



# INVESTORS' CIRCLE

## **Shared Vision, Different Perspectives: Catalyzing Co-Investment into Early-Stage Impact Enterprises in Kenya**

*How can we better fund early-stage impact enterprises in Kenya? With growing interest from US impact investors and an emerging class of local angel investors, strategic collaboration may be the key.*

**by Alexandra LaForge**

**WHITE PAPER**

**Duke** | SOCIAL  
ENTREPRENEURSHIP  
ACCELERATOR AT DUKE



The research described in this paper was produced as part of the Social Entrepreneurship Accelerator at Duke (SEAD), in collaboration with the Center for the Advancement of Social Entrepreneurship at Duke (CASE), Innovations in Healthcare, Investors' Circle and funded by USAID.



## Shared Vision, Different Perspectives: Catalyzing Co-Investment into Early-Stage Impact Enterprises in Kenya

*How can we better fund early-stage impact enterprises in Kenya?  
With growing interest from US impact investors and an emerging class of local angel  
investors, strategic collaboration may be the key.*

### Introduction

International entrepreneurial hubs like Kenya have become attractive targets for impact investors looking for financially viable and impact-generating investment opportunities. The Global Impact Investing Network (GIIN)'s "The Landscape for Impact Investing in East Africa" reports that at least \$240MM USD has been deployed as impact investments in Kenya specifically, with more than half of an additional \$2.5B USD committed to East Africa likely headed there as well ("The Landscape for Impact Investing in East Africa," 6). With a focus on global health, the USAID-supported Social Entrepreneurship Accelerator at Duke (SEAD) convenes interdisciplinary partners to identify, develop, and scale the innovative impact solutions vying for this capital. As the partnership's capital connection provider, Investors' Circle organized Investor Days: Nairobi 2016 to bring six US-based investors to Kenya - four in Africa for the first time - to explore and assess early-stage global health and broader impact investment opportunities there.

*"Entrepreneurs are working across the capital spectrum all the time. If we team up with other investor types we can build our portfolios and better fund these companies."  
- Laila Macharia,  
Kenyan investor*

In addition to site visits with local social enterprises, Investor Days: Nairobi 2016 attendees engaged with local investors representing a new and growing class of asset holders in Kenya. The fifth-largest economy in Sub-Saharan Africa, Kenya is expected to watch its millionaire (USD) demographic increase 74% in the next decade, at more than double the global rate (Ombok). As more Kenyans build wealth, some are moving from community-focused pooled giving and informal investment groups into early-stage venture investment strategies.

Despite a shared vision of early-stage investments that fuel social change and economic development in Kenya, it became apparent that US and local investors have different perspectives on impact interests and return expectations. What does this mean for catalyzing early-stage capital into Kenya? Is there an opportunity to collaborate or are these two groups fundamentally misaligned?

A closer look into US impact investor and local angel investor perspectives reveals that differing skills and needs could create a complimentary approach to early-stage investing in Kenya if intentionally engaged. At the end of this paper, we suggest actions that investors can take to understand potential cross-cultural investment collaborators, build investment skills and co-investment relationships, and move capital into promising Kenyan impact enterprises.



## US: Early-Stage Investing and Impact Investing Perspectives

### *Cultural Context*

Originated by wealthy patrons who financed Broadway plays in the early twentieth century, angel investors were one of the earliest sources of capital for new ideas in the US (Debaise). Today, angel investors are individuals who qualify as “accredited” by their net worth or annual income according to the SEC and who make venture capital investments into early-stage companies. Given the risk of investing in start-up companies, the Angel Resource Institute explains that angels must look for innovations and enterprises that can grow quickly in sales and value and achieve an “exit” through sale or Initial Public Offering in order to return capital to investors (The Basics, Angel Capital Association). Angel groups are communities of angel investors that work together to mitigate the risks of early-stage investing, providing opportunities to access deal flow, sharing the work of evaluating and negotiating investments, and disseminating investment best practices. The Angel Capital Association, the trade organization that serves angels and angel groups worldwide, reports that there are over 300,000 angel investors in the US and that the number of angel groups has tripled since 1999 to over 400 across the country (FAQ for Angels and Entrepreneurs, Angel Capital Association).

