

Report

A case study of health and agriculture social enterprises in Kenya

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Abbreviations

Abbreviation	Description
ANDE	Aspen Network of Development Entrepreneurs
BOP	Bottom of the pyramid
CIC	Kenya Climate Innovation Center
EASEN	East Africa Social Enterprise Network
FBOs	Faith-based Organisations
GDP	Gross Domestic Product
GOK	Government of Kenya
ICT	Information and communications technology
KEPSA	Kenya Private Sector Alliance
KSIX	Kenya Social Investment Exchange
LIWA	Linking Industry With Academia
MSMEs	Micro, Small and Medium Enterprises
NAEP	National Agricultural Extension Policy
NGOs	Non-Governmental Organisations
ODI	Overseas Development Institute
PPPs	Public Private Partnerships
PSDS	Private Sector Development Strategy
SE	Social Enterprise
SMEs	Small and Medium Enterprises
SRA	Strategy for Revitalizing Agriculture
TB	Tuberculosis

1 Introduction

The purpose of this study is to understand the social enterprise ecosystem in Kenya, with a specific focus on the health and agricultural sectors. The case study is one of two country studies looking at obstacles and opportunities for social enterprises (SEs); the other country is Vietnam. Kenya was selected because of existing research connections, and because it is broadly identified as a country where there appears to be significant activity on social enterprise.

1.1 Social enterprise (SE) definition

ODI set out a definition for a social enterprise (SE), which the study explored. The definition was used in identifying SEs in Kenya, and the relevance of, and reaction to, the definition is discussed. The definition of an SE is as follows:

‘A business operation which has social or environmental objectives which significantly modify its commercial orientation’.

A ‘business operation’ here is defined as a non-state entity which derives a significant proportion of its revenue from selling goods or services. Forms of modification of commercial orientation typically fall into a number of categories. Business operations may exhibit one or more of the following types, or other types, of modification:

- Sharing of financial surpluses with customers by including them as co-owners of the enterprise to achieve a social objective (co-operatives).
- Purposefully reducing financial surpluses by paying above-market premiums or guaranteed prices to suppliers (fair trade), above market wage rates to employees, restraining business margins within fixed limits (Grameen Bank) etc. in order to achieve a social objective.
- Purposefully cross-subsidising a specific category of customer as part of core business practice in order to achieve a social objective.
- Seeking a long term partial subsidy from a government, donor or NGO source in order to sustain a business which would not otherwise be viable in order to achieve a social objective. The subsidy may be provided in the form of direct financial subsidy or privileged or protected access to markets (e.g. government procurement contracts). (ODI, 2013)

1.2 Research questions

The Kenya case study team framed the overarching research question and sub-questions as follows:

What drives innovation among SEs in Kenya’s health and agricultural sectors?

- What is an analysis of the key actors and elements of the political economy within which SEs operate?
- What is the layout of the health and agricultural sectors in Kenya, and the role of SEs within them?
- What are the common organisational attributes of health and agricultural SEs?
- What are the conclusions and findings? What recommendations can be made to government, SEs, support organisations, and other actors?

The study set out to offer findings on the three levels of the ecosystem:

- policy and regulation
- support and service infrastructure
- individual enterprise and operational level.

1.3 Methodology

The research design began with an in-depth literature review of the agricultural and health sectors in Kenya to understand prominent issues, stakeholders and policy frameworks within each sector. The review then began to identify SEs and support organisations to be interviewed for the study. Qualitative semi-structured interviews were conducted with SEs and support organisations in Kenya to better understand the ecosystem and explore findings from the literature. A final phase of the study was a half-day workshop, during which stakeholders discussed preliminary findings from the literature and the interviews. This case study feeds into an overall study paper entitled *Social Enterprise: Constraints and opportunities – evidence from Vietnam and Kenya* (Smith et al, 2014).

2 The Kenyan context

2.1 Social enterprise in Kenya

Structural adjustment in the 1980s-1990s, alongside donor reluctance to channel aid through government, saw reduction in fiscal spending on social services and safety nets (Kanyinga and Mitullah, 2001). By the 1990s there was an increase in support to non-government organisations (NGOs) to fill gaps in service provision to the poor (Poon, 2011), and NGO activities increased as a result. Fostered by an existing ‘tradition of philanthropy and volunteerism’, the NGO sector in Kenya grew significantly (Kanyinga and Mitullah, 2001:7). The aid paradigm pendulum has since swung back towards recognising the role of the state; however, strong emphasis remains on the private sector – and in particular the attributes that enterprise models offer in terms of sustainability and responsiveness to consumer needs. This, combined with reduced donor funding to traditional NGOs, weak public service provision by government, and increasing support from a range of philanthropic organisations, has triggered a rise in the number of organisations identified as SEs in Kenya.

Kenya has a vibrant private sector, employing around 1 million people, and a very large informal sector of around 10 million people, but links between the two sectors are limited. One support organisation interviewed for this study suggested a role for SEs in bridging this gap. As organisations and donors began to shift their attention towards the contribution of entrepreneurial approaches to poverty alleviation, social enterprise as a concept and practice became more prevalent in Kenya. Globally recognised leaders in the social entrepreneurship field, such as Ashoka, the Acumen Fund, and the Schwab Foundation, established offices in Nairobi. In 2010, the East Africa Social Enterprise Network (EASEN) was founded.

EASEN is a locally founded membership organisation that seeks to bring SEs together in order to network and develop the sector. The establishment of EASEN created one of the first locally based communities of practice for SEs and related stakeholders. SocEntLab – an SE and think tank based in Nairobi – was started in 2011 with the aim of building an ecosystem for entrepreneurship in Africa. The Kenya Social Investment Exchange (KSIX) was launched in 2011. Incubators, often focused on information and communications technology (ICT), but with a social emphasis, also began to spring up. iHub is an incubator that supports the development and prototyping of technological innovations, many of which have a social impact focus. Incubators for social enterprise include organisations such as the Kenya Climate Innovation Center (CIC) and Nailab. Universities are increasingly providing incubation space and social enterprise curricula for social and environmental innovation, such as Jomo Kenyatta University’s UniBRAIN, KCA University’s Centre for Entrepreneurship and Leadership, Strathmore University’s @iLabAfrica research centre and Kenyatta University’s Chandaria Business Innovation and Incubation Centre. In the same period, teaching and research of social enterprise and related fields have become more prevalent at universities.

Policy and regulation

Kenya's recent political history has been troubled. However, there was a sense from interviews that the reorganisation of the country's leadership structure with the promulgation of the new constitution in 2010 have made Kenyans more optimistic about their future. This section presents a brief overview of some of the legislation influencing SE activity. As the social enterprise discourse in Kenya is still taking shape, and as there is no distinct legally recognised entity or office of social enterprise in Kenya, SEs use existing organisational structures to operationally carry out their mission. According to Chege (2009), SEs lack recognition and support from governments, as well as access to needed financial resources and business development skills. Hence policy and regulation affecting non-profit and for-profit bodies apply to SEs. Those policies are further elaborated below.

'The elections [2012] had a fairly big impact, field operations were affected by the uncertainty in the run up to the elections and after the elections. People don't want to invest in large ticket items when there is so much uncertainty in the air. Political instability affects people's confidence'. – agriculture SE

2.1.1 Vision 2030

Vision 2030 was launched in 2008 by President Mwai Kibaki to set out a new development strategy, a long-term blueprint for how Kenya will become globally competitive and prosperous by 2030. A government agency was established to institutionalise Vision 2030. Centred on three key pillars – Economic, Social, and Political Governance – Kenya Vision 2030 seeks to achieve and sustain a 10% annual growth rate and create a just and equitable society and a result-oriented and accountable democratic system (Government of the Republic of Kenya, 2007). Despite the growth of SEs across Kenya, there is no specific mention of SEs or efforts to support them in the revised priorities, goals and thematic foci of the second stage of Kenya Vision 2030 (Vision 2030, 2013). Nonetheless, Vision 2030's staff and framework may assist in highlighting social enterprise in the policy discussions.

