Suisse uses explicitly declares that social impact takes precedence over financial return, the basic premises remain the same. Instead of trying to reach a specific definition that all actors can agree on, impact investing could be described as a spectrum.



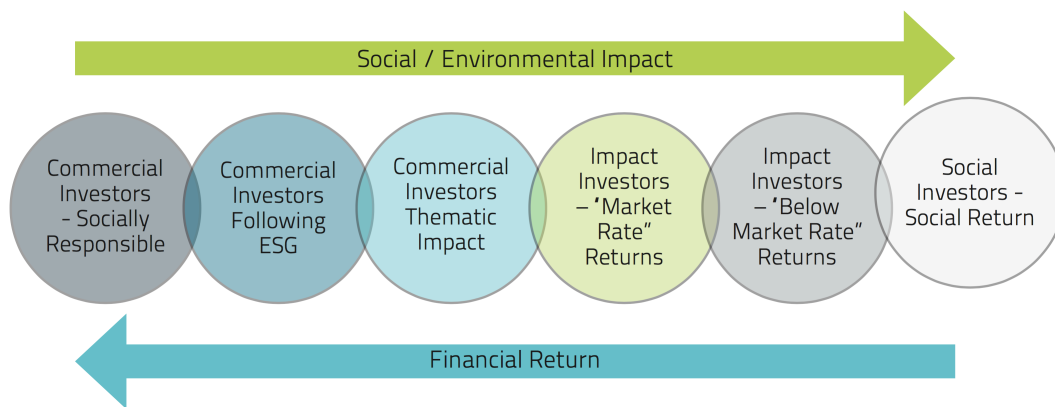


Figure 6 The impact-investing spectrum (UNDP 2014, 14)

While the spectrum in figure 6 describes some actors that might not be impact investors it does give a rough overview of the sliding scale that the industry operates in. The fact that the different concepts overlap figuratively should remind the reader that it is very hard to exactly distinguish what is and what is not impact investing.

### 2.1.2 Brief History

As mentioned in the introductory section (1.2), the term impact investing was first coined during a conference held at the Rockefeller Foundation's Bellagio Center in 2007. However, the practise of using (dis)investments to impact society in various ways besides yielding a financial return is probably as old as society itself. One example from modern history is the widespread divestment from South Africa in the second half of the 20<sup>th</sup> century to put pressure on the apartheid regime. Other examples include economic sanctions against Russia and Iran currently put in place by certain countries. Politically motivated economic sanctions are meant to impact and influence political decision-makers through financial means.

Impact investing can be considered an offspring of this thought but defined more narrowly and used in a more positive setting. Impact investing can also be viewed as an evolution of the already widely prevalent concepts of socially responsible investing and ESG standards. The unofficial naming of impact investing in 2007 at the Bellagio Center marked the start of an effort to formalise the sector. The establishment of a somewhat conventional definition of the subject over the following years may have made it easier to attract interest. What is definitely clear is that in the years since, several reports from various different actors have been published regarding impact investing. JP Morgan in cooperation with GIIN have published annual surveys with fund managers around the world since 2010. The WEF as well as the G8 have embraced it, having convened meetings and conferences on the subject (Tozzi 2013). Nevertheless it remains a fact that as a proportion of global funds, a negligibly small proportion has been committed to impact investments. For impact investing to actually have an impact it needs to attract more capital.

### 2.1.3 The current situation

The global impact-investing sector remains in the early development stage (Wilson, Silva and Richardson 2015, 10). The lack of a clear common definition makes it difficult to estimate the size of the market even though the gradual formalisation of the sector over the last years has helped.

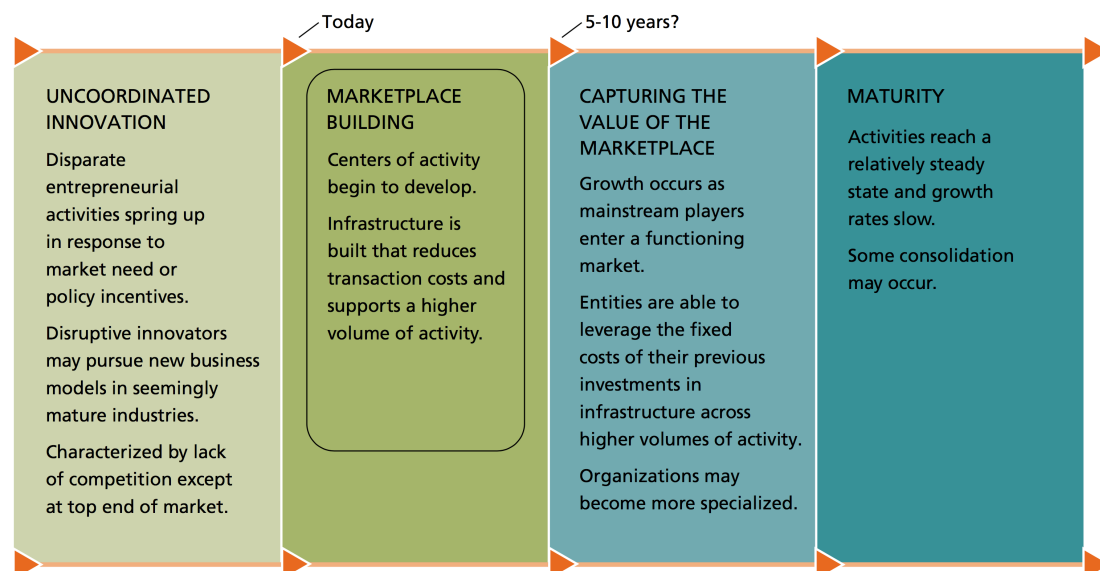


Figure 7 The evolution of the impact investing market (Rockefeller 2012, X, Freireich and Fulton 2009, 12)

Figure 7 shows a flow chart describing generic phases of industry evolution produced by Freireich and Fulton of the Monitor Institute. When the Monitor Institute released their report *Investing for Social and Environmental Impact* in 2009 they described the industry as being in a transitional stage, moving from the first phase characterised by 'uncoordinated innovation' to the second phase of 'marketplace building' (Freireich and Fulton 2009, 13). Three years later, in 2012, the Rockefeller foundation released a report where they, using the same flow chart, declared that while the impact investing industry remained in the second phase, 'the evidence reviewed ... suggests that if leaders can sustain and further scale this growth, the industry could move to the next phase...' (Rockefeller Foundation 2012, x). There are signs that the market has developed further over the last few years, with more mainstream players not only entering the impact investing space, but also expecting to increase their allocation towards impact investments over the coming years. One example is the previously mentioned case of the global investment firm Bain Capital that recently decided to venture into the market. Another example is Credit Suisse and their \$500 million fund of funds investing in agricultural opportunities in Africa. The risk of below-market risk-adjusted returns does however constrain activity for many investors with fiduciary responsibilities (WEF 2013, 12-13).

#### 2.1.3.1 What the data says

Data on the global impact investing industry is limited, with Kenya-specific data even more rare. The main source of secondary data used for this study is the annual impact

investor survey conducted by JP Morgan in collaboration with the GIIN. This is also where most of the reports cited in the thesis have found their data. The results from the latest survey were released in May of 2015 and include answers from 146 different investors (Saltuk et al. 2015, 5). Although the report does not claim to cover all actors, or the whole market, it is currently the most comprehensive review available. Since respondents are not the same every year, results from different years are hard to compare. The report does nevertheless give an important insight into the global impact investing market.

According to the investors surveyed by JP Morgan and GIIN, they committed a total of \$10.6bn in 2014 to impact investments globally. This is a number they intend to increase in 2015 to \$12.2bn. Although not all respondents in the 2015 survey participated in the previous one, the 82 respondents who did reported a 7% increase in capital committed and a

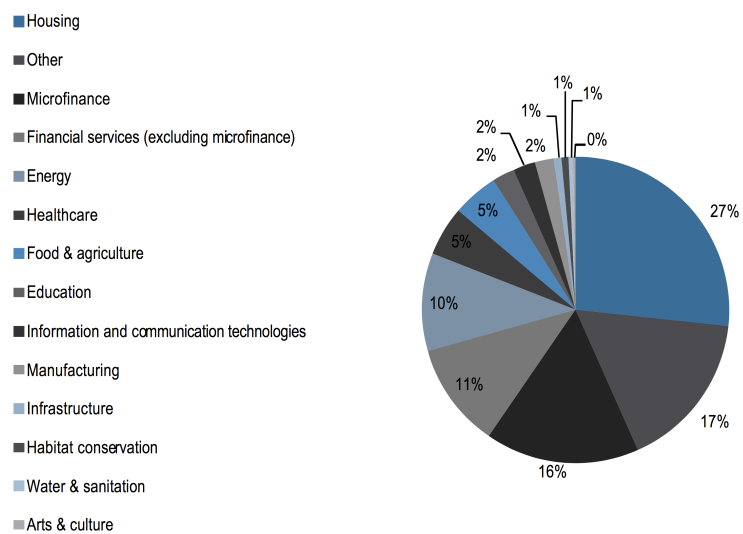


Figure 8 Capital allocations by sector (Saltuk et al. 2015, 6)

13% increase in the number of deals between 2013 and 2014 (Saltuk et al. 2015, 15-16). In total the investors surveyed managed impact investments of \$60bn of which 48% were in emerging markets. 14% of assets under management are allocated to SSA (sub-Saharan Africa), which makes it the most popular emerging market in terms of capital committed (Saltuk et al. 2015, 5-6). SSA is also the region that most respondents are planning to increase their allocation towards (Saltuk et al. 2015, 7).

Figure 8 shows that on a global level the sector having received most impact investment dollars so far is housing with 27%. The volume invested in microfinance and other financial services combined amount to approximately the same. Meanwhile, healthcare and food & agriculture accounts for just 5% each of the committed capital. This is especially noteworthy when taken into consideration that they are number one and two respectively in terms of numbers of investors having committed any capital at all to the specific sectors. Only 53 of the responding investors claim to have made investments into housing (Saltuk et al. 2015, 24)

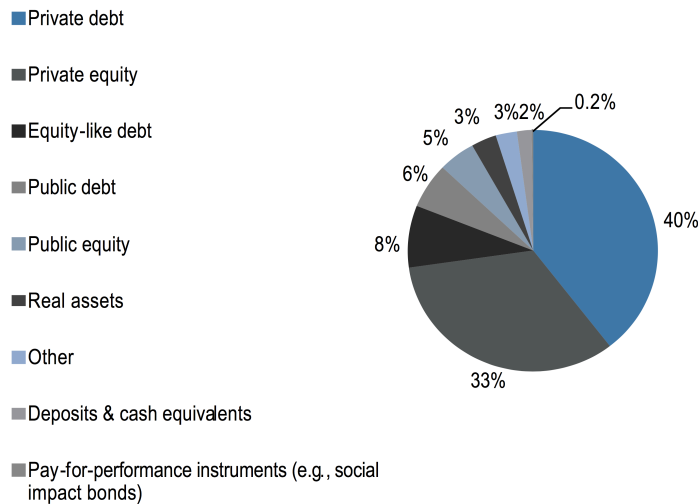


Figure 9 Assets under management by instrument (Saltuk et al. 2015,

Figure 9 shows that the financial instrument mostly preferred for impact investments on a global level is private debt followed by PE, accounting for 40% and 33% respectively of assets under management. PE is used proportionally more among early-stage investors while private debt is more popular among later-stage investors (Saltuk et al 2015, 26). As seen in figure 10,

most capital (91%) is invested in the post-venture stage, with 28% being allocated relatively early post-venture in the growth stage. In terms of number of investors having committed any capital to the different stages, the growth stage is the most common answer among the respondents (Saltuk et al. 2015, 27).

Although DFIs only represent a small share of the respondents in the JP Morgan and GIIN report (5%) they manage 18% of total assets committed to impact investing by the investors surveyed (Saltuk et al. 2015, 5). DFIs are leading capital providers in the impact investing market. They provide anchor funding and have the potential to catalyse further deals. They tend to be most active for first-time funds or investments (WEF 2013, 12). Harji and Jackson write that DFIs ‘have spurred fund management activity in impact investing’ (2012, 22).

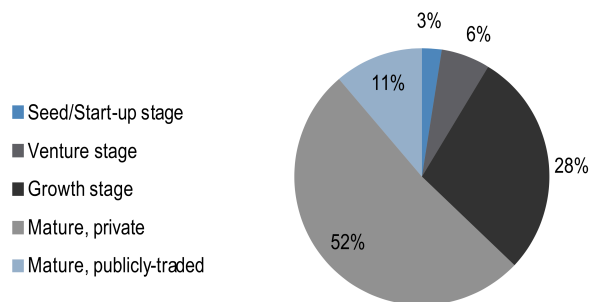


Figure 10 Assets under management by stage of business (Saltuk et al. 2015, 27)

According to both the 2013 and 2014 surveys conducted by JP Morgan and GIIN the two most common constraints facing the impact investing industry on a global level were the ‘lack of appropriate capital across the risk/return spectrum’ and ‘shortage of high quality investments opportunities with track record’. Another important constraint mentioned by respondents was the difficulty of exiting investments (Saltuk et al. 2015, 19).

#### 2.1.4 Impact Investing in SSA and Kenya

Many Africans lack access to basic services like clean water, reliable energy and healthcare. For example, 47% of the African population are estimated to have no or low access to healthcare (UNDP 2014, 22). While global life expectancy is 69.2 years, the

corresponding number for SSA is 52.5 years (UNDP 2014, 24). In 2008 the World Bank estimated that 47.5% of Africans fell under the international threshold for extreme poverty, living on less than \$1.25 per day (UNDP 2014, 17). According to the definition set by the International Finance Corporation, 97% of Africans can be described as low-income earners, living on less than \$8 per day (UNDP 2014, 22). Needless to say, potential for social impact and progress should be significant.

Most impact capital in Africa is foreign. The United States and European countries have historically and primarily relied on aid to help facilitate growth and poverty reduction in Africa. This strategy is slowly shifting towards new innovative models where impact investing is one of those. Many traditional donor countries have set up DFIs that aim to increase development through investments rather than through grants and donations (UNDP 2014, 17). The DFIs invest capital both directly into companies and through funds. This means that they partly operate as state funded impact investors, much like private impact investors, and partly as asset owners allocating capital to for example impact investment funds.