Traditionally, capital used for social and environmental good was deployed as philanthropy and capital used for social return was deployed as investment. In 2007, the term “impact investing” was coined to define a different approach for investments that seek a financial return alongside measurable social and environmental impact (Global Impact Investing Network). With investors directly funding innovations that they believe will change the world and offer a competitive venture capital return, early-stage impact investing exemplifies this blend of philanthropic mission and investment strategy.

Early-stage impact investing networks like Investors’ Circle and Toniic emerged at the intersection of angel and impact investing, creating communities to find and fund social enterprises in the US and abroad. Within these networks, angels and other early-stage impact investors source investment opportunities, vet deal flow, collaborate on due diligence, and invest together. In the last 24 years, Investors’ Circle members have invested over \$200 million into more than 300 impact enterprises worldwide.

### *Impact and Return Expectations*

Impact investors must navigate and negotiate their expectations for impact and financial returns across their portfolios. The early-stage investors that spent time in Kenya during Investor Days: Nairobi 2016

were driven by the positive impact potential of investment opportunities there but had varying viewpoints on how to approach financial return.

“I’m looking for impact that’s broad - reaching a lot of people - or deep - reaching a smaller population that’s desperately in need.”

- Bill Harrington,  
American investor  
and IC member

“Impact is my highest priority in Kenya,” shares Bill Harrington, a California-based angel investor, who sees opportunity for impact in Kenya’s growing population despite a history of staggering poverty. Harrington looks for innovations in energy, agriculture, and health that address poverty in both urban and rural communities, adding, “I look across geographies and across sectors. I’m looking for impact that’s broad - reaching a lot of people - or deep - reaching a smaller population that’s desperately in need.” A viable business model is key but Harrington prioritizes sustainable models that drive



impact regardless of return, explaining, “I feel there is greater risk to my return in markets like Kenya, but I’m willing to take that risk and potentially forfeit return for the opportunity to create a huge impact.”

Other investors share a focus on impact but weigh its potential value against potential return differently. “My background is in medical real estate and investments in the health sector,” shares Stephanie Wilson, a North Carolina-based investor, adding “and I focus my impact investing interests on health since it’s so core to basic human need.” Investors like Wilson look at the global health sector in Kenya and see opportunity for impact driven by scalable entrepreneurship. She explains, “The need in Kenya is huge, but I’m excited about the business case for bringing my investing there. The economy is growing and there’s increasing ability to offer better healthcare. Knowledge and resources from US investors can make healthcare delivery more effective, efficient, and profitable.” Wilson considers this potential in the context of the political and commercial market in Kenya, finding more risk than her domestic impact and real estate investments and in turn looking for commensurate returns. “It’s important to be clear about expectations – I focus on high-growth health innovations with the ability to realize returns in line with the risk in this sector, at this stage, and in this market,” she explains.

## **Kenya: Early-Stage Investing and Impact Investing Perspectives**

### *Cultural Context*

Kenyans often use the term “harambee,” a Swahili word for “pulling or working together” and the slogan for Kenya’s first independent government, to describe their role in social change. “We Kenyans are our country’s social safety net,” shares Laila Macharia, a Kenyan businesswoman and investor. She adds, “Within our communities, we pull together to cover expenses – for funerals, for school fees, for those in need, etc. We instinctively use our financial resources for social good.” With this spirit, the concept of “chama,” a Swahili word loosely translated as “group” or “association,” has emerged and evolved in Kenya.

Chamas originated as women-led circles in tight-knit communities that convened to help each other with housework, farming, and other family and welfare needs. In the 1970’s, chamas began to formalize and focus on the financial needs of members, most notably through “merry-go-round” savings circles whereby members contributed funds monthly and took turns withdrawing the full pot. From there, many chamas have developed into structured investment clubs, maintaining monthly contributions by chama members but focusing on investing these funds as a group – using peer pressure to encourage discipline, leveraging group resources to make bigger investments, and using group members’ diverse skills and expertise to make investment decisions (Wainaina, 17-18).