2.1.2 Non-profit strategy and regulation

There are several pieces of NGO legislation that may influence non-profit SEs. The regulatory framework for non-profit organisations is contained in the Companies Act of 1959 – Chapter 486 of the Laws of Kenya (National Council for Law Reporting, 1959), while provisos for NGO regulation are in the NGOs Coordination Act of 1990 – Chapter 134 of the Laws of Kenya, the NGO Regulations of 1992, and the NGO Council Code of Conduct of 1995. The intention of the 1992 act was to introduce a single authority for registration and regulation of all NGOs in Kenya.

2.1.3 Private sector strategy and regulation

The majority of national policy and regulation refers to the economic and social sectors independently, rarely directly addressing SEs or attempting to provide an enabling environment for SEs to develop and thrive. SEs often operate as for-profit businesses, so the Private Sector Development Strategy (PSDS) (2006-2010) informs how social businesses operate. The PSDS is a plan to 'catalyse the provision of an enabling environment which will enhance private sector growth and competitiveness' so that 'while pursuing their corporate interests, businesses will respond to incentives created through the PSDS, not only to meet their profit goals, but also to help Kenya reduce poverty and enjoy a higher economic growth rate' (Ministry of Trade and Industry, 2006). The two strategic objectives of the PSDS are to create a conducive business environment for private sector growth by alleviating major constraints, and to enhance the growth and competitiveness of the private sector, especially Micro, Small and Medium Enterprises (MSMEs). The PSDS was designed to help address some of the main constraints faced by the formal and informal sectors including corruption, poor infrastructure, high and numerous taxes and tax administration, crime and insecurity, and access to finance, as well as limited access to markets, credit and skilled labour specifically for MSMEs (Ministry of Trade and Industry, 2006). As typically smaller enterprises, SEs stand to benefit from MSME support.

2.2 Agriculture sector overview

Agriculture contributes 51% of Kenya's Gross Domestic Product (GDP) and accounts for 60% of the total employment (Ministry of Finance, 2011). Over 80% of Kenya's population lives in rural areas and is dependent on agriculture (Government of Kenya (GOK), 2010).

Kenya's agricultural sector is dualistic in nature, predominantly consisting of small-scale farmers and with relatively few large-scale farmers. Subsistence farmers, pastoralists and small-scale commercial farmers represent the small-scale farmer group, which collectively contributes 75% of the agricultural output and approximately 70% of the marketed agricultural produce (Agricultural Sector Coordination Unit, 2012). Women make up 75% of small-scale farmers, and in rural areas two-thirds of women are involved in subsistence farming (Alila and Atieno, 2006).

Despite its importance, agriculture registered a declining trend all through the 1980s and up until 2004, when growth picked up. This period of decline coincided with Structural Adjustment in the 1980s (Rono, 2002) and the National Agricultural Extension Policy (NAEP) between 2001 and 2004. These policies saw government spending cuts and the decline of agricultural service institutions related to production, processing and marketing. It had been anticipated that the private sector would step in to fill the void resulting from the cessation of government support but such was not the case, to the detriment of agricultural production (Nyangito, 2003; Heidhues and Obare, 2011; and Muyanga and Jayne, 2006).

In response to these challenges, the Strategy for Revitalizing Agriculture (SRA) was launched in 2004. SRA recognised the importance of agricultural extension provision to fight poverty and highlighted this area as needing immediate intervention. Since then, average agricultural growth has increased by 5.2%, cutting food security and poverty by 12% and 10% respectively (GOK, 2010). SRA's approach is promoted through Vision 2030.

Although growth in the agricultural sector has picked up, almost 50% of Kenyans fall below the food poverty line; 10% of children under five are underweight, with higher incidences of this being in rural areas where livelihoods are dependent on agriculture, as indicated earlier. Such food insecurity and nutrition issues are some of the poverty indicators that can be addressed by further developments in the agricultural sector (Ministry of Agriculture, 2011).

2.3 Health sector overview

Although the state of health care in Kenya is improving, many challenges still remain. Life expectancy at birth in Kenya is 58 and 61 for men and women, respectively, and under-five mortality is 7.3% (WHO, 2009). Total health expenditure per capita is \$77, of which \$30.5 is government expenditure (WHO, 2011). The sector is characterised by inadequate funding, an underdeveloped health services infrastructure, a shortage of human resources and essential medical supplies and equipment, and limited administrative and management capacity – all of which restricts health service delivery and coverage. There is also a high prevalence of communicable disease, which places a major burden on the health system as well as the economy at large. HIV incidence is currently approximately 6.3% with a high prevalence of tuberculosis (TB) infection as well as a co-infection rate of 45% for TB and HIV (Kenya Demographic and Health Survey, 2008-09).

Ensuring access to and utilisation of health services is vital to improving health outcomes in Kenya. Although use of health services is increasing, access to *quality* health care is limited. Significant divides exist in health-care access and quality between rural and urban communities as well as between the rich and the poor. Central Province and Nairobi have the highest concentration of health-care facilities and the best quality of care (Allianz, 2013), but in these areas the gap in quality and access to health care between income groups is large.

State provision of health services is significant, but widespread gaps in the system exist and are filled in part by a range of private providers including faith-based organisations (FBOs¹), NGOs, and for-profit entities. Private provision of health care in Kenya represents a substantial proportion of health services with the private sector owning and operating almost half of all health facilities in the country (Ministry of Health, 2007). Despite this, there is a lack of engagement between the Ministry of Health, donors and technical experts and the private health sector, which undermines the potential to harness innovation and mitigate market failures (Dimovska et al, 2009).

Given that half of health care is non-state provided, lack of access to medical insurance is a constraint. The National Health Insurance Fund is a statutory public corporation established to facilitate the provision of basic medical insurance services in Kenya. However, because it functions through formal sector employee pay deductions, it not only fails to cover much of the population but also causes frustration amongst urban formal sector employees who select quality private health care over state provision and thus effectively pay twice.

A further problem is the lack of trust in drugs, due to ineffective procurement processes and lack of regulation.

3 SE profiles

Please see tables 1 and 2 below for details of SEs interviewed. Of the 16 SEs interviewed, 8 are agricultural and 8 are working in the health sector. The sample size is too small to provide statistically robust findings; however, a summary of the nature of the SEs is provided here.

The majority of SEs have been in operation for less than 10 years. Of all the SEs featured in the study, the oldest is an enterprise in the agricultural sector while the youngest is a health SE. The majority of the health enterprises featured in this study were founded before 2005.

A significant number of SEs interviewed were established and/or run by non-Kenyan nationals. One support organisation (with several expatriate and returned diaspora staff) commented that they find difficulty in accessing locally run SEs, as they are less exposed to western-oriented, urban SE networks. This was not a universally identified problem but may indicate communication issues between different communities of actors within the space.

¹ No information was found on whether FBOs collect fees for service and therefore whether they could constitute SEs.