As previously mentioned, according to the latest survey conducted by JP Morgan and GIIN, Africa is the most popular emerging market for impact investors with 14% of global impact investment capital committed to the continent. It is also the region where most investors are planning to increase their investments.

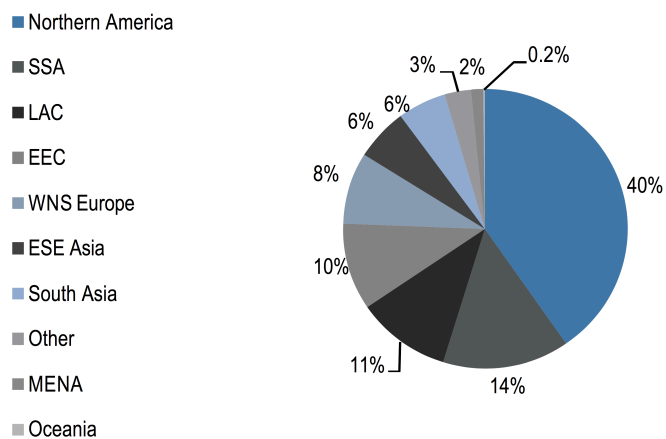


Figure 11 capital allocations by region (Saltuk et al. 2015, 6)

The latest report from JP Morgan and GIIN points out that activity in the impact investing sector has grown strongly in East Africa in recent years with a total of \$9.3bn having been committed by non-DFI impact investors as well as DFIs, with Nairobi being the regional hub of East African impact investing (Saltuk et al. 2015, 30). The report says that ‘Kenya boasts the largest concentration of impact investors and the most capital disbursed in the region’. While most impact investors on a global level claim that competition in the impact investing sector mostly depends on the investee side of the industry rather than an overabundance of investors, some investors surveyed by JP Morgan and GIIN noted that the East African market was more crowded than the West African market (Saltuk et al. 2015, 17). Half of all the impact capital disbursed to East Africa has so far been invested in Kenya. Compared to other countries in the region Kenya has a more developed supporting ecosystem in place with accelerators, advisors, incubators and intermediaries based in Kenya (Saltuk et al. 2015, 30).

## **2.2 The foundation for a conceptual framework**

During the course of the study, as knowledge was gained from both primary and secondary sources, the authors explored different models and theories that were believed to be of relevance. In this section models and theories, mainly related to CSR and stakeholder theory, are presented. Together these form the foundation of a conceptual framework that is later used to analyse and discuss the findings of this study.

### **2.2.1 Weighing of financial and social goals**

As mentioned in section 2.1.1 discussing the definition of impact investing, the basic premises of impact investing are starting to become clearer. What specific parts to emphasise and where exactly the definition begins and ends is more debatable. Whether it will ever be completely settled, and if that would even be desirable remains unclear. When making an impact investment the investor, by virtue of looking for a return beyond the strictly financial, takes other stakeholders than shareholders into account. By looking at what the investment implicates for other actors their needs and desires are considered. The question is how the desires of different stakeholders should be weighed against each other. The market today, both globally and in Kenya, covers a range of actors with different mandates and goals. While some impact investors would not settle for anything less than a risk adjusted market-rate return on capital invested, others are satisfied with just getting their principal back. Figure 12 offers a way of looking at the different segments of the impact investing industry and their relation to traditional investing and philanthropy respectively. As shown, impact investing, independent of whether it is in regard to 'financial first' or 'social first' investors, is placed in the matrix in between the box representing 'solely profit-maximising investing' and 'philanthropy'. At least in the short term there may occur situations where social impact and financial profits come in conflict. How such an event is handled is linked to what the investor finds most important in the particular situation. Which kind of return is emphasised then decides if the investor should be regarded as an 'impact first' or a 'financial first' investor. Where an impact investor's priorities lie is important to know for other stakeholders such as entrepreneurs and asset owners.

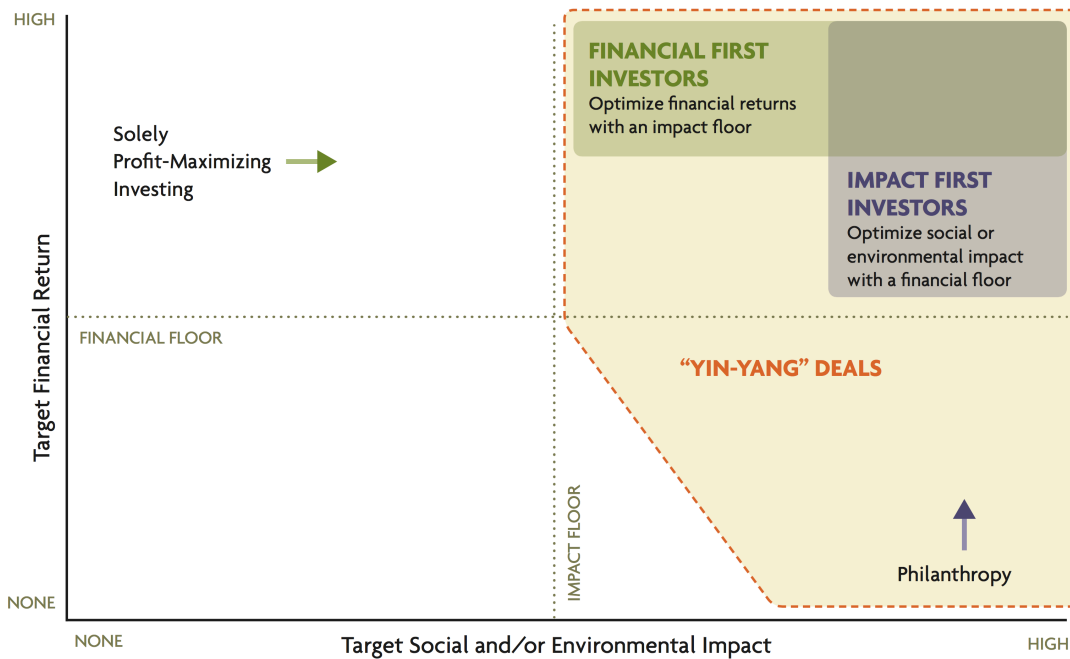


Figure 12 Segments of impact investors (Freireich and Fulton 2009, 32)

### 2.2.2 Corporate social responsibility

The European Commission defines CSR as ‘companies taking responsibility for their impact on society’ (European Commission 2015). What this constitutes in reality is a wide range of activities undertaken by different companies, often times with no apparent link to the company’s overall strategy or business model. The interest in and commitment to CSR differs between companies. Johnson, Scholes and Whittington describe four levels of CSR in their book *Fundamentals of Strategy*: ‘Laissez-Faire’, ‘enlightened self-interest’, ‘a forum for stakeholder interaction’ and ‘shapers of society’ (2009, 100-101).

The ‘laissez-faire’ view argues that it is the government’s role to put rules and regulations in place for companies to follow. The company is only responsible for delivering maximised shareholder value while following the existing rules. ‘Enlightened self-interest’ is slightly more pragmatic. Social action can be justified in terms of profits. Alongside short-term profits, shareholders are looking for long-term value. Maintaining the company’s reputation as well as good relationships with customers, employees and suppliers are key factors according to this view.

The ‘forum for stakeholders’ incorporates the interests and expectations of multiple stakeholders. According to this view the performance of the company should not only be judged by its bottom line. It implies that companies in certain situations could be willing to bear reductions in profitability for the social good. This view is more closely related to socially responsible and impact investing. Taking the ‘forum for stakeholders’ notion one step further are the ‘shapers of society’. They argue that financial considerations are of secondary importance or even a constraint. They form companies primarily to

influence and impact society as they see fit. Companies in this category could certainly be of interest to impact investors. Impact funds could also fall under this category if they have the ability to influence the markets in which they operate.

As Porter and Kramer writes, CSR is already an inescapable priority for business leaders in every country (2006, 1). The four different kinds of CSR listed above shows different levels of commitment. According to the definitions of 'A forum for stakeholders' and 'shapers of society', companies who adhere to these philosophies view CSR to some degree as part of their strategy. Porter and Kramer argue that this is fundamental. According to them, corporations should use the same framework for analysing their CSR prospects as they do when they analyse core business choices. This way CSR could be a source of opportunity, innovation and competitive advantage. According to Porter and Kramer, this is unfortunately most often not the case. They argue that CSR is most often handled cosmetically and in an uncoordinated way (Porter and Kramer 2006, 2). This does not only mean that CSR is seen as a burden for the company financially, it also means that the impact the CSR has on society is limited since it does not take advantage of the company's strengths and advantages.

Porter and Kramer write that there are four basic justifications that companies use to motivate their investments in CSR: moral obligation, sustainability, license to operate, and reputation. The moral obligation argument says that companies have a duty to be good citizens and 'to do the right thing'. By undertaking stewardship towards the community and the environment sustainability is secured. According to Porter and Kramer 'the notion of license to operate derives from the fact that every company needs tacit or explicit permission from governments, communities and numerous other stakeholders to do business'. Reputation in connection to CSR should be self-explanatory. Porter and Kramer argue that all of the justifications share the same weakness: 'They focus on the tension between business and society rather than their interdependence'. To advance CSR it must be rooted in 'a broad understanding of the interrelationship between a corporation and society'. They write that in order for corporations to be successful they need a healthy society. This includes education, health care and equal opportunities. All of which contributes to a productive workforce. Safe working conditions lower the company's risk and efficient use of resources decreases costs. In the end 'a healthy society creates expanding demand for business'. Porter and Kramer argue that companies should integrate a social perspective into the core frameworks it already uses to understand competition and guide its business strategy (2006, 3-5). Figure 13 shows what role CSR can play depending on how it is related to the strategy of the company. According to the model it is better for a company to be in the 'Strategic CSR' area to the right, rather than the 'Responsive CSR' area to the left.



The thoughts expressed by Porter and Kramer are in many ways closely linked to the phenomenon of impact investing. The idea that ‘a healthy society creates expanding demand for business’ as well as the proposal regarding the adoption of a social perspective are notions that seem very similar to the ideas at the core of impact investing and social enterprises. A social enterprise, often the target of an impact investor, aims to both fulfil social goals and make a profit. This dual perspective is by definition adopted from the outset, with both perspectives integrated in the business model. According to the model shown in figure 13, these companies could be said to, by default, appear under ‘Strategic CSR’.

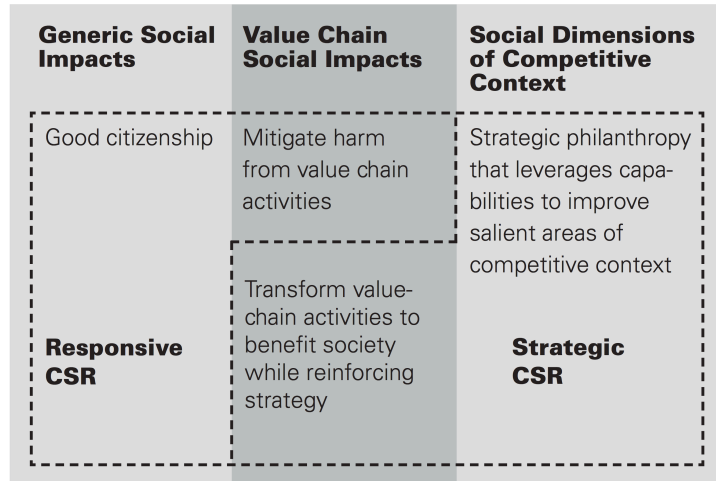


Figure 13 Corporate involvement in society: A strategic approach (Porter and Kramer 2006, 9)

### 2.2.3 Stakeholders

In *Fundamentals of Strategy* Johnson, Scholes and Whittington argue that there are basically two kinds of governance structure: A shareholder model of governance and a stakeholder model of governance. The shareholder model primarily aims to maximise shareholder value and company ownership is dispersed over a wide range of different shareholders. Proponents of this model argue that a maximised shareholder value benefits other stakeholders as well. Maximising shareholder value also means maximising returns, which creates the maximum amount of new capital. A dispersed ownership gives investors the opportunity to diversify their investment portfolio. The economy benefits since risk taking is facilitated, which should encourage entrepreneurship and growth (Johnson, Scholes, Whittington 2009, 97).

Some argue that the shareholder model is too narrow-minded. They propose instead that organisations adopt the stakeholder model of governance, where the interests of a larger group of stakeholders are taken into account. Other stakeholders than shareholders could include employees and customers as well as ‘society’ in a broader sense. According to this view other stakeholders, since they are affected by the actions an organisation take, should be taken into consideration. They also argue that this approach will encourage management to take a longer-term view and avoid short-term high-risk decisions. The stakeholder model is also related to the ‘block holder system of governance’ where ownership is more concentrated. This implies a tighter monitoring of management which some argue could be beneficial, especially when it comes to preventing excessive management pay and risk-taking (Johnson, Scholes and Whittington 2009, 97-98).

Johnson, Scholes and Whittington suggest that ‘there is a convergence around the world on the shareholder model of governance’. They mention Japan as an example of a country where the stakeholder model gradually has given place to the shareholder model in the wake of globalisation (2009, 99).

Svensson and Wijk argue that in order for a company to reach durable and sustainable success, its value ideology, strategy and governance must be designed based on the insight that the company has several legitimate stakeholders (2015, 8). They put shareholder value logic in contrast to stakeholder value logic (2015, 2). The former means that a company is run as an accumulation of financial capital used to produce products or services, which creates value for the company. Contributors of financial capital want to maximise their return and the ownership of the capital gives the contributor the right to determine how the contributed capital should be put to use. According to stakeholder logic on the other hand, several different stakeholders contribute with different kinds of capital that the company uses to produce its goods or services. The different stakeholders have taken different kinds of risk and want and deserve some kind of return. Stakeholder value logic goes beyond traditional CSR (Svensson and Wijk 2015, 8). Svensson and Wijk instead argue that traditional CSR could rather be seen as a sign of ‘white washing’, and of the traditional financial mode of governance not being sufficient.

The notion of a ‘stakeholder value logic’ and a ‘shareholder value logic’ can in a wider context influence how capitalism itself is viewed and practised. Below a table produced by Svensson and Wijk is presented to illustrate how two radically different forms of capitalism can be viewed in contrast to each other and in relation to the concepts of stakeholders and different approaches to CSR.