The Kenyan Association of Investment Groups (KAIG) estimates that there are about 300,000 chamas in Kenya today (The Chama Handbook, 7). According to its Chama Handbook, these investment groups focus on cash, fixed income, real estate, the public stock market, and private local exchanges (The Chama Handbook, 33-47). Rooted in community and trusted relationships, many have grown in size and activity with some – TransCentury, for example, which has over \$130MM USD under management – growing into formidable businesses in their own right.

Few chamas have moved into early-stage private investments, with interested Kenyan investors pursuing these investments individually or through a small number of angel groups that have



expanded into Kenya from other geographies. “We came to Kenya three years ago,” says Karishma Menon, Senior Associate at Intellectap, an investment banking, consulting, and research firm that runs emerging market angel networks and is newly operating in Kenya. She explains, “We were blown away by the entrepreneurial activity there, the capital coming in internationally, and the growing wealth within Kenya. But it was clear that there wasn’t a formal structure to help Kenyans put early-stage venture capital to work in Kenya.” Headquartered in Nairobi, Intellectap’s East African network launched with 10 inaugural members in July 2015 and has grown to over 40 investors.

### *Impact and Return Expectations*

By contrast, investor perspectives on impact and return flipped when speaking to Kenyan investors who overwhelmingly prioritized return over impact. Additionally, Kenyans called into question the notions of impact that US investors bring to Kenya.

“We were blown away by the entrepreneurial activity there, the capital coming in internationally, and the growing wealth within Kenya. But it was clear that there wasn’t a formal structure to help Kenyans put early-stage venture capital to work in Kenya.”

- Karishma Menon,  
Senior Associate  
at Intellectap

“Kenyan investors have high return expectations,” says Macharia, which she attributes to two factors. First, as Kenyan investors grow from their chama experiences – some of which have realized lucrative returns in real estate and land speculation – she explains “we see that in these developing, distorted markets, if you find the right niche you can make a lot of profit – and early-stage investments might be the next niche.” Second, the excitement that drives new interest and activity in early-stage investment is balanced by an understanding of the associated risks. “We know this is a risky environment and you could make a 100% return one year and lose 200% the next, so we look for investments that represent that risk,” adds Macharia.

Kenyan investors didn’t dismiss the opportunity to create an impact with their early-stage investing portfolios, but they seemed to believe that early-stage investing inherently addresses a much larger social issue than many of the sectors and disadvantaged populations that international impact investors target. Macharia shares that “Joblessness is the most severe issue here, and jobs are impact. So all investments into early-stage enterprises that create jobs are impact investments.” Menon suggests, “Specialized impact interests will likely emerge as angel investing evolves in Kenya, but right now investors are working to understand early-stage investing without the added complication of thinking about impact versus return. We spend time talking to our investors about how impact investing can also generate commercial return, trying to create gradual change in their mindset and investment strategy.”

### **The Case for Collaboration**

Despite varying perspectives, interests, and needs, we find that US and local investors’ skills are complementary and, when combined, could help address the challenges each group faces.

### *Leveraging Market Knowledge*

US impact investors bring a traditional western understanding of and approach to strategic early-stage investing, but this is challenged by unique market implications. Engagement with local investors who are entrenched in these markets could help US investors access valuable information. “Local investors



can more easily understand the context for company projections, verify the authenticity of information and documents during due diligence, and open up critical networks for enterprises,” Menon explains, suggesting that Kenyan investors can use their presence and local contacts to enhance evaluation and due diligence for US investors. Harrington agrees, adding, “As an example, we need help evaluating management teams. As we review resumes, it would be helpful to have resources that could better vet management team members – including local schools and past employment history.”

Local investors also understand the overall cultural, political, and geographic landscape of Kenya and its potential affect on early-stage companies. “US investors don’t understand the infrastructure issues here and in surrounding areas. If I like a company’s model and it looks scalable, I might miss barriers to executing as the company grows to the next town or region over,” Harrington adds. Wilson agrees, emphasizing how important political understanding is, saying, “We just don’t know the full story in terms of politics and what’s really happening behind the scenes and on the ground. Communication with government, private sector leaders, and other local players is paramount. I see good investment opportunities in healthcare in Kenya but due diligence requires knowing any and all obstacles that may present themselves – and I just can’t tell that from back in the US.”