Table 1: Agriculture SEs interviewed

Name of SE	Legal form	Date established	Main activities
Juhudi Kilimo	Company	2004 (as NGO) 2009 (as company)	Provides credit: asset financing. Facilitates access to insurance, training (free and mandatory financial literacy, budgeting and planning). Links to markets and other service providers such as insurance.
KACE – Kenya Agricultural Commodity Exchange	Company	1998	Connects farmers and buyers in different markets and facilitates the sale of goods by collecting and disseminating market information. Operates through Market Resource Center franchises. Provides services such as transportation, quality checks and product consolidation at a fee.
KickStart	Not for profit NGO	1991 (as ApproTEC), 2005 as KickStart	Provides affordable irrigation tools for poor smallholder farmers. Facilitates access to credit and extension services. Offers training in entrepreneurship.
Kilimo Salama	Project within Syngenta foundation	2011	Uses technology to provide affordable micro-insurance products to smallholder farmers. Also provides free financial literacy training.
One Acre Fund	US non-profit; private company in Kenya	2006	Provides farm inputs on credit. Facilitates access to insurance and extension services Provides training on post-harvest practices.
Plant a fruit	Not for profit NGO	2009	Provides inputs and technology to farmers – grafted fruit seedlings. Includes extension and other services.
Real IPM (Integrated Pest Management)	Private company	2003	Provides Integrated Pest Management solutions and extension services.
Sidai	Limited company	2011	Offers support to franchisees to ensure business success and quality of services delivered to farmers. Services include veterinary services at farm gate and free extension services.

Table 2: Health SEs interviewed

Name of SE	Legal form	Date established	Main activities
Access Afya	Company limited by guarantee	2012	Primary care in low-income areas provided through micro-clinics.
Alive & Kicking	Company limited by guarantee	2004	Profits from manufacture of footballs used to fund health education through sports, especially focusing on HIV/AIDS.
Melchizedek Hospital	Company limited by guarantee	2001	Uses cross-subsidisation to provide comprehensive hospital-based health care.
Metropolitan Hospital	Company limited by guarantee	1994	Comprehensive hospital-based health care, both inpatient and outpatient.
Sproxil	Company limited by guarantee	2008	Verification of authentic drugs through mobile technology to combat drug counterfeits in the market.
Upperhill Eye & Laser Centre	Company limited by guarantee	1998	Provision of specialist eye care in areas where such services are otherwise unavailable.

Most of the SEs, in order to achieve a social objective, either seek a long-term partial subsidy from a government, donor or NGO source in order to sustain a business that would not otherwise be viable; or they purposely reduce financial surpluses by paying above-market premiums or guaranteed prices to suppliers (fair trade), paying above-market wage rates to employees, and restraining business margins within fixed limits. Some SEs are receiving subsidised products from public agencies, driving down the cost of services that would otherwise be expensive for the economically disadvantaged communities.

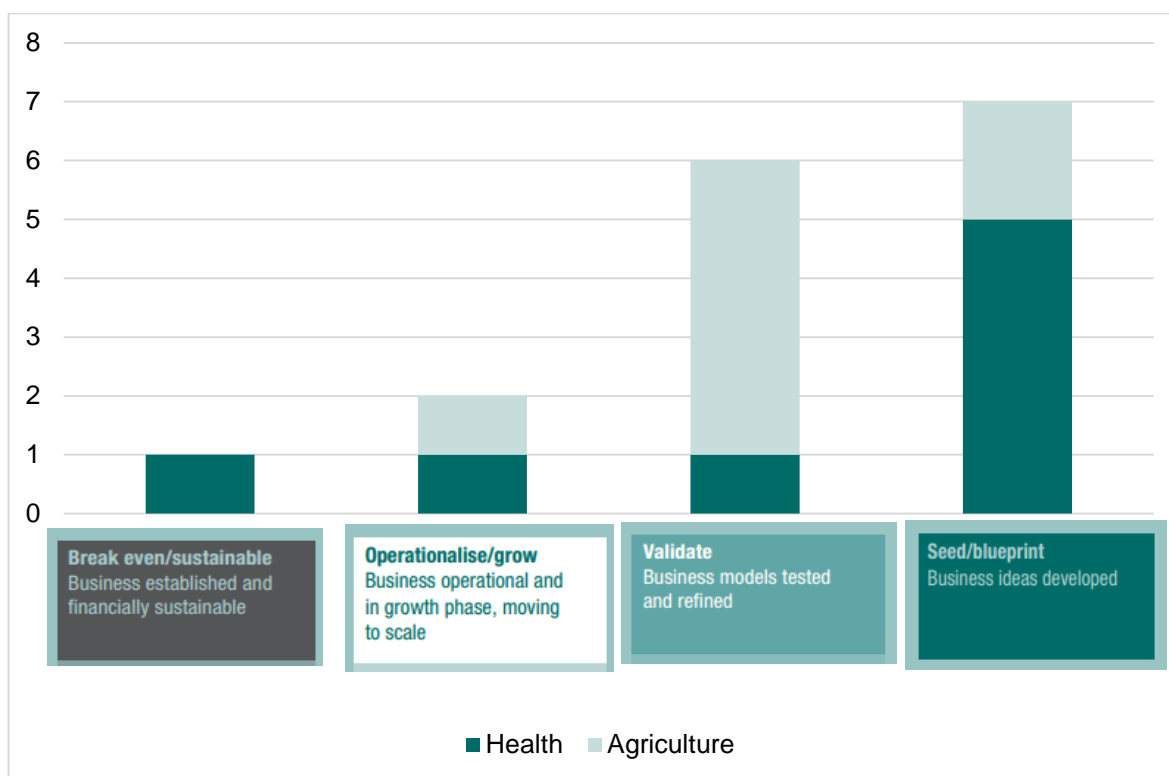
One agriculture SE came close to the definition of sharing financial surpluses with customers by including them as co-owners of the enterprise to achieve a social objective (cooperatives) because of its franchise model. Two SEs did not fall within the study definition; each was a fully sustainable, for-profit business deploying an innovative solution.

In terms of legal status, the majority of SEs interviewed during this study are registered as private companies limited by guarantee, two were non-profits or NGOs, and two held dual legal status. The sectoral split was almost equal across these categories.

Once an SE's initial funding has been gathered, the primary source of ongoing finance can be income generated or external donor or grant funding or a mixture of the two. None of the SEs interviewed in this study were wholly dependent on external financing avenues. In the health sector, 50% of SEs interviewed were almost exclusively financed through their own revenues. In the agricultural sector, the balance lies more towards a mixed source of funding with both internal revenue and external donor support playing major roles. A mixture of finance sources suggests that while these SEs are not totally dependent on external funding, they are not yet fully financially sustainable either.

The study sought to establish where each SE was in terms of its development. Figure 1 provides the framework against which SE growth was assessed and demonstrates the majority of SEs interviewed were operational, growing, or had reached a break-even point of financial sustainability². The health sector had a higher concentration of sustainable SEs than the agricultural sector, but no clear trend emerged to explain this.

Figure 1: Stages of growth of interviewed SEs



4 Support organisation profiles

A total of 29 support organisations were interviewed for the study. Of these, 2 are health specific, 6 are agriculture specific, and the remainder either are general, sector-agnostic, or specialised on a range of sectors. Of the organisations, 3 are government ministries or agencies, 2 are universities, and 2 are aid agencies; the remainder are a combination of local and globally headquartered organisations providing business development support and finance, incubation, and sector-specific technical assistance.