<b>Financial capitalism</b>	<b>Stakeholder capitalism</b>
Focus on financial risk capital	Different types of risk capital
Shareholder value logic	Stakeholder value logic
Traditional principal/agent logic	Statesmanship – Stakeholder oriented leadership based on shared values.
	Board and management in dialogue with stakeholders about shared values
Strive to aggregate in financial terms	Several non-quantifiable objectives
CSR as a support function	CSR – The company’s societal responsibility, integrated in the company’s values and strategy
Enlightened self-interest	Forum for stakeholders, shared values

Table 2 Financial capitalism and stakeholder capitalism (Svensson and Wijk 2015, 16)

While financial capitalism strives to aggregate in easily quantifiable financial terms, stakeholder capitalism recognises that other values exist and need to be taken into consideration. Financial capitalism is based on principal-agent logic, where the shareholder is principal and the board its agent, with the board in turn acting as principal in relation to management. The sole purpose of an agent is to satisfy its principal's needs. Stakeholder capitalism on the other hand is based on a stakeholder-oriented leadership, where the needs of several different stakeholders are taken into account. The objective of the leader is to find shared value.

'Shared value', an idea previously developed by Porter and Kramer, is according to Svensson and Wijk, a key concept. Shared values are, as the name implies, values shared by different stakeholders. Porter and Kramer argue that business currently is under siege, with lower legitimacy than anytime in recent history. Shared values, 'which involves creating value in a way that *also* creates value for society', is the solution to this crisis of legitimacy (Porter and Kramer 2011, 2). According to Svensson and Wijk shared values are the values that lay the foundation for the company's strategy and business model (2015, 3). If shared values are found so-called 'win-win' situations can occur. They are situations where the goals of different stakeholders align. Win-win situations that remain over time become 'win-win relations'. The authors of this study find this especially interesting in relation to impact investing, where investments are made with the explicit intention of yielding both a financial return and a social and/or environmental impact. Within the scope of this thesis a win-win situation occurs when social impact and financial return can be said to have a positive correlation, or at a minimum where one kind of return does not correlate negatively to the other.

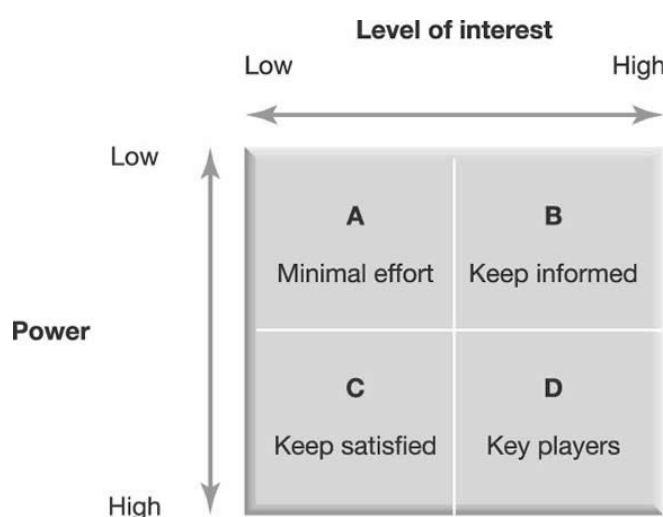


Figure 14 Stakeholder matrix (Johnson, Scholes and Whittington 2009, 108)

One way to map and analyse stakeholders is through the power/interest matrix shown in Figure 14, (Johnson, Scholes and Whittington 2009, 108). It aims to show how a certain organisation should deal with different stakeholders, depending on their power and level of interest in relation to the organisation.

What kind of influence different stakeholders wield is of course of great importance when it comes to the development of strategies for the different actors in the impact investing space. For

example, as an investment fund your asset owners are naturally key players, wielding both great power and interest. But other actors are potentially important stakeholders as well, not least the entrepreneurs you invest in which are ultimately the ones delivering either profit or loss as well as impact. When analysing the impact investing industry in Kenya it is important to look at how the actors interact and what consequences this has.

#### **2.2.4 Putting the pieces to the puzzle**

The theories presented in section 2.2.1-2.2.3 form the conceptual framework that is used to analyse and discuss the findings of the study. It is the lens through which the authors argue that impact investing should be viewed. Impact investing combines the methods historically used by investors to yield a financial return with the social goals most often associated with philanthropy. Those goals imply that several stakeholders are considered, which is the basis of CSR. By studying the relatively young phenomenon of impact investing in relation to well-established concepts such as stakeholders and CSR the analysis is facilitated, since it gives the researchers, as well as the readers, a better idea of how to view impact investing in relation to the ecosystem in which it operates.

### **2.3 Where this research fits in**

The existing literature on impact investing shows that it is a growing sector. As previously noted, East Africa in general and Kenya in particular have been, and will continue to be, an important destination for impact investments. Yet, so far research looking specifically at impact investing in Kenya is scarce. This study will give an in-depth look at what impact investing in Kenya is like and what actors in the field think about it. The qualitative approach taken will give insiders and outsiders alike an opportunity to get a better understanding of the Kenyan impact-investing sector.

### **3. Methodology**

*The following chapter describes and motivates the approaches and applied methodologies used over the course of the study. This aims to facilitate reproducibility as well as evaluation of validity and reliability. First, the research approach is described followed by the research process. Finally an elaboration of the reliability and validity of the study is provided.*

#### **3.1 Research approach**

To best achieve the set out purpose it is important to choose a well-suited methodological approach. A pragmatic research approach is used in this study. Instead of relying on one approach, the approach best accommodated with the specific issue is applied. There are three approaches used in this study: exploratory & descriptive, abductive and stakeholder focused.

##### **3.1.1 Exploratory & descriptive approach**

There are four ways of classifying research according to its purpose: exploratory, descriptive, analytical and predictive (Collis & Hussey 2014, 3). Since the purpose of this study is to assess the impact investing industry in Kenya, a fairly new phenomenon, an exploratory approach is mainly chosen, with some descriptive instances. When research is conducted in a field not clearly defined or where knowledge is too limited for conceptual distinctions to be made, an exploratory research approach is suitable. The aim of an exploratory study is to develop concepts and ideas, rather than to test a hypothesis. Impact Investing is not only a new concept; the debate surrounding its definition is not yet settled. Therefore it is difficult to develop a relevant hypothesis. The research will assess which existing theories and frameworks can be applied and if there is a need to develop new ones, which is what this study aims to do (Collis & Hussey 2014, 4).

If a phenomenon is to be described, a descriptive approach is better suited. The approach is used to identify and obtain information and characteristics of a particular problem or issue (Collis & Hussey 2014, 4). A descriptive approach has been used in complement with an exploratory approach when there was an opportunity to dig deeper, and where enough material was available.

##### **3.1.2 Abductive approach**

The approach to the research logic can be divided into a deductive and an inductive approach or a mix between them referred to as abductive. A deductive research approach aims to investigate the phenomenon at hand through a lens provided by previous research and theories. An inductive approach, on the other hand, intends to create new knowledge and theories in a field where previous research is limited. Finally, an abductive approach aims to combine the two described approaches (Kirkeby 1994, 122-52).

This study was conducted using an abductive approach. Theories and models from existing literature were studied and examined in order to assess whether they could be applied to the Kenyan case, a typical deductive approach (for a more detailed

presentation of how the literature was studied, see section 3.2.3.1). However, the lack of previous research into the Kenyan impact investing industry implies that a lot of knowledge is still uncovered; this suggests that an inductive approach be used. In order to shed light on this, so far uncovered knowledge, semi-structured, open-ended, in-depth interviews were conducted. By letting the interviewee answer freely to open-ended questions new knowledge was gained by not restricting the conversation to the authors' existing ideas and preconceptions (Wallén 1996, 76). This inspired the authors to go back to the literature in order to analyse similarities, as well as differences, between observations and the literature. Such iterations were conducted along the research process and were a key to gaining a greater understanding of the subject. By combining a deductive and an inductive approach, an abductive approach was adopted.

### 3.1.3 Stakeholder focused approach

The choice was made to primarily focus on one stakeholder group in the Kenyan impact investing space: the fund managers. The main reason for selecting this particular group was that they can be seen as being in the middle of the value chain, with asset owners on one side and entrepreneurs on the other. This makes them particularly interesting since they are in direct relation with several important stakeholders in the investing space, also including for example advisory firms and business networks. It would have been difficult to focus on the asset owners, since most of them are located abroad. Focusing on several groups would also have been difficult because of the time restriction of this study. Nonetheless, one type of asset owner, DFIs, was studied. DFIs function as both asset owners and as investors directly into companies, much like impact investing funds. They were therefore studied both in relation to other impact funds through their role as asset owners, but also as direct investors with an impact mandate.

## 3.2 Research Process

An overview of the research process is presented in figure 15. A qualitative process approach was embraced together with the iterative abductive approach described in 3.1.2. Figure 15 explains the 6 different research steps used in this study, starting with the choice of topic and ending with the writing of the thesis. Each step has its own block coloured in grey. The qualitative approach is linear in its nature; however, since an abductive approach also was adopted the study moves back and forth between the steps, illustrated with the bended arrows. In-

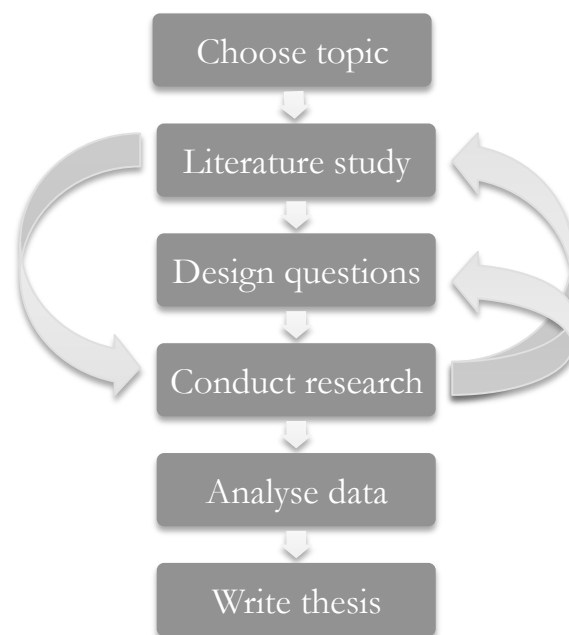


Figure 15 Research process

depth interviews were selected as the method of research together with a literature study in order to be able to triangulate the data. The collected data was then sorted, displayed and analysed. This section starts by describing the process approach, followed by an explanation of the use of triangulation. Next, the data collection is described and finally the methods used to analyse the data is presented.

### **3.2.1 Qualitative process approach**

The qualitative research aims to clarify a phenomenon's characteristics and properties in contrast to the quantitative research, which have the purpose of confirming quantities and looking at frequency and occurrence. When data is vague or difficult to measure, or even unknown, a qualitative data gathering is suitable (Holme and Solvang 1997, 78). The exploratory approach goes well together with a qualitative approach since there are many variables that are interesting to consider and since the study has a wide perspective and broad questions to assess. Since the study is both exploratory and aims to assess a wide spectrum of questions a qualitative approach was selected. Hence, the aim was not to gather big chunks of quantifiable data, but rather to gain insight and understanding through longer in-depth interviews in order to be able to assess impact investing with a wide scope.

### **3.2.2 Triangulation**

To reduce the biases of a thesis, triangulation, or the use of multiple sources and methods, can be used (Collis & Hussey 2014, 71). This thesis used data triangulation by including secondary data found in the literature study alongside the primary data gathered in the field. By then comparing the two different sources, discrepancies as well as conformities and nuances can more easily be spotted. A methodological triangulation was also adopted by the use of mixed methods: The primary data was gathered through interviews and the secondary data was gathered through the use of search words. Since this study has two authors, who both conducted research in the field and read the literature, investigator triangulation was also embraced.

### **3.2.3 Data collection**

This section describes how the data was collected and the methods that were used. There are many ways to collect data in a qualitative and exploratory study, such as: interviews, observations, document analysis or focus groups. This study used two different methods of data collection: a literature study and in-depth interviews, both presented in the described order.

#### ***3.2.3.1 Literature study***

According to Olsson and Sörensson (2011), a well-conducted literature study lays the foundation for the study. The lion's share of the literature was therefore studied before the interviews were held, but all along the research process literature was studied when there was a need for it in accordance with the abductive and exploratory & descriptive approach.

Because of the scarcity of the data available, the literature chosen was based on access as well as its relevance in relation to the purpose of this study. Online sources such as LUBSearch and Google Scholar was used to find available literature. By looking at the sources of the material first found, new articles and reports were added to the knowledge base. To complement the online academic databases, articles linked by Google and other digital search engines were used. Articles published in well-known journals or by trustworthy institutions were chosen. The central keywords used when searching and exploring the existing body of knowledge were: *impact investing, social impact, social enterprise, impact fund, venture capital, private equity, Kenya, East Africa, ESG, socially responsible investing, venture philanthropy, incubators Nairobi*. These were not only adopted independently but also in a combination with each other. The focus was on more recent research, as the impact investing related literature is relatively new and changing rapidly. This was an easy task since the sources provided a 'sort by date' function. Illustrative figures and models used in this report were selected based on what the authors' considered to be most relevant for the topic. Often similar figures were found in different reports; these were viewed as particularly important.

Only research written in English or Swedish was studied due to the authors limited language knowledge. Furthermore the literature search was limited to the stated delimitations in section 1.7.

### 3.2.3.2 Interviews

Interviews are used when the study benefits from obtaining data that will give deeper insight about the subject and the researchers intend to use a limited number of data sources. According to Bryman and Bell (2005) there are three main types of interviews: structured, semi-structured and unstructured. Structured observations are used to observe predetermined variables in the behaviour of individuals or groups while semi-structured interview allows the interviewee freedom to answer the questions in an open way, while still being steered to selected topics. Unstructured interviews are akin to the semi-structured interview but more similar to a normal conversation.