### *Leveraging Investment Knowledge*

While chamas have created commitment, consistent engagement, and a structure for investing in community in Kenya, an understanding of early-stage investing is new and underrepresented within these groups. Armed with experience in the market and a history of supporting growth in their communities, Kenyan investors appear to be most in need of portfolio strategy and tactical investment skills. “Skill set is the issue for many local investors,” agrees Macharia, adding, “Kenyan angel investors are after high returns, but we don’t have as much understanding of due diligence, modeling, finances, etc. to evaluate whether investment opportunities have the potential to reach these heights.”

Menon suspects that aspects of the investment analysis process have become intuitive to US investors but are new and important for the angel investors emerging throughout Kenya. She suggests that US investors “can help Kenyans think about what angel investing truly means – how venture investing (equity and convertible structures) differs from traditional investment opportunities there and how to think about investment periods and return expectations.” Harrington agrees, offering “We do have lessons that we’ve learned from doing this for years. In particular, we have an understanding of what exits could look like to help think about a strategy for returns.”

### **Getting Started: Building Collaborative Relationships**

With a clearer understanding of the potential benefits to cross-cultural investment collaboration, we suggest efforts investors can take to build productive relationships and enhance investment strategies in Kenya.

*Find real alignment.* Not every early-stage investment in Kenya is going to be a fit for every international impact investor and local angel investor. Alignment is at the core of co-investing, so investors should hone in on relationships that share common interests and expectations. “I met an investor on my last trip to Kenya and learned that we shared an interest in healthcare and had a similar approach to healthcare investing,” shares Wilson. She continues, “It’s easier to think about working together when we know we’re on common ground.” Investors often self organize around sectors, but demonstrated differences on impact and return priorities suggest that this is a key factor for assessing



alignment between US and Kenyan investors. “It’s easy to want to say ‘yes, I’m interested!’ to everything you see, which is why it’s critical to have deep, consistent conversations to figure out where you’re actually aligned with others,” warns Menon. It is important to understand your core investment interests and look for an overlap in investment strategies to identify potential co-investors.

*Review investment opportunities together.* Dialogue around real world examples creates opportunities to access other investors’ knowledge and build relationships with potential co-investors. “It would be interesting to pair up US and Kenyan investors to look at specific deals in areas where these investors share interests,” offers Harrington, suggesting, “We’d get to know each other and get work done on prospective investments as well.” Menon advises getting creative about finding ways to convene and connect, suggesting “US investors should come to Kenya and use that time with investors, but you should also look for opportunities for Kenyan investors to come to the US. Building relationships and aligning investment strategies takes time so look for ways to engage on a regular basis.” Investors should be proactive about engaging other investors in deal review in-person and virtually, and US investors should use on-the-ground trips to Kenya for both site visits with social enterprises and deal discussion with local investors.

*Expand the conversation across the capital spectrum.* There are other capital providers who engage with early-stage enterprises, and these resources can help create investment opportunities for new investors. “At Investors’ Circle, there are active members who we all trust - if they’re investing, others will follow,” shares Harrington. He continues, “When we’re building that community in new markets like Kenya, we can start by looking to some of the institutional funders in the area. What companies have local venture funds found interesting? What have foundations funded that might be a fit for investment?” Macharia agrees, adding, “Entrepreneurs are working across the capital spectrum all the time. If we team up with other investor types we can build our portfolios and better fund these companies.” Look across cultures and across the capital spectrum; other capital providers and capital types can be sources of deal flow and co-investment opportunities.

**The research described above was produced as part of the Social Entrepreneurship Accelerator at Duke (SEAD), in collaboration with the Center for the Advancement of Social Entrepreneurship at Duke (CASE), Innovations in Healthcare, Investors' Circle and funded by USAID.**



SEAD brings together interdisciplinary partners through a coordinated effort across Duke University and leverages institutional relationships and networks to create an integrated global health social entrepreneurship hub for diverse stakeholders across the globe.