² Using the Social Enterprise Growth Path developed by Whitley et al (2013)

Table 3: Support organisations interviewed

Name	Brief Description
1 Acumen Fund	Acumen is a non-profit that raises charitable donations to invest in companies, leaders, and ideas. Acumen financially supports high-social impact entrepreneurs via the provision of 'patient capital' – finance that is flexible, has long-term horizons, is primarily driven by social returns over shareholder returns, and takes into account ventures of high risk.
2 Africa Harvest	Africa Harvest applies innovative technologies and institutional approaches to improve the livelihoods of rural communities – particularly those of smallholder farmers – through science and technology-based sustainable models of gender-focused agricultural development.
3 African Conservation Tillage Network (ACT)	ACT is a pan-African non-profit organisation whose membership is voluntary. It aims to bring together stakeholders and players who are dedicated to improving agricultural productivity through sustainable utilisation of natural resources of land and water.
4 Agricultural Information Resource Centre (AIRC)	National institution that manages information resources to farm producers and researchers in the agricultural sector and training for extension workers in the field via mass media such as radio, documentaries.
5 ANDE	ANDE is a global network of organisations that propel entrepreneurship in emerging markets. ANDE members provide critical financial, educational, and business support services to small and growing businesses based on the conviction that these businesses will create jobs, stimulate long-term economic growth, and produce environmental and social benefits.
6 Ashoka	Ashoka is the largest network of social entrepreneurs worldwide. Founded in 1980, Ashoka has provided start-up financing, professional support services, and connections to a global network across the business and social sectors, and a platform for people dedicated to changing the world.
7 British Council	The British Council is the UK's international organisation for educational opportunities and cultural relations. British Council Kenya creates platforms for co-creational activities between digital media entrepreneurs and creative entrepreneurs to initiate entrepreneurial activity of social consequence.
8 Chase Bank Agribusiness	Chase Bank provides a selection of financial products to farmers while also providing banking options to other players in the agribusiness sector. Chase Bank convenes and facilitates conversation between actors of agribusiness value chains.
9 CIC Insurance	CIC Insurance is a prominent insurance provider in Kenya, and the largest provider of micro-insurance. It provides insurance products to cooperatives. It serves as the largest cooperative insurance company in Africa. Cooperatives represent 75% of its shareholders.
10 Kenya Climate Innovation Center (CIC)	Kenya CIC has a business incubator to support environmental innovation in the areas of water, agribusiness, and renewable energy. The Policy and Research division of CIC liaises and lobbies directly with government and regulatory bodies for the change or introduction of policy that affects environmental entrepreneurs' innovations directly.
11 DFID Kenya	UK's aid department office in Kenya
12 EASEN	EASEN is a membership organisation committed to the development of the social enterprise sector in East Africa.
13 Enablis	Enablis is a non-profit organisation that empowers local entrepreneurs and supports them in the growth of their businesses in conjunction with government, private sector and civil society. Enablis provides initial funding for low-interest loans, matched by a partnering bank, as well as financial strategy and guidance.

14	Farm Input Promotions (FIPS)	FIPS-Africa is a non-profit company committed to improving the crop productivity of small-scale farmers. It does this through the dissemination of the appropriate farm inputs along with information on their most effective utilisation.
15	iHUB	iHub, Nairobi's Innovation Hub for the technology community, is an open space for the technologists, investors, tech companies and hackers. iHub has a focus on young entrepreneurs, web and mobile phone programmers, designers and researchers. It is part open-community workspace, part vector for investors and VCs, and part incubator.
16	International Fertilizer Development Center (IFDC)	IFDC enables smallholder farmers to increase agricultural productivity, generate economic growth, and practice environmental stewardship by enhancing their ability to manage mineral and organic fertilisers responsibly and participate profitably in input and output markets. IFDC offers training/workshops and assistance to access finance.
17	Kenya National Federation of Agricultural Producers (KENFAP)	KENFAP promotes the shared productivity and distribution of farmers' goods to maximise the revenue of farm producers and initiate related entrepreneurial activity in other parts of the farming communities. KENFAP is a key contributor and stakeholder in shaping Kenyan agricultural policy, representing the bulk of farmers, and sitting on international bodies.
18	Kenya Social Investment Exchange (KSIX)	KSIX seeks to promote social investment in Kenya. It is positioned to provide funding for group-owned SEs, currently as grant-centred funding, and in time as equity-based funding.
19	LIWA (Linking Industry with Academia)	LIWA's mission is to facilitate industry-academia linkages and, thereby, develop institutionalised and sustainable relationships between stakeholders.
20	Ministry of Health	National ministry responsible for health
21	Ministry of Devolution and Planning	This Ministry assists in laying out the strategic plan for development in each of the newly rezoned districts in Kenya.
22	Open Capital Advisors	Open Capital Advisors is a financial services and strategy consulting firm that supports high-impact businesses, investors, and innovative solutions throughout East Africa. Open Capital Advisors enables sustainable businesses to plan their growth and raise capital, and helps funders to allocate capital efficiently.
23	Pan African Agribusiness and Agro Industry Consortium (PanAAC)	The mandate of PanAAC is to mobilise the private sector through supporting the development of agribusinesses in Africa. It collaborates with African Union and the New Partnership for Africa's Development to establish the platform for agribusiness partnerships.
24	Regional Institute for Social Enterprise (RISE)	RISE's mission is to work with the local community to identify, prioritise, and implement sustainable social and economic issues by providing consultancy to promote community-based and -owned enterprises.
25	Strathmore Business School	Strathmore University is a private university based in Nairobi. Strathmore Business School supports incubation of emerging enterprises to further develop its business model and product offering. Strathmore has just established a Centre on Health Innovation and Policy to support the efforts of health innovators across the country.
26	TechnoServe	TechnoServe is a non-profit organisation that develops business solutions to poverty by linking people to information, capital and markets.
27	United Nations Development Programme (UNDP)	UN agency UNDP partners with people at all levels of society to help build nations that can withstand crisis and can drive and sustain the kind of growth that improves the quality of life for everyone. UNDP Kenya has a steering committee that supports and incubates SEs.
28	United States International University Kenya (USIU)	USIU has a Global Social Sustainability Entrepreneurship Program which provides a concentration on SE as part of USIU's MBA programme. Students' main deliverable is to design an SE, which is incubated at the university on the completion of their degree.
29	Vision 2030	The Kenya Vision 2030 is the national long-term development blueprint that aims to transform Kenya into a newly industrialising, middle-income country .

The following list is an analysis of the support organisations, showing the different types of support they provide to SEs:

Builders of communities of practice and learning create networks of SEs by building communities via intentional programming and activities that bring SEs together. In convening these communities of practitioners, they have immediate access to the field thought leaders, positioning them to drive the discourse of SEs. E.g. EASEN, iHub

Support system facilitators convene *other* support organisations in the SE environment, with a primary focus on intermediaries of resource and assistance to SEs – investors, researchers, business support organisations, and policy bodies – rather than SEs themselves. E.g. ANDE, LIWA

Value chain facilitators link SEs to actors and organisations who can contribute to the building of their value chains, including suppliers, producers, marketers, distributors, legal counsel, and technology providers. E.g. PanAAC, IFDC

Financial products innovators find new ways to channel financial resources to SEs. They take into account the degree of risk and potential impact, as well as the flexibility needed for some of these promising but untested ventures. E.g. Acumen Fund, KSIX

Incubators provide a comprehensive pipeline of services, consultations and workshops for the organisational development of social and environmental enterprises. E.g. CIC

Information hubs are first stops for information on particular fields of practice, advocacy, and technical knowledge. E.g. ACTN, FIPS

Implementers and framers of policy are responsible for the translation of Kenya's development vision into policy, and then subsequently into plans and strategies by which to actualise them. These organisations are mostly government ministries and departments, but also included are industrial associations and other sector-related institutions that are committed to lobbying government for policy change. E.g. Vision 2030, Government ministries

Researchers for policy and practice conduct research to inform the policy arena and practice of social innovation, particularly in health and agriculture. E.g. Strathmore University, DFID

'We target very specific businesses; the primary factor is scale. We want to see a business use our support to scale very widely and impact a very large breadth of beneficiaries, whether that be an environmental impact, a social impact or income contribution and so on. The sectors we have seen most activity in have been agribusiness, health care and renewable energy – these three sectors are drivers'. – support organisation

5 Key findings

A number of cross-cutting themes emerged. They are categorised below, firstly as trends and patterns that describe the general context of Kenya; secondly as findings relating to the definition of social enterprise and broader understandings of the ecosystem surrounding it; and thirdly as issues that SEs face, including factors that can be considered either hindrances or enablers, at general and sector levels.