Because of the exploratory and abductive approach used for this thesis, semi-structured interviews were chosen. Lars Torsten Eriksson and Finn Wiedersheim-Paul (2011) argue that this it is wise to set a theme and then use open-ended questions to allow the respondent to answer freely. Certain topics of interest were selected beforehand but open-ended questions gave the interviewees the opportunity to add topics of their own. Moreover, this allowed the questions to develop over time and hence add depth to important topics. Face-to-face interviews were the method of choice since it is important to take into account the interviewed persons nuances and expressions to get a better understanding of what the interviewee tries to express. Meeting the companies on site added an extra dimension. To conduct the interview in the informant's office can add to



the experience and lead to information that can give a more complete picture, as well as a valuable background both for the interviewers and for the following analysis (Widerberg 2002). All but two interviews were made face-to-face with the remaining two being conducted over the phone due to locality issues.

By conducting a literature study before drafting the questionnaire the main topics were chosen, with support of the main and sub-purposes. Since the study has adopted an exploratory approach the questions changed over time, especially after the first few interviews. This is in accordance with what Saunders et al. express (2007, 134). They argue that when conducting exploratory research, the researcher ought to be willing to change his/her direction as a result of revelations of new data and new insights.

A convenience-sample of interviewees was used because of the lack of interview persons. Networking with persons within the field of impact investing was crucial because of the authors' limited amount of time in Kenya. Participants in the investor space in Kenya have little time and are often difficult to get a hold of. Getting in touch with investors to get sufficient material was therefore vital. The strategy was consequently to target the most outspoken impact investors and use the contacts already established before arrival. To have the interviewees recommend their colleagues in the field also facilitated further networking. The additive effect to this approach made it possible to also come in contact with investors who do not explicitly say they are impact investors but who invest in a similar manner. Due to the exploratory nature of the study representativeness of the interviewees is of less concern. Thus the convenience sample should have less impact on the outcome of the study.

### **3.2.4 Data analysis**

This section describes how the both the primary and secondary data was analysed. It is divided into two sections: the interview analysis and the literature analysis.

#### *3.2.4.1 Interview analysis*

All interviews were recorded and transcribed, in order for the authors to analyse the material in an effective manner. The transcriptions of the interviews were made word by word as they were stated. Sentiment such as laughter or other expressions were also noted.

It is suggested by Morse (1994) that there are four key elements used in the process when analysing data.

*Comprehending* - It refers to a full understanding of the setting, culture and topic of a study.

*Synthesising* - Adding together different concepts and themes from the research and creating new integrated patterns.

*Theorising* – ‘constant development and manipulation of malleable theoretical schemes until the best theoretical scheme is developed’ (Morse 1994, 32).

*Recontextualising* - Generalise the data through a process, so that the theory emerging from the study can be applied to other settings and populations.

The data was first comprehended by thoroughly reading through all the interview transcripts. The information was then sorted in Excel, separated based on the prepared and follow-up questions posed. In excel the answers were colour coded, depending on the type of institution that answered. Each category, grouped together based on the original questionnaire, was then studied with the synthesised information related to that category. The most interesting quotes were picked out. In order not to miss any information search words related to the category were used. For example *gap* was used when analysing what the interviewees said about a gap in the market. When needed the recordings were restudied to get a better picture. The information gathered was synthesised and analysed to see if there were any patterns or other interesting findings. Information drawn from this was put together and compared with the theoretical framework. Finally, the results were discussed and generalised in order to find new, perhaps better frameworks for future research.

#### *3.2.4.2 Literature analysis*

The literature found was read thoroughly by both authors. Each author marked the sections of the texts that they found particularly interesting and relevant. This was primarily done in Adobe Reader by using the built-in marker function. In printed material a pencil was used. Notes were then compared and discussed to make sure that the used framework was correctly selected. The content of the different literature sources was also compared to note what was most relevant. More recent sources were given more emphasis.

### **3.3 Data Credibility**

This section elaborates on the credibility of the methods through two different perspectives: reliability and validity. Research need to stand up to close scrutiny by testing the evidence and conclusions through these two views (Raimond 1993, 55).

#### **3.2.5 Reliability**

According to Collis & Hussey (2014, 52) ‘reliability refers to the precision and accuracy of the measurement and absence of differences if the research were repeated.’ One needs to ask if the results can stand thorough scrutiny.

In order for the results to be replicable all the interviewed persons are enclosed in table 2 as well as under section 7.3. Furthermore the interview guide is also enclosed in appendix 8.1. That being said, one should keep in mind that the interview guide consists of open-ended question, hence every interview might bring different results - if the study was to be repeated other results are likely. Follow-up questions differed depending on the

answers of the person interviewed and are therefore not included in the questionnaire. Because the questionnaire was changed during the course of the study it might be difficult for future researchers to pose the exact same questions and change the questionnaire in the same way. Furthermore the responses of the interviewees may be interpreted differently depending on the interpreter. Key data and quotes were verified with the interviewees to minimise the risk of any faulty information. The authors of this study have to the extent possible tried to keep in mind, both during interviews and when designing the questionnaire, that interviewees want to present themselves and their employer as positively as possible and that everyone has an agenda.

### 3.2.6 Validity

Validity is to what extent a test measures what it aims to measure and to what degree the results reflect the phenomenon studied (Collis & Hussey 2014 p.53). When conducting qualitative research based on in-depth interviews validity is normally less of an issue compared to quantitative research. By not steering the interviewee in a desired direction, but rather let him or her speak freely validity is improved (Holme & Solvang 1997, 94). In order to ensure the highest possible validity for this study, leading questions were avoided. The aim was to let the subject speak his or her mind as freely as possible, while still acknowledging the fact that he or she could have objectives conflicting with those of the study. To strengthen the validity of the study three forms of triangulation were used: Data triangulation, mixed methods and investigator triangulation. Data was taken from several sources and gathered in different ways. Secondary data was found in the literature and primary data was obtained in the field. The data was then analysed by the two authors, thus two points of view were considered and consequently investigator triangulation was used.

There may be errors in which the way the questions were posed that could have led to ambiguous answers, which might affect the validity. Also, it is possible that the respondents could have been emotionally distressed or have had their minds elsewhere and therefore not delivered the most accurate answers. While the former was handled by carefully going through the questionnaire before each interview, the latter is hard to address.

A limitation with this study that could affect its validity is that the sample is a convenience sample rather than a random sample. Interviewees at different firms did not always have equal seniority and could therefore have different levels of insight.



## 4. Findings

*Below the findings from the conducted in-depth interviews are presented. First some quantifiable data deemed relevant is presented in a table to give a rough overview of the companies whose representatives have been interviewed. Afterwards more detailed qualitative results are described. First the results most clearly linked to the four sub purposes described in section 1.6 are presented. In addition to this some other qualitative results are laid out as well. Together these results give the reader insight into how impact investing is practised and what role it plays in Kenya, primarily from a fund manager's perspective.*

### 4.1 Fund overview

Table 3 shows all the representatives interviewed for this study, as well as the companies they represent, their title and whether the interview was conducted by phone or face-to-face.

Institution/Fund	Type of institution	Person(s) interviewed	Title	Type of interview
88mph	Incubator	Nikolai Barnwell	Director	Face to face
Acumen	Impact Investor	Sapna Shah	Portfolio Manager	Face to face
DEG	DFI	Qahir Neki	Investment Manager	Face to face
EAVCA	Industry Association	Nonnie Wanjihia	Executive Director	Face to face
FMO	DFI	Elise Lufting	Senior Analyst	Telephone
GBF	Impact Investor	Amos Gichinga	Senior Investment Officer	Face to face
Grofin	Impact Investor	Rita Odera	Senior Investment Manager	Face to face
Maris	Investing Company	Alexander Puxley	Finance Manager	Face to face
Norfund	DFI	Kjartan Stigen	Head of Regional Office East Africa	Face to face
Novastar Ventures	Impact Investor	Mina Stiernblad	Investment Associate	Face to face
Open Capital	Advisory	Chelsea Scott	Project Leader	Face to face
Impact Fund X <sup>1</sup>	Impact Investor	Informant 1, Informant 2	Investment Manager, Investment Manager	Face to face
Swedfund	DFI	Johan Armtoft, Henrik Nordlander	Chief of Regional Office, Senior Investment Manager	Face to face
TBL Mirror Fund	VC	Karen Serem Waithaka	Investment Analyst	Face to face
VC4Africa	Online Community	Thomas van Halen	Investor Services	Telephone
Voxtra	Impact Investor	Gaute Ellingsen	Senior Investment Manager	Face to face

Table 3 List of persons interviewed

Below a table showing certain key metrics for the surveyed investment funds is presented. It offers a brief glance at how funds in Kenya invest their capital. To give the reader a better overview of how different kinds of fund operate, they are sorted into impact funds, DFIs and other funds.

<sup>1</sup> Interviewees spoke on condition of anonymity; Impact Fund X is not the name of an actual fund.

<b>Impact funds</b>	<b>Deal size (M USD)</b>	<b>Equity/ Debt</b>	<b>Majority/ Minority</b>	<b>Time frame (Years)</b>	<b>Venture stage</b>
Acumen	0.5-2	Both	Minority	5-7	Early stage & Growth
GBF	0.5-2.5	Both	Minority	max 9	Start-up & Growth
Grofin	0.1-1.5	Debt	-	3-7	Start-up & Growth
Novastar Ventures	0.1-6	Equity	Minority	7-10	Early stage
Impact Fund X	0.5-3	Both	Minority	5-7	Seed & Growth
Voxtra	0.5-3	Both	Minority	5-7	Growth
<b>DFIs</b>					
DEG	~(€)10	Both	Minority	5-7	Growth
FMO	n/a	n/a	n/a	n/a	n/a
Norfund	3-25	Both	Minority	5-10	n/a
Swedfund	3-12	Both	Minority	6-8	n/a
<b>Others</b>					
88mph	0.02-0.2	Equity	Minority	n/a	Seed
Maris Limited	0.25-5	Equity	Majority	~10	n/a
TBL Mirror Fund	0.25-2,5	Equity	Minority	5-7	Growth

Table 4 Data of interviewed actors

## 4.2 Market-gap

The opinions vary among the surveyed actors in Kenya's investing space on what market-gap impact investing fills. While all the impact investors interviewed claim that they do fill a gap, some non-impact investors are not as sure. The impact investors surveyed specifically stress four distinctive contrasts when comparing themselves with traditional commercial investors:

- They are willing to do smaller investments
- They are willing to be more patient towards entrepreneurs
- They are willing to explore and develop new markets and segments
- They are willing to take on greater risks

Most VC funds focus on investments starting at a few million dollars and upwards, while all of the impact funds in this study have a lower limit, in some cases well below a million dollar (see table 4). Thomas van Halen, responsible for investor services at the online platform VC4Africa where investors and entrepreneurs can meet, argues that there definitely is a gap in terms of deal sizes. Many entrepreneurs are simply looking for less capital than traditional investors are willing to supply.

*'The VC4Africa platform is focused on investments between 50k and 2 million, which is often referred to as the early stage investment gap. Most VCs still invest in more mature companies above a few million. So there is definitely a gap. However, the trend we discover is a growing number of [local] angel investors willing to invest their money and knowledge into scalable African tech ventures.'*

Thomas Van Halen, responsible for investor services at VC4Africa

Nonnie Wanjihia, executive director at EAVCA (East Africa Venture Capital Association), explains that impact investing funds tend to invest in a slightly earlier stage than traditional VCs. Kjartan Stigen at Norfund has a similar opinion, saying that impact investors are able to do earlier stage investments. On the other hand 88mph, an incubator and a strictly commercial start-up investor, do early-stage investments in the \$20-100 thousand span, which is lower than for any impact investor interviewed for this study.

Several impact investors also claim that they are more patient than their purely commercial counterparts. In the words of Sapna Shah, Portfolio Manager at Acumen: 'We are more patient than traditional commercial capital'. Novastar and GBF have a time frame for investments that is longer than the 5-7 years that the other funds state as their standard. However, several of the funds that prefer 5-7 years said that they in reality can hold on to their investments longer if that is called for. Naturally, the asset owners play a crucial role in influencing the time frames of the funds they invest in. A representative at one of the funds expressed concerns that the time horizon for impact investments is too short.

Rita Odero at Grofin, which mainly does debt, emphasise that they do have another time frame in mind compared to commercial banks.

*'You also look at reasonable risk periods. Like for instance, if you are an early stage business, say for example importing equipment. Most debt institutions would expect that you used [your funding to start to] pay your loan [back] a month after the disbursement. We take into consideration the logistics, in terms of how long is this equipment going to take to arrive, how long will the installation and commissioning take and probably training as well. Within what period will you start to generate cash flows?'*

Rita Oder, Senior Investment Manager, Grofin

Investing in emerging markets such as Kenya incurs extra risk, and because of the greater risk a better return is expected. In such a market it can be difficult for companies to receive funding. Mrs Odero explains that this is a gap they are trying to close.

*‘What we do is to support what we consider to be the missing middle, and this is small and medium enterprises. These are businesses that for several reasons are not able to access funding from the traditional financiers. Either because they are very early stage or have limited ... collateral ... Most banks and some of our clients that approach us say that the banks are only looking at historical cash flows and not quite looking at what the investments they have are going to do for the business, and therefore for the future cash flows as well. So that is the main difference.’*

Rita Oder, Senior Investment Manager, Grofin

When impact investors are looking to have a social impact the BoP is a natural target group. According to Mina Stiernblad, an investment associate at Novastar Ventures, this is a group that has not got much attention earlier but with impact investing that has changed. She argues that by focusing on finding solutions for the world’s poorest, a new market is opened as well as a new supply of labour.

Alexander Puxley at the investing firm Maris agrees that impact investing has a role to play, but he thinks that the impact money in Kenya would be more useful if invested in some of the neighbouring and less developed countries, for example South Sudan.

#### **4.3 Weighing social impact and financial return**

According to any established definition of impact investing, the investor must intentionally seek a financial return alongside social and/or environmental impact from his or her investment. The question then becomes whether these goals are correlated in some way and which one to put primary emphasis on. According to earlier surveys by JP Morgan and GIIN a slim majority of impact investors claim that they aim for a market-rate return on their investment. In other words, these investors do not believe that their focus on social impact affects their ability to deliver a financial return for their investors negatively. The picture among impact investors and DFIs surveyed in Kenya for this study is somewhat similar, with a slightly smaller proportion claiming to aim for a market-rate return.

Views among fund representatives on whether financial and social goals are correlated and whether investors have to forsake one or the other to reach maximum impact or return differ. This might depend on the sector a certain investment is made within.