SEAD, in partnership with the U.S. Agency for International Development (USAID) and USAID Higher Education Solutions Network (HESN), mobilizes a community of practitioners, investors, policymakers, faculty, staff, and students to identify, access, help develop, build capacity of, and scale solutions, technologies and business models for healthcare delivery and preventative services in developing countries around the world. Through this program, SEAD captures lessons learned and policy implications to ensure that our work impact both entrepreneurs on the ground and the broader development community.





## Citations

Debaise, Colleen. "What's an Angel Investor?" Wall Street Journal. Dow Jones & Company, 18 April 2010. 11 July 2016.

"FAQ for Angels and Entrepreneurs." *FAQS about Angel Investors*. Angel Capital Association, n.d. Web. 11 July 2016.

Global Impact Investing Network. "The Landscape for Impact Investing in East Africa" (2015).

Ombok, Eric. "Kenyan dollar millionaires numbers to grow at more than double global rate over next decade." *Mail & Guardian Africa*. Mail & Guardian Africa, 17 July 2015. 11 July 2016.

"The Basics." Angel Investing. Angel Capital Association, 2016. Web. 11 July 2016.

The Chama Handbook. Nairobi: Kenya Association of Investment Groups, 2014. Web. 11 July 2016.

"What You Need to Know About Impact Investing." Impact Investing. Global Impact Investing Network, n.d. Web. 11 July 2016.

Wainaina, Tony. *Chama to Conglomerate: Reinventing the Investment Group*. Master Publishing, 2013. Web. 11 July 2016.



## About Us

### *About Investors' Circle*

Investors' Circle is the largest and most active early-stage impact investing network in the world. Together with hundreds of angels, venture capitalists, foundations and family offices, IC has propelled over \$200 million more than 300 enterprises dedicated to improving the environment, education, health, and community.

### *About SEAD*

The Social Entrepreneurship Accelerator at Duke (SEAD) brings together interdisciplinary partners through a coordinated effort across Duke University and leverages institutional relationships and networks to create an integrated global health social entrepreneurship hub for diverse stakeholders across the globe. SEAD, in partnership with the U.S. Agency for International Development (USAID) and the USAID Higher Education Solutions Network (HESN), mobilizes a community of practitioners, investors, policymakers, faculty, staff, and students to identify, assess, help develop, build capacity of, and scale solutions, technologies, and business models for healthcare delivery and preventive services in developing countries around the world. Through this program, SEAD will capture lessons learned and policy implications to ensure that our work impacts both entrepreneurs on the ground and the broader development community. SEAD is a virtual hub for faculty and students interested in global health, international development, innovation and entrepreneurship, and civic engagement. SEAD is a joint initiative between the Center for the Advancement of Social Entrepreneurship (CASE) at Duke's Fuqua School of Business, Innovations in Healthcare, and the Duke Global Health Institute (DGHI), in collaboration with the Developing World Healthcare Technology (DHT-Lab) at Pratt School of Engineering and Durham-based Investors' Circle, the world's oldest, largest and most successful early-stage impact investing network.

### *About the Author*

Alexandra LaForge is Director of Strategic Programs at Investors' Circle, managing programs focused on energizing, educating, and engaging impact investors and entrepreneurs. Her work is both local and global - she has overseen the growth of IC's local impact investing ecosystems across six US markets while also leading entrepreneur development and investor capacity building content in the global health sector. At home, Alexandra serves as a portfolio strategy facilitator for Pipeline Angels and volunteers for the Young Women Social Entrepreneurs' San Francisco Chapter. She graduated from the University of Notre Dame where she studied English and International Peace Studies and where her interest in social change sparked her fascination with social enterprise.

## Contact Us

### *Email*

[info@investorscircle.net](mailto:info@investorscircle.net)

### *Web*

[www.investorscircle.net](http://www.investorscircle.net)

### *Social*

[@investorscircle](#)