5.1 Contextual trends

5.1.1 Operating environment

Although Kenya's Doing Business ranking has declined in consecutive years since 2008,³ many interviewees perceived Kenya as a supportive context for doing business. Possibly the low ranking has spurred efforts to improve the productive engagement of the private sector. Bureaucracy and corruption are seen to be improving, and when compared to government institutions of other countries in the region, dealings with Kenyan government institutions were considered easier, faster and more transparent.

Kenya still faces significant operating environment challenges, impacting client access to SE services as well as the supply chain logistics of the SE itself. Improving the physical infrastructure is a priority area for Government, but the poor quality and limited reach of many of the existing infrastructure networks remains a challenge (Vision 2030, 2013). Weak transport infrastructure presents a challenge to agricultural SEs and support organisations targeting remote small-scale farmers. Poor rural roads networks are a hindrance to timely and cost-effective provision of goods and services by SEs. Although infrastructure was cited to be poor, there was a general consensus that it is improving.

SEs also mentioned challenges with working in the Kenyan business environment, such as that getting necessary licenses is often costly and slow. Working in low-income areas tends to raise the security concerns: many health clinics struggle with violence and theft, especially in their initial years of operation before the communities accept them.

'Regulations around setting up businesses are critical, and how people are able to be helped to navigate through that whole process. [...] a lot of these enterprises want to be businesses; they don't want favours, they just want to do work. All they want is the right framework so they don't have to be jumping hoops [...] they want process to be clear, information that is readily available so that they know where to go and who to go to, to get information, and how long a decision will take'. – support organisation

Kenya's political scene has been troubled in recent times, and electoral violence on top of erratic policy changes makes both business and sector level decision-making and investment more challenging. Of the political changes, recent devolution is considered to have the highest potential impact. Kenya's devolution process is intended to speed up reform, as public institutions will be easier to access, hence discouraging corruption. Although devolution has the potential to ease SE and local government coordination eventually, it may take time to stabilise. There are risks for devolution in terms of governance, policy and implementation coordination and budget access. One SE expressed concern that it could make processes more complicated if it isn't clear who is 'in charge'. In the short term, basic procedures like business registration and licenses may actually become more, not less, challenging.

Business cultural practices also hinder SE activity; for example, slow payment norms, including by Government, cause cash flow difficulties, particularly for smaller and newer SEs.

Policies particular to certain industries that limit the trade of certain inputs or tax certain finished goods can increase the cost of social innovation. Some product- and sector-specific policies inhibit specific SE ability to scale innovation, restrict public access to innovations, or make it difficult to apply new uses to existing

³ <http://www.doingbusiness.org/>

products. Policy inconsistency is also recognised as a problem, as is constantly shifting interest rates, especially for SEs exporting products.

'In terms of legislation [...] legislation is one thing, implementation and enforcement is another. The question is, how easy would it be to put legislation in place? It may actually cause more problems rather than a solution...' – support organisation

5.1.2 Markets for SEs

SEs recognise the market power of the communities at the bottom of the pyramid (BOP) in Kenya, and in doing so are testing business models in these markets that have achieved commercial sustainability. Contrary to assertions that vulnerable communities have no disposable income and must be primarily served through charity, SEs see such communities as potential consumers, albeit cautious spenders who seek value for money. The formula for growth in these markets is high volumes, as profit margins are small. As information transfer is often through trust and word of mouth, the buy-in of a few community members can have rewards in terms of status within that community; however, replicating this across communities is extremely time and resource consuming.

'There is a great opportunity, there is a need that needs to be met... People at the bottom of the pyramid are having to pay a premium for the same goods and services that everyone else is enjoying. I see that as the scale of the opportunity'. – support organisation

Several SEs talk about the importance of a 'hand up rather than a hand out' and say that paying something for goods and services can both reduce dependence on inadequate government support and make goods and services more directly responsive to needs.

ICT Boom

The high penetration levels of mobile phones and the innovative use of mobile phones for financial transactions and collaboration (including M-PESA, iHub and m:lab) has allowed SEs to create new processes and develop models and products to meet social needs.

One interviewee suggested that the perceived dynamism and maturity of Kenya as a 'Savannah Valley', a hub for IT innovation in Africa, might be exaggerated. Proponents of this view asserted that Kenya is still not engaged in the core manufacturing of ICT products locally, or building the capacity of technology-based platforms to facilitate more services than just mobile phones.

Despite the criticisms of some, many others would attest to the potential sparked by innovations such as M-PESA (which allows mobile technology to perform a myriad of services) and increased internet connectivity.

5.1.3 Clusters and public engagement to reach the poorest

SEs noted that incorporating clusters of stakeholders into their value chain helps scale their product. Incorporating cooperatives as sole producers enables SEs to produce at high volumes efficiently, according to interviews, encouraging viable commercialisation. Moreover, identifying clusters of community members and cooperatives as core clients facilitates access to larger markets. Recognising clusters as part of an operational strategy was seen as important for creating integrated value chains.

Some stakeholders mentioned that the cooperative movement significantly informs SE practice; several expressed the importance of collectively owned production and surplus. This was particularly prevalent among agriculture SEs. For example, two SEs cited examples of community-embedded business models that incorporate collective production and distribution of food goods by members of farming communities. Another, which sells index-based micro-insurance to the small-scale farmer to manage the risk of crop damage, sells its insurance products to farming cooperatives rather than to individuals.

Many new ventures, especially those that challenge the status quo, face initial scepticism from the communities they work in, as well as from government and mainstream business. Through public engagement to raise education and awareness, SEs must get beneficiaries to accept the model or new provision of care, and must target education to reinforce the mission of the enterprise. For example, an SE whose mission is to reduce HIV incidence within a given community not only needs to be accepted for the work it does but also needs to increase public awareness around the issues involved, to reinforce progress towards achieving its mission. Engaging the different stakeholders throughout the various processes is a way to overcome this challenge, but it requires time, dedication and insight.

5.2 Social enterprise definitions and overview of the ecosystem

5.2.1 Unfamiliarity of the term ‘social enterprise’

Within the Kenyan context, stakeholders generally agreed with or understood the concept of an SE as a business operation with social and environmental objectives at its core. In addition, stakeholders – particularly agricultural SEs and their support organisations – emphasised that the driving principles behind the cooperative movement undergird the SE movement. The study revealed an emphasis on community-owned business models and clustered value chains that reflect ideals of shared ownership, production, and wealth. Cross-subsidisation models were frequently part of SE revenue models, as well as fee-for-service models that catered to the patterns of earning, spending, and decision-making that takes place in the BOP market.