Gaute Ellingsen at Voxtra, a fund that mainly invests in agricultural businesses, sees a close correlation between the impact his fund creates and the profits of the companies they

*‘For us we don't see that much of a trade off. But that I think is partly because of the type of businesses we invest in’*

*Gaute Ellingsen, senior investment manager, Voxtra*

invest in. At the same time, Ellingsen concedes that, partly because of the small sizes of the deals undertaken by Voxtra, transaction costs makes it hard to deliver a market-rate return when fixed costs are accounted for.



Mina Stiernblad at Novastar Ventures agrees that there are many projects where impact and return correlate positively. Novastar's strategy is explicitly to reach the BoP of Kenya, which according to the fund's definition is people living on less than \$2 a day. According to Ms Stiernblad, since this represents a major share of Kenya's population it constitutes a large untapped market. Providing products, services or employment for this segment creates impact and increases incomes, which ultimately creates tomorrow's demand for more products and services.

Others are not so sure. Sapna Shah, portfolio manager at Acumen in Nairobi, points out that entrepreneurs in sectors and businesses that have the potential to have a social impact do not always have an interest in pursuing any other return beyond the purely financial one. Rita Odero, senior investment manager at Grofin, makes the point that for the business to have impact it must be sustainable, which means it must be profitable.

When funds were asked if they had an explicit strategy to optimise financial return given an 'impact floor' or vice versa (i.e. optimising impact with a 'return floor') they denied using this model (see figure 12). All the funds and DFIs claim to take a more holistic approach, evaluating investments on a project-by-project basis, aiming to maximise both financial return and impact. However, since a few funds do target specific rates of return, or are expected by their investors to do so, that could imply that the model does apply.

*'It's much more advanced, we're looking at both [return and impact]. And even within impact, historically we've been perhaps looking at impact just from a 'number of lives impacted' sort of metric. We do a lot more in terms of how we look at impact now. There's a lot more nuance when we do our investment presentations around how we present the deal.'*

Sapna Shah, Portfolio Manager, Acumen

Fund stakeholders obviously play an important role in determining a fund's required rate of return on capital. Acumen for example have traditionally received a large part of the funding in the form of donations and grants from foundations. According to Sapna Shah these foundations have not expected a return on their invested capital. Acumen are now trying to reach a broader range of investors, for example institutional ones. According to Ms Shah this will probably imply higher return expectations.

How funds handle changes in strategies and objectives of the firms invested in varies. While some funds are fine with companies shifting focus from social impact to financial return others are not. Sometimes this is regulated in the deal contract, with the investment fund having the right to back out of a deal, should they deem the company no longer sufficiently committed to creating social impact.

#### 4.4 The role of DFIs

Development finance institutions in Kenya have two different roles in the local investing market: partly as asset owners investing in funds, partly as direct investors, funding companies through debt, equity or other instruments. According to the executive director at EAVCA, Nonnie Wanjihia, all of their current member funds are partly funded by at least one DFI. In their role as investors in funds the DFIs have the ability to influence them by convincing them to adopt practices and methods that align with the DFIs' mandates. Representatives for the DFIs interviewed for this study emphasise that the goal is not to force funds to adopt new guidelines and report systems just to satisfy investors, but to persuade fund managers that embracing ESG standards and developing report systems actually creates long-term value. As Qahir Neky at the German DFI, DEG, puts it:

*'How we try to sell it to companies or to managers is that when you exit, who is going to buy you? Yours might be the number two [best] company [in terms of profitability]. But guess what, you have all these systems ... in place, you have health and safety for workers and low reputational risk ... What would you pick?'*

Qahir Neky, Investment Manager, DEG

DFIs also have the ability to take on greater risk than many other investors as well as the willingness to invest over a longer time frame. Although the required return on capital invested varies among the DFIs they all claim to accept to take on higher risk than a purely commercial investor. This means not only that individual investments can have a higher risk factor but also that they are willing to enter markets that private investors shun. The DFIs are willing to bet on first time fund managers in markets where proven track records in general are hard to come by.

*'That is why DFIs are so important. Because they have that risk appetite to be able to invest in first time fund managers, whether they are impact or not.'*

Nonnie Wanjihia, Executive Director, EAVCA

By doing so they can function as door openers for private investors, showing that a certain market or a particular fund manager can provide an acceptable return. To quote a representative for a DFI Nairobi office looking to invest in the Democratic Republic of Congo:

*'But a commercial investor coming into DRC won't probably expect a 20% return, they want 40% or whatever. Basically significantly higher because they perceive the risks higher. But we as DFIs take this political risk, we take this long-term risk and we're willing to put our money there.'*

DFI representative in Nairobi

One DFI representative points out that this process is already under way in Kenya, with more commercial players entering the field on the back of previous success stories from DFIs and other angel investors. Jonas Armtoft, Head of Swedfund's regional office in Nairobi, believes that DFIs took a lead in adopting higher standards regarding measurements and reporting beyond strictly financial figures. This in turn made it necessary for the PE funds to follow and thereby changed the way investors now look at investments in developing countries. One example is TBL Mirror Fund where a DFI played an important role in getting the fund to include ESG reporting as part of its portfolio updates to the investors. TBL Mirror Fund has received positive responses from their investors who are increasingly interested in the ESG impact of their investments in addition to the financial return.

In their role as a direct investor, providing capital for companies, it is harder to distinguish between DFIs and impact investors in Kenya. DFIs, just like impact investors, invest with the aim to have a social or environmental impact along varying degrees of return on their invested capital. However, there are some distinctions. DFIs tend to prefer bigger deals than impact investors. Deals sizes below \$5 million are rare, though they do exist. This is higher than for many of the impact investors surveyed, who often do deals under \$1 million. That DFIs do bigger deals means that they can fund more capital-intensive projects in for example the infrastructure and energy sector. Another distinction between the DFIs and impact investors can be seen in their compensation structure. The DFIs surveyed typically do not get paid bonuses or carried interest fees (although Norfund report that this happens in some cases) whereas impact-investing funds tend to use a more traditional PE system with carried interest.

#### **4.5 Incentives**

As mentioned before, impact investors are by definition not satisfied by merely a financial return; they also intend to have a social or environmental impact. Consequently it is interesting to examine what kind of compensation structures are in place at the different funds and whether there exist financial incentives for fund managers to not only deliver a return on financial capital but also a social impact. Overall the answer to this question is that no impact fund currently has a system in place where fund managers get financially rewarded for social impact delivered. While Gaute Ellingsen at Voxtra, a fund with fixed salaries, expresses that they are not in it for the money, other fund managers disagree. As one representative puts it: 'It's a very commercial decision. They're doing it to make money. Let's just be frank.'

A popular way of incentivising personnel among PE funds is by adding bonuses tied to the financial outcome of a deal, also called carried interest. The carried interest kicks in if earnings on a deal are higher than a pre-set hurdle rate. While the impact funds participating in this study do not have any incentive program directly linked to social impact, some use the more traditional system with carried interest. TBL Mirror Fund

(which does not proclaim itself as an impact fund) and Novastar are both structured similar to a traditional PE fund while GBF fund managers get a bonus decided by their superiors, linked to the performance of companies invested in. The lack of financial incentives tied to impact appears to be something that has been under discussion in the industry. As Gaute Ellingsen at Voxtra says: *'This is something that nobody really cracked for impact funds'*, referring to impact tied bonuses.

Only one of the surveyed impact-investing firms, Acumen, say that they have actively been trying to develop a structure for linking compensation to social impact. The problem according to Sapna Shah is how to connect the reward to the measured impact. It is obviously very hard to compare different impacts from different companies, operating in different countries or even continents.

*'We are experimenting, again this is very early stage, we are experimenting around if there is something we could do around receiving further funds from our investors if we achieve certain kinds of outcome, like a social impact bonus.'*

*Sapna Shah, Portfolio Manager, Acumen*

Gaute Ellingsen also emphasises the difficulty of incentivising fund manager based on social impact. Since impact, in contrast to financial return, is a very diverse concept, getting the specific impact parameters right is both difficult and important for the system to work.

Depending on the sector a certain firm is operating in, different metrics are obviously interesting to look at when measuring impact. One fund representative interviewed argued that while efforts are made to develop global standards on measuring and reporting impact, it is challenging to develop efficient long-term standards. In contrast to financial return, where 20% is always 20%, human needs change over time and social issues evolve. Therefore, the metric used today to measure impact might be obsolete next year.

*'You would have to design [such a system] very carefully to make sure that you don't incentivise me to chase one type of deal at the expense of another kind.'*

*Gaute Ellingsen, Senior Investment Manager, Voxtra.*

develop global standards on measuring and reporting impact, it is challenging to develop efficient long-term standards. In contrast to financial return, where 20% is always 20%, human needs change over

There are nevertheless some natural incentives already in place if a fund perspective is adopted. If a fund can demonstrate impact to investors it is natural that they may easier attract asset owners looking to create impact or re-invest in a new fund with the same managers. As one fund manager expresses it: 'We will get more funds committed to investment if we can clearly demonstrate the impact of investments.'

*'The best reward for us would be to be able to deliver on those [impact] promises to [our investors] and then see them back and do this on a larger scale. For us it's more the proof of concept.'*

*Gaute Ellingsen, Senior Investment Manager, Voxtra*

Gaute Ellingsen at Voxtra shares similar views. Showing investors that your fund can deliver on

its promises, whether they be related to financial return or social impact, is the best way to guarantee continued funding.

While a financial bonus could help further incentivise impact investors to aim for social or environmental impact, incentives are also important for entrepreneurs. It is not a stretch to imagine that the presence of impact investors in Kenya, or anywhere else for that matter, looking specifically to invest in companies that positively impact their communities, have an effect on incentives for local entrepreneurs. Not everybody is sure this is a good thing. Nikolai Barnwell at the incubator and tech start-up hub 88Mph believes that the availability of impact investors not looking for a market rate return could possibly distort the investment market and create the wrong kind of incentives. In his view, generating more return by not focusing on impact generates a larger capital stock, which in the long run will be able to have a larger impact on Kenya's society. He thinks that investing money in projects without putting in place tough enough financial demands can lead to depletion of capital, with entrepreneurs not having the proper incentives to spend money efficiently. Rita Odero at impact investment firm Grofin has another point of view.

*'You find more and more people developing products and businesses that you think are aligned to what the impact investors would be looking for. ... It may benefit the economy and the community at the end of the day... That's a good thing I think. So you find a lot of guys coming up with medical products for the bottom of the pyramid or insurances just targeting that space that has sort of been left out'*

Rita Odero, Senior Investment Manager, Grofin

While Mrs Odero agrees with Nikolai Barnwell that impact capital has the potential to change incentives for entrepreneurs in Kenya and elsewhere, she sees this as a good thing. She believes that more entrepreneurs wanting to have social impact is good for the

*'I think people in the industry who are willing to invest can very quickly figure whether someone is genuinely thinking about impact or whether this is just a badge that they put on themselves, you figure that out very easily'*

Sapna Shah, Portfolio Manager, Acumen

Kenyan society. Mina Stiernblad at Novastar Ventures also believes that the presence of impact investors can change incentives in the market. She points out that it is important to recognise whether entrepreneurs are genuine in their commitment or not. She says that impact cannot be allowed to be an afterthought

that companies slap on their product in order to raise funds, but that it has to be part of their original business model. Sapna Shah at Acumen does not necessarily share this worry. She is not especially concerned that certain entrepreneurs might try to add a social dimension to their business just to easier attract capital.

## 4.6 Additional findings

While the results presented in the previous sections are most closely aligned to the sub-purposes of the thesis laid out in section 1.6 several other noteworthy findings emerged from the conducted interviews.

One, by definition, fundamental part of impact investing is to measure and report the social and/or environmental impact a specific investment has had. The views shared in the interviews from the impact investors surveyed are mixed whether the measuring and reporting is considered to be problematic or costly. Any kind of reporting inevitably results in some form of cost as time and resources need to be diverted. Yet, as DFI representatives have pointed out, while reporting and measuring impact metrics do incur costs it can also create value over the long term. Several fund representatives do concede that it sometimes can be a burden to measure and report impact and that it increases the fixed cost of their investments. Higher fixed cost means lower real returns and can be an impediment to smaller investments.

Several of the investors interviewed argue that there is too much capital in Kenya chasing too few good investment opportunities. Even though entrepreneurs eager for investments are found in abundance, finding investment ready ones is harder. As elsewhere in the world, entrepreneurs in Kenya mainly court investors to get their hands on capital to develop and grow their businesses. Investors in Kenya, however, argue that a lot of times entrepreneurs need less cash than they think and more advise than they seem to want.

*'I think Kenya ranks very well in terms of supply of capital'*

Amos Gichinga, Senior Investment Officer,  
Grassroots Business Fund

*'So what do [the entrepreneurs] believe? They don't believe they need expertise. ... What they believe is that they need money. They almost entirely come for money'*

Amos Gichinga, Senior Investment Officer,  
Grassroots Business Fund

*'In my experience, when we meet entrepreneurs, they think that they need capital... But when we actually invest in those companies and get them to understand that it's not just capital and transition their way of thinking, we realise that capital is normally not the issue but [one of] a number of things...'*

Investment Manager at Impact Fund X

Kenya's role as the leading financial hub in the East African region means that a lot of investors are present, driving up deal prices and decreasing returns. The field is perceived as especially crowded when it comes to investments in the growth stage. Other investors surveyed point to cultural differences between the East African countries as an advantage for Kenya. A local DFI representative said that people in Kenya compared to some of its neighbours are generally easier to do business with. According to several actors interviewed, this is not the main reason for so many investors being active in the Kenyan market compared to those of its neighbours, however. They instead point to the fact that

life as a western expat in Nairobi is comparably easy and of high quality, which makes it easier to attract personnel.

Different firms have different experiences raising funds. In general the problem is not primarily investor appetite but the lack of a proven track record as well as trouble finding good investment ready objects.

*‘The experience of raising capital and finding investors to place this money... The appetite is quite big ... The challenge is to find credible managers that have a track record and companies of course. Of course ... the track record of the manager matters a lot.’*

Investment Manager at Impact Fund X

Grofin, a firm that has been around for quite a while raised their third fund not long ago. Senior investment manager Rita Odero believes that their track record definitely contributed to their success in raising their third fund.