Although the idea of social enterprise was heralded by those who practice or support it in the Kenyan ecosystem, a theme emerging from the data was the prevailing uncertainty or lack of familiarity with the term. Those who were familiar with the term expressed confusion with the lack of a streamlined definition as it applies to the Kenyan context. A few SEs did not identify with the term although their business model met the study definition; one was actively resistant to being defined as an SE due to the potential inference that this meant they were not a profit-seeking commercial operation, albeit that they actively target a BOP niche and accept reduced returns to do this.

‘[Social enterprise] is not taught; there are few learning institutions teaching social enterprise in Kenya. In terms of the social enterprise discourse being discussed by the public, there is no space to discuss it, it is not defined’. – support organisation

‘From a language perspective we don’t consider ourselves to work with SEs, we consider ourselves to work with SMEs [...] and the reason for that is because so many of our SME clients have the highest impact potential you can imagine and would never refer to themselves as SEs. If we come to them and say “You’re a social enterprise”, they would look at us blankly and say, “No, I am a business”, and we like that, we value that’. – support organisation

Despite the lack of a consistent definition of the term *social enterprise*, stakeholders resonated with the concept once it was introduced. Some interviewees felt there is an opportunity to develop an understanding of social enterprise that reflects the perspectives of Kenya’s social reality and innovative potential by Kenyan stakeholders. An articulation of social enterprise formed from the bottom up provides opportunity for the term to be informed directly by – and be relevant to – the Kenyan context. To assist in prompting such discourse, the analysis of the data suggests three emergent perspectives of social enterprise as it is understood and applied by actors of the Kenyan SE ecosystem:

- Institutional perspective: social enterprise as an institutional norm that informs how organisations carry out their operations and set their priorities.
- Organisational perspective: social enterprise as an inclusive or hybrid business model that innovates new products, services, value chains approaches and within new markets.
- Systems perspective: social enterprise as an organising principle for community transformation that aims to build integrated entrepreneurial activities that create opportunities for members across the community.

‘Once [social enterprise] is defined, what follows is structures that actually enhance it’. – support organisation

‘It would be great for government to recognise the social enterprise sector and the benefits that it has, that we are not just a business and that we are better than the traditional NGO donor community because we can scale, we can be more sustainable. There is a lot of opportunity for social enterprise, yet because it’s new I think government doesn’t really understand what it’s about.’ – agriculture SE

[Social enterprise is a term] ‘coined by the west to keep Africa under wraps’ – a support organisation (which itself is a donor-subsidised hybrid, both NGO and private company registered)

5.2.2 SE legal status

Due to the lack of consensus among interviewees on the definition of social enterprise, there was also a lack of clarity as to what should be the legislative stance towards SEs, and there were varying opinions on how SEs could be supported via the creation of legal structures and provisions. Those in favour of a legal entity stated that acknowledgement of the SE as a separate entity would lead government agencies to develop regulation customised to meet SE specific needs and challenges – provisions such as tax concessions. It was also argued that a clear legal status would help establish legitimate SEs to attract government and other organisations funding and support. Scepticism about a legal entity for SEs included the case that not defining SE allows SEs flexibility in organisational structures; an SE can select the structure that best helps it to carry out its social mission. It was also suggested that the existing legislation – particularly that relating to SMEs and NGOs – covers SE activity, and that what is in fact needed, in the first instance at least, is a framework bringing together existing law covering SE activity. Subsequent to this, a clear case would have to be established for SE legal status and, for example, the justification for SE tax breaks in lieu of other government concessions to business and NGOs, or spending on service provision.

5.2.3 SE-specific networking organisations and support bodies

Although a wide range of SME and enterprise networking organisations exist in Kenya, stakeholders mentioned the absence of united representation of the SE community. Several stakeholders mentioned the necessity to work closely with government to help shape an SE agenda, and to meet the needs of their own SEs within a sector or community, where challenges may be common to multiple SEs. It was stated that government should not seek to interfere directly at the enterprise level, however, and government interviewees reiterated this. The need to establish trust on the ground, between organisations and institutions and community members, was another point put forward. It was mentioned that government and donors must be wary of approaching SEs like NGOs and trying to promote collaboration – businesses explicitly do not wish to share trade secrets and won’t work together in the same way that NGOs might. When collaboration is framed in terms of lobbying, value chain engagement and partnership, it becomes of greater interest to SEs.

An SE business association was proposed as one possible way to help deliver these things. Another stakeholder suggested that the Kenya Private Sector Alliance (KEPSA)⁴ could serve as the apex body for SE, as it is already made up of different sector units and has a strong relationship with central government. There is also evidence of desire to convene and for support organisations to facilitate knowledge sharing, which either a central SE body or group of organisations might further promote. Stakeholders said they found speaking to each other at the study workshop useful, and one stakeholder mentioned that there would be value in better cross-country learning and knowledge sharing. Several interviewees felt that universities – including business schools – have a role to play here, but that universities and the private sector have not been working together effectively and more needs to be done to facilitate this.

In interviews, stakeholders across support institutions and SEs expressed openness to developing a framework of engagement that could help them to reach a common understanding of their role in development, and to harmonise efforts to better support and enhance the impact of SEs. As a government agency noted, the process should be driven from the ground up to provide a collectively endorsed sense of direction.

‘All these things need money. Institutions like EASEN were meant to bring everyone on board but haven’t been able to mobilise resources to do so’. – a support organisation

⁴ KEPSA is the apex body of the private sector in Kenya and comprises of all organised Business Associations.

5.3 Factors influencing SE activities

5.3.1 Partnerships, social capital and trust

In a context where access to financial and human resources is a major challenge, social capital is important to SE growth. In the absence of access to start-up capital from mainstream finance, many early stage SEs are dependent on friends and family networks for start-up capital and resources, including staffing. Social capital is also useful for SEs building trust with beneficiaries as a way to overcome security concerns – for example, as members in the recipient communities start ‘backing’ the enterprise.

Many SEs noted external partnerships, collaboration and support as important enablers for successfully operating. Partnerships exist between SEs and various support organisations, university programmes, business plan competitions and government initiatives, and they range from capacity building to special funding arrangements and provision of short-term expertise.

Interviews revealed that several SEs engage with government in positive ways, such as endorsement of activities, and co-hosting of launching and distribution events. For example, a health SE is to be contracted by government to train other doctors in the use of high-tech equipment. An agriculture SE mentioned that the Ministry of Agriculture sponsors ‘Pay Out’ days, making the insurance payout to farmers a ‘festive’ occasion covered by the media. It is felt that the work of SEs and government can be complimentary and that they can work together towards similar goals, providing needed services for urban and rural populations, rather than in opposition or in competition with each other.

Beyond government, SEs noted the myriad relationships that contribute to their productivity and advance their development – such as relationships with foreign universities, media companies, elite networks of social innovators, communities, and suppliers.

Some SEs experience tension in their relations with government; one mentioned that government can be inaccessible. Other SEs are working effectively with government, often at the local level. One health SE collaborates with government health services by referring HIV patients for free government anti-retrovirals (ARVs).

Although some SEs are also NGOs, there is tension between for-profit and non-profit SEs, particularly regarding the support and finance that support organisations are willing to provide to different types of SEs. Clearer articulation of respective aims and advantages may help overcome this tension.