The opinions on whether being an impact investor increases your chances of getting funds from investors diverge. Nikolai Barnwell at 88Mph for example, is convinced that it is easier to raise capital as an impact investor. Sapna Shah at Acumen on the other hand, disagrees. She says that while being an impact investor certainly makes it easier to raise grant money it does not make it easier to raise capital in general.

Some of the surveyed funds are generalists and invest in companies in any sector as long as they see prospects for a financial return and social impact. Others specialise in certain sectors. Voxtra for example focus on agriculture. In general, agriculture and healthcare as well as renewable energy and financial services are the sectors that seem to attract most interest from the impact investors surveyed. Representatives for both Voxtra and Impact Fund X argue that agricultural sector is well suited for impact investments since profits and impact often go hand in hand.

The general consensus among actors in Kenya’s investing space seems to be that interest for impact investing has increased rapidly over the last few years and will continue to grow for the foreseeable future. Meanwhile, pretty much everyone surveyed agrees that the market is still in early development. Looking five years ahead Gaute Ellingsen thinks the sector will see some important developments. Several exits will hopefully be completed and it will be easier for investors to pick winners and losers. Track record will become even more important. He also thinks that impact investors will have to be more explicit about their impact goals in the future. Impact investing is still a young sector and Gaute Ellingsen believes that differing impact goals as well as differing parameters measured sometimes prevent co-investments between two or several impact investors.

*'I think that if you're out there raising money in five years then you need to know exactly what you're aiming for.'*

Gaute Ellingsen, Senior Investment Manager, Voxtra

Amos Gichinga at Grassroots Business Fund says that the sector has to better learn how to scale if it is to grow in a meaningful way.

*'We're struggling with scale, we want our businesses to scale, the ones we invest in. We are not able to scale and I think it's at the heart of sustainability itself from a fund manager's perspective.'*

Amos Gichinga, Senior Investment Officer, Grassroots Business Fund

One fund representative interviewed says that she believes that impact investing and ESG will move closer, with some overlap existing already. She adds that in five years maybe some sectors, with the help of impact investors, will have grown financially viable enough to attract more commercial capital.



## 5. Discussion

*This chapter elaborates on the findings from the conducted interviews. It offers the authors' analysis of, and discussion on, the findings. The results of the interviews are compared with the data discovered in the literature study and viewed through the conceptual framework developed in section 2.2. The first four sections discuss the sub-purposes, followed by other topics the authors found interesting.*

### 5.1 Does impact investing fill a gap in Kenya?

For impact investing to have a significant and lasting effect it needs to fill a gap in the market in terms of funding of projects that otherwise would have been left unfunded. If traditional commercial investors were doing the same investments that impact investors are doing, the impact investors would not bring something new to the table.

When actors in Kenya's investing market are asked what they perceive as the biggest gap in Kenya's investing market they tend to answer that the demand for smaller investments is not supplied properly. Many interviewees argue that the transaction cost is equal if not bigger in small investments (less than a million) compared with million dollar transactions, which puts a lower limit on how small investments can be done. When conducting due diligence for small less formalised companies, it can be hard to find accurate information, assuming there is any information available at all. It often requires field research, as second hand information may not be accessible or trustworthy. Bigger companies, referred to as million dollar investments, tend to have papers in place and accurate information can more easily be obtained. It is logical to assume that transaction costs of impact investments should be higher than those of a normal commercial investment due to the evaluation of social and/or environmental impact. With the lack of funding for small investments being one of the primary existing gaps in the investing market in Kenya, it is not crystal clear how impact investing can fill this gap. This is especially true for an impact investor that is not willing to give up financial return in order to achieve impact. However, according to impact investors in Nairobi, as well as representatives for sector-wide organisations, the investments impact investors do tend to be smaller than those of other non-impact investors. This could be a sign that impact investors are in fact willing to, as they often claim, take on greater risk than their purely commercial counterparts. If this risk appetite lets them make smaller investments they could help bridge the deal-size gap in Kenya. That a gap nonetheless continues to exist does not contradict that impact investing has helped close it: the gap could have been even bigger in its absence. In order for more even smaller investments to take place, new innovative approaches, that let the investor work around the problem associated with high fixed investment costs, are needed.

One example of an actor that has taken an innovative approach is the purely commercial investor and incubator 88mph. They are able to make smaller investments than any of the impact funds surveyed for this study, while remaining profitable. This could maybe

be linked to the fact that 88mph is not structured like a PE or VC fund but rather as a holding company where investors own shares. By owning shares in the holding company that in turn invests in start-ups, owners can avoid the typical pre-set time frame associated with funds and still invest in start-ups. Consequently there is no limit to how long a company may be held by 88mph. It is interesting to note that private investors, at least on a small scale, are willing to make investments in a company that does these smaller but much needed investments. Another example of an investor that chose a different company structure is Maris who decided not to form as a fund but instead as a conglomerate. One benefit of this was that they were able to keep developing companies they invested in according to Alexander Puxley.

It is worth examining whether impact funds would benefit from using other models and structures than those normally associated with PE and VC funds. Are there maybe other more efficient ways or models to set up an impact fund that would better suit its needs and lend necessary flexibility? Due to the scope of this study as well as the limited knowledge of the authors this is not explored in this study, but it is something that might be relevant for further research.

As mentioned in under section 4.2, impact investors claim that they are more patient with their capital than other investors. Defining what it means to be 'more patient than other investors' could be tricky. The example Rita Odero at Grofin gave, of how her fund is willing to take several aspects into consideration when deciding on a time plan for the repayment of a loan, is a good illustration of how patience can be practised. Practising this kind of patience may be viewed as taking on additional risk by a traditional investor, but it could also be considered to lower the risk of an investment by letting new parameters enhance the investor's risk assessment.

It appeared to the authors that impact investors sometimes wanted more time than they were allowed to hold on to investments, with a manager of one fund even saying so explicitly. It takes time to develop a company and for it to reach its full potential. Perhaps it takes even more time to do so as an impact investor, with social impact maybe not having an immediate effect but rather being something that develops over time. A too short time frame could incentivise funds to aim for easily quantifiable, short-term impact at the expense of long-term impact that might be harder to quantify. The asset owners influence the time frame of the investments and this is an area where dialogue is key.

The kind of new thinking shown in the example with Grofin above is maybe needed in a young sector such as impact investing. It might also be more encouraged in a sector still in its early stage where practices and principles might not yet be fully settled. This can hopefully lead to new innovative instruments being developed that let impact investing better serve existing markets while also reaching new ones.

Innovation might also be fostered by the fact that impact investors fund companies that actively try to reach the BoP, whether it be as consumers, employees or even employers. These are people living on extremely small means that most likely spend the majority of their income on goods and services necessary to just get by. In Kenya, however, this represents a large share of the market. If a company manages to find a solution so that they can market and deliver a product or service to this part of the population, there is certainly money to be made. The challenge is to come up with something that is cheap enough for the BoP to buy that is simultaneously beneficial and impactful. Trying to overcome this challenge can hopefully lead to new innovative business models that by extension could be useful in other situations as well.

Impact investors' risk appetite, as well as their willingness to invest over a longer time frame, could make them more successful when investing in companies looking to hire employees from the BoP, or companies owned and operated by someone from the BoP. While an entrepreneur from the BoP may have a good idea or a strong knowledge of his or her local community they might not have the formal structure that a traditional commercial investor is looking for. An impact investor, that is able to exercise patience and have the willingness to prioritise long-term value, might gain from the fact that this is a part of the market traditionally under-served.

## **5.2 How are social and financial goals weighed?**

The topic of expected financial return seems to be a sensitive one for impact funds in Kenya. While several fund representatives conceded during the interviews that they were in fact expecting a below-market rate return, no representative was willing to acknowledge that later in a follow-up email exchange. This might be linked to investor expectations and shows that impact investing is still a field where a lot of the details remain to be sorted out. It is not unlikely that admitting that you expect a lower financial return could result in future fundraising becoming harder. If looked at through Johnson's, Sholes's and Whittington's stakeholder matrix, investors are without a doubt key players for impact funds. They are absolutely vital to keep happy. Several different asset owners, often with different mandates and goals, provide capital for the impact funds in Kenya. Some of the funding consists of grant money, which is never expected to be paid back. Other funding is more or less purely commercial. While no fund representative surveyed said that this was a problem, it might regardless pose a challenge to reconcile the various investors' goals.

As noted in the previous chapter under section 4.3, the interviewed fund representatives claimed to aim for both maximised financial return and social impact, without one or the other taking precedence. The model developed by Freireich and Fulton presented in chapter two, is therefore hard to apply. One fund did say that they aim for the specific rate of return of 21%, which could be described as a 'financial floor'. However, the

representative did not explicitly say that social impact takes precedence over financial return if the target is met. Many funds experience that their biggest constraint is lack of investment ready objects. Due to this, they have probably not yet found the need to set any kind of ‘floors’: the competition for impact money is simply not that big. As some fund managers pointed out, there are many funds active making it more of a sellers’ market. This finding fits well with the data released by JP Morgan and GIIN in their latest report presented in section 2.1.4. According to the report, lack of good investment objects is seen as one of the biggest constraint for impact investors on a global level with competition on the investor side especially prevalent in East Africa. While most investors said that there is too much money chasing too few deals in Kenya, they also conceded that entrepreneurs in Kenya are not likely to agree. Fund managers acknowledged that there are plenty of interesting companies in Kenya, unfortunately the vast majority of them are not considered investment-ready by investors.

The question remains whether impact and financial return are correlated, and if possible correlation is positive or negative. It is important for investing firms to find out what decisions they can take to influence the correlation to their advantage. By doing so they can potentially create ‘win-win situations’ that might lead to ‘win-win relations’, described in section 2.2.3. Finding these situations is probably easier if one has a long-term perspective. In the short term, restricting possible investments to enterprises that explicitly aim to have a positive social impact, as well as measuring and reporting impact, is bound to incur some costs. In conformity with what Svensson and Wijk argue, the value this creates on the other hand, whether it be in terms of better living standards for stakeholders such as employees or customers, or to shareholders in the form of a stronger brand or a more sustainable business, is more likely to develop over time.

As mentioned earlier, for a business to have social impact it must be sustainable, which means it must be profitable. Financial return is, in other words, a precondition for social impact. At the same time social impact could potentially, at least in the short term, have a negative impact on profits. Using stakeholder value logic, taking the interests of stakeholders other than shareholders into account, the positive value of social impact can compensate for possible reduced short-term profits.

### **5.3 What role do DFIs play?**

The findings regarding DFIs from the conducted interviews are mainly in line with what could be found in the literature. DFIs in Kenya are anchor investors in several different funds, some of which label themselves as impact investors. Even the funds that do not label or view themselves as impact investors, but are nonetheless funded partly by a DFI, have to take other stakeholders than their shareholders into account to conform to the required ESG reporting. This might be the most important role for DFIs in Kenya: they influence investors to view their investments in a wider perspective and shed light on other stakeholders such as employees of their investees. While some funds, such as TBL

Mirror Fund, have experienced a positive outcome from their ESG reporting, others are still yet to see an effect.

The WEF say in their report *From the Margins to the Mainstream* on impact investing that DFIs are especially active in first-time funds. This corresponds well to the answers from interviewees in Kenya. DFIs in Kenya are perceived as willing to take higher risks and bet on fund managers with limited track record. This might be especially beneficial for impact investment funds that often lack a track record. By betting on first-time impact investing funds DFIs can help facilitate further fund raising and open up the market to other, more risk-averse, sources of capital.

The fact that DFIs are willing to invest over a longer time frame can also affect the time frame that impact investors consider since they are most likely partly funded by a DFI. The willingness to invest over a longer time frame could foster a more explicit focus on the creation of long-term value. That other stakeholders are given attention through ESG reporting might lead to this value being shared by several actors.

#### **5.4 What role does incentives play?**

While impact funds in Kenya claim to care equally about social impact and financial return, so far employees can only receive bonuses or commission based on financial return. Whether a salary system based on bonuses is desired or not is beyond the scope of this thesis. Nevertheless, if the funds do care equally about impact and financial return it would be natural to incentivise employees in a way that make them seem equally important. The system some funds use currently seems to give more weight to the financial return. The risk is that this system incentivises investment managers to develop a bias towards investments where short-term profits take precedence over social impact. This could potentially create a rift between the goals of the fund and the goals of the investment or portfolio manager.

Fund representatives at Voxtra and another impact fund surveyed expressed that there is already a natural incentive in place, which applies to all impact funds. If a fund does not deliver on its impact goals, it is likely to have a hard time raising their next fund. Why would you invest in an impact fund that previously did not deliver social impact, if social impact is what you desire? Whether or not this is incentivising enough is debatable. It is surely a long-term incentive, but it does not provide any direct incentives for fund managers. They will not receive a higher salary or a bonus during the administration of the current fund. However if they are employed long enough, they might benefit from a larger management fee, which is often linked to the size of the fund, if working for the subsequent fund. In other words there might be a bigger cake to share when the second fund comes around. The effect described in this paragraph probably has a more substantial effect on more senior personnel. More senior employees would naturally have

to take more responsibility if a fund does not deliver on its promises, no matter if they are impact or financially related.

One fund representative expressed that peoples' needs change over time. The social measurement must therefore change accordingly. Financial return however is always measured in money and does not have to change in a similar manner. This is obviously a tricky part about impact investing. Changing measurements implies that it will be difficult to measure over longer periods of time, since different things have been measured. Because of this, it might be difficult to establish a social impact track record. Lack of track record is one of the biggest obstacles when raising funds today according to interviewed funds, which corresponds well with results from the JP Morgan and GIIN study from 2015. Perhaps the asset owners looking to invest in impact funds must re-think. A result of the changing measurements is that it will be more difficult to form an incentive system linked to social impact, since the underlying measurements change. If socially tied financial incentives were to be implemented it would have to be done carefully. A fund could easily drift away from its original objective if the incentives are not aligned properly.

One approach to developing effective incentives could be for the impact funds to share the best practices and knowledge with each other to create better practices. Different funds focus on different sectors; hence they have most likely discovered unique best practices depending on within which sector they operate. Network platforms and network organisations could be of use for such discussions. If the hypothetical discussions were to be made public, other positive effects might occur. For example asset owners and investors could participate and all stakeholders could perhaps align their goals and views on impact investing.

There is no clear and easy way to design a successful social-impact-tied incentive bonus, but for impact funds it should be a priority. At least as long as they continue to reward their employees based on financial return. Without fund managers working towards maximising impact as well as financial goals, impact funds run the risk of drifting towards a traditional commercial fund.

## **5.5 Discussions related to additional findings**

A brief elaboration on some of the results presented in section 4.6 is found in the sections below.

### **5.5.1 Agricultural and health care sectors important**

Agriculture and healthcare play a relatively small role globally in terms of impact capital committed. However, in terms of what sectors globally surveyed impact investors have committed capital towards, they are the two most commonly named sectors. How does that add up? One possible answer could be that impact investments done in agriculture

and healthcare are mostly done in emerging markets, where deal sizes are likely smaller. In emerging markets agriculture tends to account for a larger share of the economy and healthcare needs are greater. If this is true it is only logical then that these two sectors seem to be more dominant in Kenya. Over 75% of Kenyans make some part of their living in the agricultural sector that accounts to more than 50% of the country's GDP (Feed the Future, 2015). In fact two of the impact funds surveyed are specifically targeting investments in agriculture and most other funds are investing in this sector as well. The agricultural sector seems to be a good fit for impact investing. A development of the sector could not only benefit people directly tied to agriculture, better yields would also contribute to greater food security. The same goes for healthcare where needs for improvement are obviously immense. Increasing people's access to healthcare by investing in profitable yet socially responsible companies should be able to provide shared values.

### **5.5.2 Equity the weapon of choice**

While the most used instrument for financing impact investments on a global level is private debt, equity seems to be the preferred method in Kenya. This might have something to do with that the surveyed impact investors in Kenya tend to invest earlier in the enterprise cycle than their global counterparts. According to the interviewed fund representatives most of their capital is invested in the growth stage. On a global level on the other hand, over half of the capital committed by investors surveyed by JP Morgan and GIIN is invested in a mature stage. However, capital invested in earlier stages tends to come in the form of equity also on a global level. The picture painted by our interviews and the results from the survey conducted by JP Morgan and GIIN then become somewhat more similar.

### **5.6 Impact investing: Beyond strategic CSR**

The thoughts and ideas presented in *Fundamentals of Strategy* as well the notions developed by Porter and Kramer regarding CSR are in many ways closely related to the ideas behind impact investing. Impact investing further develops strategic CSR in a way that makes it even more central to the business model. Social enterprises, often the targets of impact investments, are companies that explicitly aim for their business to have a positive social or environmental impact on their community, while they also turn a profit. For these companies, social impact is part of their core. It is only logical then that they try to tie social impact to their business model. Since social impact is so prioritised by these companies it is important to find activities that lets them align profit and impact goals. By finding values that are shared by multiple stakeholders companies find win-win situations and build win-win relations. This way they do not have to justify their CSR commitments at all – they are simply activities creating values for multiple stakeholders, including the shareholders.

If CSR historically was viewed as a necessary burden for the company, adopting strategic CSR should limit its costs and constraints on a company. By more clearly aligning a company's CSR activities with its business model the company can leverage its knowledge to impact society in a positive way without making heavy sacrifices. However, CSR is still viewed as a responsibility, hence the 'R' in CSR. The idea is that since CSR is something the company has to pay attention and divert resources to, it might as well do it in a way that is mutually beneficial for both company and society.

For a social enterprise, and indirectly for impact investors, social or environmental impact is not viewed as a responsibility. A social entrepreneur comes up with an idea or finds an opportunity to form a company whose core business model is meant to have a positive social or environmental impact, while also bringing in revenue. In other words, no distinction is made between business activities and CSR activities. 'CSR' itself is the business model. Think of it as 'CSB – Corporate Social Business'. The impact investors acknowledge the potential in such ideas and give entrepreneurs the opportunity to scale and develop by funding them with financial capital. Scaling and developing the business does not only lead to a bigger impact reaching more people, it also boosts revenue and hopefully profits. That social impact is seen as an opportunity rather than as a responsibility lends credibility. Motives not dependent on altruism but the long-term self-interest of various stakeholders are easier to justify in a credible manner.

By blurring the lines between CSR activities and the core business, impact investors can highlight possible links between social impact and financial returns. Shared values can be found if different stakeholders find common ground. What might look like conflicting goals in the short term could in reality be an opportunity for a long-term win-win relationship.

### **5.7 Moving forward: How to grow impact investing in Kenya**

The investors surveyed in Kenya seem to agree with their global counterparts that interest for impact investing is growing. And just like their global counterparts they also believe that the market is still in an early stage. Everybody seems to agree that impact investing will continue to grow in the foreseeable future. If capital available to Kenyan impact investors shall continue to grow substantially beyond foreign family offices and foundations, the question of financial return is key. This was for example noted by Sapna Shah at Acumen, who said that return expectations will increase as they look to broaden their investor base. Especially institutional investors with a fiduciary mandate need to know that they will get a risk-adjusted market-rate return.

In the short term it is not obvious how impact investors could compete financially with a purely commercial investor. After all, everything an impact investor does, a commercial investor can do as well. This, however, is true for other niche investors as well. This does not prevent investors specialised in certain sectors, enterprise stages or geographies from



competing with generalists. What investors in these specialised fields do is that they compete with the generalists through their greater knowledge in a specialised field, which gives them a competitive advantage.

As mentioned earlier, some impact funds in Kenya have specialised in certain sectors, mainly agriculture. Presumably partly because agriculture accounts for a major share of the Kenyan economy and partly because it is perceived as a sector where financial return and impact correlate positively. Whether this will be able to give impact investing a competitive advantage remains unanswered. What is clear is that being an agricultural investor gives you unique insight into that sector, just as being an investor specifically interested in Kenya hopefully gives you unique knowledge about the Kenyan economy. Impact investors on the other hand gain special insight and knowledge about social and environmental impact. This means that they, and the companies they invest in, have a unique ability to build closer relationships with multiple stakeholders that other investors might not pay as much attention to. The million-dollar question then becomes how this could translate into a competitive advantage in competition with other solely return-maximising funds in relation to investors as well as enterprises looking for funding. Maybe the answer is that it will not in terms of short-term financial profits. As mentioned above: any investment an impact investor does, whether he or she specialises in a certain sector or not, a purely commercial investor could do as well.

What the surveyed impact investors have stressed is that they are willing to be more patient with their capital. They are in some instances willing to forego short-term profits. While the main reason for this is their desire to create social impact it could have other, financially beneficial, consequences as well. Johnson, Scholes and Whittington (2009), when discussing pros and cons of the shareholder and stakeholder model of governance, bring up the possible conflict between short-term profits and long-term value (see 2.2). The stakeholder model is presumed to a certain degree to prevent management from taking decisions that induce short-term risk that are not in line with the company's strategic goals. Proponents of the stakeholder model argue that it is better suited to create long-term value. By supporting businesses that explicitly take stakeholders such as employees, customers or 'nature' into consideration, impact investing has the potential to create long-term value. By opening up new markets and reaching new segments impact investors can create new revenue channels. This has the potential to benefit shareholders willing to adopt a longer-term perspective. Investing in sustainable businesses that takes part in developing the local community could strengthen the local economy. This in turn fosters economic growth and widens the consumer base. A cycle that has the potential to, over the longer term, benefit both balance sheet and people. Hypothetically, a return of a couple of per cent under the market-rate year one may be a precondition for a higher than the currently expected market-rate return year five. Pension funds, a typical institutional investor with a fiduciary responsibility, should find the notion of long-term value creation appealing. Pension funds invest a part of a working person's salary over the

course of his or her career. The goal of the investment is for it to grow so that when the person retires he or she can then live on the invested capital and its return. This is naturally a long-term investment. It is not uncommon for people to start saving towards their retirement 40 years or even more in advance. However, currently pension funds find it hard to motivate investments in impact funds if they do not expect a market-rate return in the short term.

Impact investing could be viewed as an extension of stakeholder capitalism as presented by Svensson and Wijk. Other stakeholders than shareholders are not only taken into account: They are given the same or even higher priority. The management of an impact fund, or a social enterprise that receives funding from an impact fund, wants to find shared values. This requires relationships beyond the traditional form based on the principal/agent approach. The board is not simply the shareholder's agent; it needs to take decisions that benefit multiple stakeholders. Finding these shared values probably requires a different skill-set than the one needed to deliver short-term profits in the system of financial capitalism.

While Johnson, Scholes and Whittington argue in *Fundamentals of Strategy* that the world, partly because of globalisation, is slowly converging on the shareholder model of governance, this might be changing in the wake of the global financial crisis. Many economists and pundits see aggressive short-term risk taking and profit seeking as the main causes behind the crisis. By using a stakeholder model of governance, with a greater focus on long-term value and sustainability, impact investing has something unique to offer asset owners, especially as part of a diversified portfolio.

## 6. Conclusions and recommendations

*In this chapter the conclusions of the thesis and recommendations for further research are presented. First, the overall conclusions are presented, and then the findings of each sub-purpose are presented. Next, the contribution to the existing body of knowledge is explained followed by suggestions for further research. Finally the authors elaborate briefly on the impact of the study's findings.*

### 6.1 Conclusions

There is widespread agreement that Kenya's impact investing scene is growing. There are already several impact funds as well as DFIs operating in Kenya, with more expected to join. The sector is still in an early stage with impact funds still trying to figure out how the phenomenon of impact investing is best applied in a Kenyan setting. Although there are plenty of entrepreneurs looking for funding, few are regarded by the funds as investment-ready. While some impact funds in Kenya have chosen to be generalists and invest in several different sectors, others have decided to specialise. Some funds have converged on a VC model, with mostly early or growth stage equity investments and minority stakes, but alternatives exist. This is probably a good thing. Asset owners as well as fund managers need to figure out what works best for them, depending on their goals and desires. It is important for impact funds to not limit themselves to the traditional structures of VC and PE funds. This is not in the least true when it comes to incentives and compensation. To more clearly distinguish themselves from traditional investing it is important that asset owners and impact funds alike take the question of incentives related to social impact seriously. The current emphasis by some funds on incentivising impact fund managers solely based on financial return could lead to investment managers taking decisions not in line with the objectives of the fund.

Impact investing, with a multiple stakeholder approach, could be viewed as further evolution of the thoughts developed by Johnson, Scholes & Whittington, Porter & Kramer and Svensson & Wijk regarding CSR and stakeholder theory.

#### **To explore whether impact investing fills a gap in Kenya's investing market and what that gap may look like**

Impact investors in Kenya claim to invest in earlier stages and do smaller deals than traditional commercial investors. Even with impact investors present there appears to remain a gap in the market: that of even earlier stage, and even smaller investments. Currently, transaction costs seem to prevent impact investors from filling this gap.

Impact investors claim to invest over a longer time frame than their traditional commercial brethren. By being more patient and investing over a longer time frame, additional factors related to value creation can be taken into account. Certain investments might need longer time to generate profits as well as impact. Taking a longer view lets the investors take these longer-term dividends into consideration.

Some impact investors argue that they are addressing new markets and creating new investment opportunities, also for other investors. The clearest example of this is certain funds' explicit focus on the BoP, a segment traditionally overlooked. New investment segments are also addressed by using innovative ways of valuing investments, such as a more inclusive cash-flow analysis when looking at potential loans.

#### **To examine how impact investors in Kenya weigh social impact and financial return**

Impact investors in Kenya in general claim to give equal weight to their dual mandates of financial return and social impact. They are both preconditions for an investment to be made and the surveyed funds strive to maximise both. In certain situations rates of return below the risk-adjusted market-rate are accepted. At the same time, what the market-rate return should be is not set in stone. Lack of exits and track record make it hard to predict. What returns are required and what impact should be measured and reported is closely connected to the desires of the asset owners.

#### **To investigate what role DFIs play and how they differ from impact investors**

DFIs play an important role in Kenya both as direct investors into companies and as investors in funds. They require ESG reporting which forces the company or fund reporting back to them to consider additional stakeholders. They are mandated and willing to take on risks that other investors shun, which lowers the risk and opens up markets for other investors. By influencing companies to adopt certain standards, not least in regard to governance, they make enterprises 'investment ready'. This lowers the barriers between companies and traditional investors. DFIs investing in impact funds, sometimes betting on first-time fund managers, pave the way for other sources of capital to find its way to this relatively new and unexplored part of the Kenyan investing market.

#### **To explore what incentives exist for impact fund managers as well as how impact investing itself could change market incentives**

So far no fund has tied their employees' compensation to social or environmental impact. Meanwhile several funds do base their compensation at least partly on the financial outcome of their investments. If funds were to tie salaries or bonuses to social impact, finding the right metrics would obviously be of great importance. How this should be done remains unsolved. The fact that the definition of what impact is, as well as whom it targets, changes over time makes it particularly tricky. From a fund management perspective financial incentives related to impact do exist: that asset owners are looking for impact incentivises the fund's management since further funding partly is contingent on delivered impact.

By taking a more holistic approach and funding companies that explicitly strive for not only profit but also a positive social impact it is possible that impact funds could shift the incentives for entrepreneurs in Kenya. If this happens on a wider scale it could potentially

have a transformative effect on the Kenyan economy, where companies that consider several stakeholders and positively impact their local community easier get funding than those that are strictly short-term profit maximisers.

## **6.2 Contribution to knowledge**

As a relatively new concept the literature available on impact investing is limited. The existing research is mainly conducted from a global point of view and based on larger sets of quantitative data. With Kenya being both the largest economy and the most important capital market in East Africa it is naturally an attractive investment destination. By letting people active in the impact investing industry in Kenya express and elaborate their views on the sector this study will hopefully have contributed with country specific knowledge regarding the impact-investing scene in Kenya.

## **6.3 Suggestions for future research**

Taking a qualitative approach, exploring organisational behaviours and interactions, this study aims to inspire as well as lay a foundation for further research. There are many fields related to impact investing, such as incentives, that need further exploration. More knowledge on the proposed research subjects listed below could help take impact investing to the next level, or perhaps find a better alternative. The topics below are in no way a complete list of impact investing-related subjects that need to be addressed, but they do represent examples of areas that the authors think would be interesting to examine further.