A major dimension of SE innovation is the in-depth engagement with members of the communities they serve. Owners of various SEs noted that when some economically poor and peripheral communities experienced exploitation or mistreatment by organisations offering assistance in the past, the communities become distrustful of new products and services by unfamiliar organisations. A large part of SE work is building the necessary relationships and forging trust with community members so as to cultivate a symbiotic engagement between SE and customer. SEs have developed various tactics for this, including identifying champions in the community to help carry out initiatives and mobilise others; managing expectations of community members in terms of realistic outcomes from their participation; and making the rewards of participation public and ceremonious, with significant endorsement (such as by a government ministry or international body).

‘The community had to get used to us’. – a health SE

Helpful in alleviating community distrust is positive engagement between SEs and government, which creates opportunity for government to provide endorsement or certification of goods and services that SEs provide. This stamp of public approval could help distinguish SEs from disingenuous organisations, and increase the trust of populations that previously have been mistreated by companies or initiatives. Furthermore, some SEs are receiving subsidised products from public agencies, driving down the cost of services that would otherwise be expensive for the economically disadvantaged communities.

5.3.2 Information on available financial and non-financial support

A lot of resources exist in Kenya (especially in Nairobi), but there is limited awareness of the different options, which leads to underutilisation. The East Africa Chapter of ANDE is in the process of creating a database that draws together all the information available on resources and opportunities for different kinds of support, and it presents them in a single location – a potentially highly valuable resource, if it is widely accessible and publicised. Another challenge is that there is a concentration of particular types of resources, which leads to resources gaps for certain sizes of enterprises and stages of growth. This challenge, in terms of finance, is discussed below. There appears to be a gap, starting to be filled, for research and other knowledge-driven organisations to map existing support. KSIX's 2011 Rockefeller Foundation-sponsored publication looking at social investment in Kenya is an example. The fact that it is not available online is symptomatic of the difficulties in disseminating information – even to a literate urban SE community, let alone to SEs in rural areas.

5.3.3 Access to appropriate finance

'Once you have created an awareness and a demand, access to finance becomes a problem'. – agriculture SE

Early stage gaps and missing middle

Noted by interviewed support organisations, and affirmed by SEs across sectors, is the significant difficulty SEs face in accessing financial resources. The gap is not in capital per se but in enabling capital to reach SEs. There are two stages at which SEs identify challenges. The first is the Seed/Blueprint stage (see figure 3), when social capital seems to play a role that biases against less-well-connected entrepreneurs. It is difficult for funders to distinguish between ideas at early stage, especially pre-concept proof and business plan, and there is also a problem in terms of economies of scale, in that providing small amounts to multiple organisations is time consuming and expensive. The next growth phase at which SEs struggle is the Operationalise/Grow stage – post-revenue, pre-profit, when the model has been proven but is not yet sustainable, so it is risky for commercial investors, and capital needs are too high for many grant schemes. Most banks, investors, and investment opportunities would target enterprises in their phase of post-profit, after they have proven viability and can ensure a return on investment. This missing middle finance stage typically requires sizable volume of capital, but the SE not necessarily able to pay back commercial rates of return on loans.

Appropriate instruments and reporting mechanisms

'In terms of finding funding, there is a lot of pressure to appeal to western audiences with your business. Our business model should really be focused on the Kenyan market. Western audiences expect a certain look and feel from SEs'. – a health SE

Financial instruments are broadly presumed to correspond to growth stage, in that SEs initially receive grants, then concessional loans, then commercial debt finance. SEs struggle to secure commercial loans from banks because SEs are considered highly risky, and when they do, they undergo hefty interest rates to acquire capital. Stakeholders expressed a desire, however, for greater consideration to be given to the role of traditional forms of finance in the field of SE; in particular, they were thinking about how to motivate and equip domestic banks to support SEs, potentially through concessional debt instruments.

The concessional debt phase, which broadly corresponds to the missing middle gap, seems to be the major constraint, however. One constraint seems to be the number of funders providing low-return loans. A second is that even at this stage, owing to their hybrid model, many SEs can't even return capital on loans. Stakeholders identified a need for innovative funding approaches – joint loan-grant packages, for example.

Another issue is that much grant and concessional debt capital comes with stringent reporting requirements, particularly for donors and certain equity investments. These restrictions, conditionality, and strict time frames for implementation and measuring impact do not necessarily complement SE operations, and can be a burden. And not only is the systemic measurement of impact important; it is as important, and also as difficult, to incorporate impact criteria into the initial conceptualisation of the innovation and business model from the outset. Stakeholders suggested that impact measurement is an important part of good business

practice for SEs; it informs their business operations. However, if funder reporting could be better streamlined to correspond to data that is relevant for SEs to collect, this could be mutually beneficial.

In terms of who funds SEs, interviewed SEs questioned the value of engaging with corporations for funding and of their endorsement in SE start-up phases. Several SEs mentioned that pursuing corporate social investment seemed to be ‘too much work for too little gain’ and that SEs eventually end up compromising their mission, and becoming increasingly dependent.

Information amongst potential funders

Different forms of SEs have varying experiences of access to finance. It was noted that although donor funding is readily available for impact-generating non-profit organisations, for-profit organisations do not receive the same support from donors, who are reluctant to provide finance – particularly grant finance – to commercial operations, in spite of the operations’ potential or proven social impact. Non-profit SEs also express frustration about their exclusion from certain funding sources owing to their need for some form of ongoing subsidy, again in spite of impact achieved. Stakeholders suggested that many funders need to be educated about the SE sector and how best they can support it.

‘Investors need to change the way they evaluate SEs. One of the reasons SEs don’t access funding, even from our banks, is because they have no collateral; for example, if you go to the slum areas you will find SEs that are thriving but that are unable to scale because they have no funds. If investors would look at SEs differently, not just the bottom line, this will help SEs scale’. – support organisation

5.3.4 Accessing and retaining talent

A dearth of necessary academic and professional skill for SEs emerged as a theme. SE managers expressed difficulty in identifying professionals who are equipped with both the necessary skills and knowledge and who share a vision of creating social impact and transformation. SEs, particularly in health, where expertise is highly specialised, noted the difficulty in recruiting talent for a lower salary or retaining such talent. Some of the most vulnerable populations reside in remote rural areas, and SEs struggle to find professionals willing to live in remote areas and to forfeit the larger salary they could get in cities or overseas. Whereas local talent is particularly difficult to recruit or retain, expertise also comes in short-term form, such as students from prestigious foreign universities, foreign professionals on fellowship or secondment missions, and scholars or interns with short-term appointments.

Universities were identified as the driving actors in incentivising innovative thinking to better supply the talent needs of the private sector, including that of SEs. LIWA, a trust launched and supported by KEPISA, represents an effort to build partnerships between local universities and corporations. Support organisations have partnered with universities to reach pools of young innovators and expose them to opportunities. Furthermore, international and local universities have provided insight on business modelling and analysis for some SEs.

‘The level of opportunity is massive; the question is, do people have the skill sets, the mentors, do they have the ideas, have they refined the ideas enough to the point where they can go to someone to invest in these businesses. I think that is the big gap’. – support organisation

5.4 Agriculture sector findings

5.4.1 Needs and opportunities

‘In many ways the scale of opportunity is also the scale of the challenge in the sense that over 70% of the rural community is in poverty, that’s where poverty is hitting hardest. We have a lot of small-scale subsistence farmers, poor practices; people are either using poor seeds or the same seeds they used last season, so as a result, what you have is low yield. The individual cannot sustain their own family and also have enough to sell on and therefore have enough money for health care and that sort of thing, so there is a huge challenge on that front’. – support organisation

Challenges that are inherent in Kenya’s agricultural sector present an opportunity for SEs to contribute and provide solutions. For example, small-scale farmers play a critical role in food security but are given relatively little emphasis in policy. These contributions include farming inputs and technology, extension services and information, e.g. on commodity prices, access to capital, risk mitigation methods, and post-harvest infrastructure and processes. The study found that SEs address specific challenges in the agricultural sector.