- Incentive programs linked to social and/or environmental impact. How could incentives be designed? What would the implications be?
- An evaluation of different company structures within the impact investing industry. How could they be improved? Are there any alternatives to existing structures?
- Adding an entrepreneurial perspective to previous impact-investing research.
- A larger scale study with more interviewees representing several different stakeholders.
- A more quantitative study on market returns and impact.
- A study on exit strategies as well as previous exits. What strategies are most successful? How can exits be facilitated?
- A study of the various measurement systems in place. How are effective measurement systems designed and implemented?

## **6.4 Implications of findings**

The biggest implication of this paper is perhaps expansion of the authors' knowledge on impact investing. That being said the study will hopefully inspire new thoughts, especially among the actors in Kenya, that could lead to discussion and potentially solutions to challenges within the impact investing industry. Actors outside Kenya,

looking to enter the market, should be able to find interesting information about how the market is working today.

## 7. Sources

*The sources are divided into two categories: literature sources and interviewees.*

### 7.1 Literature

Bryman, Alan and Bell, Emma. 2005. *Företagsekonomiska forskningsmetoder*, Liber Ekonomi

CIA Central Intelligence Agency. 2015. *The World Fact Book - Kenya*.

<https://www.cia.gov/library/publications/the-world-factbook/geos/ke.html> (received 2015-04-31)

Collis, Jill and Hussey, Roger. 2014. *Business Research: a practical guide for undergraduate and postgraduate students*. Palgrave MacMillan Higher education.

Credit Suisse. 2012. *Investing for impact – How social entrepreneurship is redefining the meaning of return*. [http://www.weforum.org/pdf/schwabfound/Investing\\_for\\_Impact.pdf](http://www.weforum.org/pdf/schwabfound/Investing_for_Impact.pdf) (received 2015-04-27)

Feed the Future – The US Government’s Global Hunger and Food Security Initiative. 2015. *Kenya – Feed the Future Fact Sheet*. <http://www.feedthefuture.gov/country/kenya> (received 2015-05-26)

Freireich, Jessica and Fulton Katherine. 2009. *Investing for Social and Environmental Impact*. Monitor Institute. [http://monitorinstitute.com/downloads/what-we-think/impact-investing/Impact\\_Investing.pdf](http://monitorinstitute.com/downloads/what-we-think/impact-investing/Impact_Investing.pdf) (received 2015-04-27)

Eriksson, Lars T and Wiedersheim-Paul, Finn. 2011. *Att utreda, forska och rapportera*. s.l.: Libris.

Harji, Karim and Jackson, Edward T. 2012. *Accelerating Impact – Achievements, Challenges and What’s Next in Building the Impact Investing Industry*. Rockefeller Foundation. <https://www.rockefellerfoundation.org/app/uploads/Accelerating-Impact-Full-Summary.pdf> (received 2015-05-26)

Herbling, David. 2015. Top Belgian financial services firm to make Nairobi regional hub. *Business Daily Africa*. [www.businessdailyafrica.com/Corporate-News/SWIFT-to-make-Nairobi-regional-hub/-/539550/2589340/-/lup9syz/-/index.html](http://www.businessdailyafrica.com/Corporate-News/SWIFT-to-make-Nairobi-regional-hub/-/539550/2589340/-/lup9syz/-/index.html) (received 2015-05-28)

Holme, Idar M., Solvang, Bernt K. 1997. *Forskningsmetodik*. Lund: Studentlitteratur.

- Investopedia. 2015. *Socially Responsible Investment – SRI*.  
<http://www.investopedia.com/terms/s/sri.asp> (Received 2015-04-23)
- Irungu, Geoffrey. 2012. Kenya poverty level constant for six years. *Business Daily Africa*. May 8<sup>th</sup>. <http://www.businessdailyafrica.com/Kenya-poverty-level-constant-for-six-years/-/539546/1402060/-/cwlbe3/-/index.html> (received 2015-05-30)
- Johnson, Gerry, Scholes, Kevan and Whittington, Richard. 2009. *Fundamentals of Strategy*. 1<sup>st</sup> ed. Harlow: Prentice Hall.
- Kirkeby O. Abduktion. In: Andersen H, editor. 1994. *Videnskabsteori og metodelaere*. Frederiksberg: Samfundslitteratur.
- Malingha, David. World Bank Raises Kenya's 2015 Growth Forecast to 6 Percent. *Bloomberg*. March 5<sup>th</sup>. <http://www.bloomberg.com/news/articles/2015-03-05/world-bank-raises-kenya-s-economic-growth-forecast-to-6-percent> (Received 2015-04-27)
- Malon, Scott. 2015. The former governor of Massachusetts is going to work for Mitt Romney's private equity firm. *Business Insider*. April 14<sup>th</sup>.  
<http://uk.businessinsider.com/r-former-massachusetts-governor-patrick-to-join-bain-capital-paper-2015-4?r=US> (received 2015-04-27)
- Masinde, Joshua. Kenya attracts Sh115 billion in investments. *Daily Nation*. May 26<sup>th</sup>.  
<http://www.nation.co.ke/business/Kenya-attracts-Sh115-billion-in-investment/-/996/2730458/-/10k7m61z/-/index.html> (received 2015-05-28)
- Morse, Janice .M. 1994. *Critical Issue in Qualitative Research Methods*, Thousand Oaks, CA: SAGE Publications.
- Nationsonline. 2015. *Map of Kenya*. [http://www.nationsonline.org/maps/kenya\\_map.jpg](http://www.nationsonline.org/maps/kenya_map.jpg)  
(received 2015-04-30)
- Olsson, Henny. & Sörensen, Stefan. 2011. *Forskningsprocessen : kvalitativa och kvantitativa perspektiv*. 3<sup>th</sup> ed. s.l.:Liber.
- Otieno, Julius and Morogo, Emoro. 2015. Kenya sixth poorest in Africa, report says. *The Star*. February 19<sup>th</sup> . <http://www.the-star.co.ke/news/kenya-sixth-poorest-africa-report-says> (received 2015-02-20)
- Porter, Michael E. and Kramer, Mark R. 2011. *Creating Shared Value*.  
<https://hbr.org/2011/01/the-big-idea-creating-shared-value> (Received 2015-05-25)



- Porter, Michael E. and Kramer, Mark R. 2006. *Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility*.  
<https://hbr.org/2006/12/strategy-and-society-the-link-between-competitive-advantage-and-corporate-social-responsibility> (Received 2015-05-27)
- Raimond, Paul. 1993. *Management Projects: Design, Research and Presentation*. London: Chapman & Hall.
- Rockefeller Foundation. 2015. *Innovative Finance*.  
<http://www.rockefellerfoundation.org/our-work/initiatives/innovative-finance/> (Received 2015-04-23)
- Saltuk, Yasemin, Bouri, Amit and Leung, Giselle. 2011. *Insight into the Impact Investment Market*. [http://www.thegiin.org/cgi-bin/iowa/download?row=334&field=gated\\_download\\_1](http://www.thegiin.org/cgi-bin/iowa/download?row=334&field=gated_download_1); (Received 2015-04-23)
- Saltuk, Yasemin, El Idrissi, Ali, Bouri, Amit, Mudaliar, Abhilash, Schiff, Hannah. 2015. *Eyes on the Horizon*. [http://www.thegiin.org/binary-data/RESOURCE/download\\_file/000/000/662-2.pdf](http://www.thegiin.org/binary-data/RESOURCE/download_file/000/000/662-2.pdf) (received 2015-05-06)
- Saunders, Mark, Lewis, Philip, Thornhill, Adrian. 2007. *Research Methods for Business Students*, 4<sup>th</sup> ed, s.l.: Prentice Hall.
- Svensson, Claes, Wijk, Gösta. 2015. *Intressentkapitalism – En fråga för företagsledning nu och i framtiden. En idéskrift*. [http://www.efl.se/wp-content/uploads/2015/05/EFL\\_Intressentkapitalism.pdf](http://www.efl.se/wp-content/uploads/2015/05/EFL_Intressentkapitalism.pdf) (received 2015-05-25)
- Tozzi, John. 2013. G8 Leaders Embrace Impact Investing With New Funds. *Bloomberg Business*. June 6<sup>th</sup>. <http://www.bloomberg.com/bw/articles/2013-06-06/g8-leaders-embrace-impact-investing-with-new-funds> (received 2015-04-27)
- UN (United Nations). 2012. *World Population Prospects: The 2012 Revision*.  
[http://esa.un.org/unpd/wpp/unpp/panel\\_population.htm](http://esa.un.org/unpd/wpp/unpp/panel_population.htm) (Received 2015-05-20)
- UNDP (United Nations Development Programme). 2014. *Impact Investing in Africa*.  
<http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/Impact%20Investment%20Final%20Report.pdf> (Received 2015-05-07)
- Wallén, Göran. 1996. *Vetenskapsteori och forskningsmetodik*. Lund: Studentlitteratur.
- WEF. 2013. *From the Margins to the Mainstream – Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors*.

[http://www3.weforum.org/docs/WEF\\_II\\_FromMarginsMainstream\\_Report\\_2013.pdf](http://www3.weforum.org/docs/WEF_II_FromMarginsMainstream_Report_2013.pdf)  
(Received 2015-04-23)

Widerberg, Karin. 2002. *Kvalitativ forskning i praktiken*. s.l.:Studentlitteratur.

Wikipedia. 2015. *Kenya*. <http://en.wikipedia.org/wiki/Kenya> (received 2015-04-31)

Wilson, Karen, Silva, Filipe and Richardson, Dominic . 2015. *Social Impact Investment – Building the Evidence Base*. OECD. <http://www.oecd.org/sti/ind/social-impact-investment.pdf> (received 2015-04-27)

World Bank (a). 2015. *GDP (current \$)*.  
<http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries/KE?page=2&display=default> (Received 2015-02-20)

World Bank (b). 2015. *GDP growth (annual %)*.  
<http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/KE?display=graph> (received 2015-05-28)

## 7.2 Interviewees

*All interviews conducted by the authors Albert Lundberg and Carl Broomé.*

Arntoft, Jonas: Chief of Regional Office at Swedfund. 2015. Face to face interview February 23<sup>rd</sup>.

Barnwell, Nikolai: Director at 88mph. 2015. Face to face interview March 6<sup>th</sup>.

Ellingsen, Gaute: Senior Investment Manager at Voxtra. 2015. Face to face interview March 18<sup>th</sup>.

Gichinga, Amos: Senior Investment Officer at Grassrots Business Fund. 2015. Face to face interview March 23<sup>rd</sup>.

van Halen, Thomas: Investor Services at VC4Africa. 2015. Telephone interview March 31<sup>st</sup>.

Informant 1, Investment Manager at Impact Fund X. 2015. Face to face interview March 17<sup>th</sup>.

Informant 2, Investment Manager at Impact Fund X. 2015. Face to face interview March 17<sup>th</sup>.

Lufting, Elise: Senior Analyst at FMO. 2015. Telephone interview March 31<sup>st</sup>.

Neky, Qahir: Investment Manager at DEG. 2015. Face to face interview March 16<sup>th</sup>.

Nordlander, Henrik: Senior Investment Manager at Swedfund. 2015. Face to face interview February 23<sup>rd</sup>

Odero, Rita: Senior Investment manager at Grofin. 2015. Face to face interview March 26<sup>th</sup>.

Puxley, Alexander: Finance Manager at Maris. 2015. Face to face interview March 18<sup>th</sup>.

Shah, Sapna: Portfolio Manager at Acumen. 2015. Face to face interview March 5<sup>th</sup>.

Stiernblad, Mina: Investment Associate at Novastar Ventures. 2015. Face to face interview February 24<sup>th</sup>.

Stigen, Kjartan: Head of Regional Office East Africa at Norfund. 2015. Face to face interview March 16<sup>th</sup>.

Scott, Chelsea: Project Leader at Open Capital. 2015. Face to face interview February 25<sup>th</sup>.

Waithaka, Karen Serem: Investment Analyst at TBL Mirror Fund. 2015. Face to face interview March 4<sup>th</sup>.

Wanjihia, Nonnie: Executive Director at EAVCA. 2015. Face to face interview February 27<sup>th</sup>.



## 8. Appendix

### 8.1 Standard questionnaire

#### Introduction

- Presentation of our thesis
- Short introduction of interviewee and the business he/she represents

#### Main questions for investors

##### *Company specific questions:*

- Are you an impact investor?
  - How do you define impact investing?
- How big is an average investment?
- Do you take a majority or minority stake in your investments?
  - Why?
- In what stage do you preferably invest?
  - Why?
  - What is most sought after?
- Do you invest by equity or debt?
  - Why?
- What time frame are you typically looking at for investments?
- How do you weigh financial and social goals against each other?
- Do you invest in both non- and for-profits?
- Do you mainly contribute through capital injection or by developing human capital?
  - What do you think is most needed?
  - What do you think is most sought after?
- Have you made any exits?
  - What is your typical exit strategy?
- How does your salary system work? Incentive programs?
- Who are your biggest stakeholders?
- How does your stakeholders influence how the fund is run?
  - Conflict between stakeholder?
  - (if not impact investor) Have impact investing been up for discussion?

##### *General on impact investing:*

- What is your general view regarding Impact investing?
  - Do you believe in the concept?
  - Opportunities/challenges?
    - How to exploit and overcome?
  - From where is the interest coming and what drives the interest?

- Investors? Enterprises? Governments?
- Do you believe interest for impact investing is increasing?
  - Do you believe interest for impact investing is increasing because of actual increased interest in investing in social enterprises or because it is something that ‘sounds good’?
  - Correlated?
- What sectors in Kenya are most effected by impact investing?
  - Changing over time?
  - Is capital allocated to where it is most needed? Where yield is highest?
- Is the measurement of the social impact considered a burden?
- How important do investors consider the measurement of social return?
- Are entrepreneurs willing to give up financial return to make a social or environmental impact?

*Kenya specific questions on investing climate:*

- In general, how would you say the supply/demand of investors/entrepreneurs is in Kenya?
  - Do you believe there is something distinguishing Kenya from an **investor’s** perspective?
  - Do you believe there is something distinguishing Kenya from the perspective of a **company seeking investment**?
- What are the main challenges for you when it comes to finding objects?
  - Do you think your competitors experience the same challenges?
- Based on the investments you have done, what factors do you think are most important for the outcome your investments?
- What is your view on due diligence? / Is due diligence a big obstacle?
  - Ways around it?
- How have your experience been raising capital?
- How do you think the (impact) investing scene is going to look in 5 years?
- Is there anything that we have not touched that you would like to add?