Table 4: Challenges addressed by agriculture SEs

Challenge	Example of SE overcoming this challenge
Low absorption of modern technology	KickStart provides affordable irrigation tools among other innovative farming tools for poor smallholder farmers in sub-Saharan Africa. Access to irrigation enables farmers to farm throughout the year rather than being confined to two seasons.
Lack of access to affordable credit	Juhudi Kilimo provides affordable asset financing to small-scale subsistence farmers who are not able to get loans from regular channels.
Frequent droughts and floods	Kilimo Salama uses ICT to provide affordable micro-insurance products to smallholder farmers scattered throughout Africa. Micro-insurance mitigates farmers’ losses resulting from crop failure and the death of livestock due to such adverse weather conditions.
Limited access to extension services	Sidai, One Acre Fund, KACE, among others, incorporate agricultural extension service provision to complement their other focus areas.
High cost, low quality key inputs	Sidai offers a package of support to franchisees to ensure business success and quality of services and products that their franchises deliver to farmers. It aggregates veterinary franchises in obtaining inputs and hence is able to negotiate better terms, resulting in slightly cheaper goods, especially in very remote areas where distribution inflates the price. Sidai also implements quality control checks to ensure the legitimacy of the inputs sold through the franchises.
Storage and selling for better prices	One Acre Fund assists farmers in post-harvest handling practices so they can store their produce longer and sell when prices are higher.
Inadequate markets and marketing infrastructure	Kenya Agricultural Commodity Exchange fills this gap by collecting and disseminating market information (price information) via various platforms to farmers, and also by linking farmers to buyers in different markets.
Poor infrastructure	The majority of SEs interviewed target remote small-scale farmers with inputs and services. By doing so, they deal with the problem of poor infrastructure, as commercial business sees the cost of overcoming weak transport and communication as risky.

5.4.2 Enablers

Supportive public sector

There is heavy interaction between local government and agriculture SEs in reaching out to rural communities. Local governments play an influential role in encouraging community involvement. Moreover, it is also common for SEs to cooperate with research parastatals in delivering extension services. The research parastatals play the role of providing improved inputs such as seeds, fertilisers, implements, pesticides, livestock and even training on improved agricultural techniques, which the SEs disseminate to remote farmers who have no access. Data collected by government institutions are also heavily applied by SEs in the agricultural space.

Technology

Access to remote rural farmers can be costly because of underdeveloped transport infrastructure. SEs have employed technology to achieve a faster and more cost-effective way of reaching their target markets. For example, with the help of mobile money, one SE receives premiums from insured parties and makes payouts

when claims are processed. Another uses mobile devices to collect and distribute market information as well as facilitate trading of farm produce. Technology enables these processes to be undertaken at minimal cost and time.

Whole value chain approach is encouraged

Enterprise and agricultural support organisations felt very strongly about assisting communities along the entire value chain. It was a general feeling among them that a challenge in one stage of the value chain often spills through to the other stages – hence the reason why the value chain processes should be improved on as a whole. Although some SEs provide linkage channels to other organisations that offer support for those value chain processes that the SEs do not cater for, it is still rare to find SEs supporting all the value chain processes.

‘Assisting a farmer increase yields without assisting him in marketing his produce is counterproductive as at the end of the day, it is only useful to the farmer if the inputs are turned into cash’. – agricultural support organisation

Another support organisation suggested the importance of PPPs in agriculture to commercialise practices and expand markets. Improving the quality of supplier goods was also highlighted as an issue to address.

Cooperative models and clusters

SEs, government and enterprise and agricultural support institutions all felt that community members are able to achieve greater returns by coordinating their efforts. Many prefer to deal with cooperatives as it involves less duplication of efforts, provides economies of scale when obtaining inputs, and also makes it easier to aggregate smallholder produce, making it easier to market, especially to the private sector companies that require great quantities of farm produce.

Engagement in free extension services

Most of the agriculture SEs interviewed are involved in agricultural extension service provision. This complements the other services and products that they provide. Although parastatals providing these services have been revived, there is still constrained capacity in reaching remote farmers in need of such services. SEs help to fill this gap.

‘No matter how much fertiliser you give a farmer, if you do not train them on proper agronomic they will still not succeed in improving their yield’. – agricultural support organisation

5.4.3 Challenges

Mistrust by farmers as a result of past experiences

According to government representatives, SE support organisations and SEs, it takes a lot of time and commitment to build trust with local community members. This is because farmers have in the past been victims of scams such as being coerced into buying fraudulent land titles or mediocre products, and have been exploited by middlemen who take advantage of weak market networks by offering farmers below-market prices or not paying them entirely after taking delivery of the produce. It is difficult to break down the negative misconceptions towards organisations extending assistance.

‘The last mile challenge, how do you reach those rural poor people and create awareness, education and demand. For us we have an issue of creating the awareness and demand. We overcome this through below-the-line marketing, demonstrations, farmer field days and trainings. That’s really hard and takes a lot of time and a large field force to do this’. – agriculture SE

Illiteracy

Adoption of various technologies by farmers can sometimes be slow due to low literacy rates, yet many SEs and support organisations rely on the use of technology to support farmers so need to invest time in upskilling farmers to use it. Technology needs to be appropriate; an illiterate farmer may not be able to benefit from agricultural market information circulated via a mobile device despite this being the most convenient and cost-effective way of reaching him. Moreover, lower literacy levels is likely to increase the effort

required to effectively deliver services. More demonstration, guidance and follow-up would be required when offering services to a farmer with low literacy skills, as such a farmer would be unable to read and understand available instructions.

‘Before anyone takes a loan we will spend two months training the farmers; for a lot of them it is their first exposure to a formal financial service. They need to understand how to do the budgeting, the planning, what’s required for a loan and what the risks are’. – agriculture SE

Selling products and services

There were differing opinions on whether poor rural farmers should be assisted by free farming inputs or whether they should be charged for the inputs, even if at below-market rates. It was a general observation that providing free inputs develops a dependency, which does not motivate effective implementation of inputs. One SE discovered over time that farmers who purchased its products were more likely to use them than those who received the products at no charge. Government institutions highlighted overcoming expectations of handouts as a challenge that they faced. However, one support organisation felt that in some cases it is necessary to give a hand up to those who are extremely poor in order to equip them to be better placed to afford such inputs over time. Organisations must therefore interact with and understand the communities they serve in order to appropriately deal with the issue of affordability, and seek to avoid undermining one another’s work.

‘Those who buy the tools are more likely to use them than those who are given them’. – agricultural support organisation

Collaboration and coordination

Collaboration between SEs is occurring, especially in cases where SEs linked their customers to other SEs providing agricultural related financing. However, collaborations are limited. This was attributed to the fact that aligning goals between different SEs can be challenging. In addition, SEs did not have extensive knowledge about other SEs operating in the same field. In terms of coordination, support organisations are seen as playing an important role: the oversight they have of activity at a sector level allows them both to avoid funding duplicating SE activities, and to connect relevant SEs to each other – the limitation being that support organisations themselves are not necessarily coordinated across the agriculture sector

Pastoral farmers and Kenya’s North

One agriculture SE said that its model, which is effective in Western Kenya, would not work in the semi-arid areas of Northern Kenya. A support organisation felt that a key challenge for agriculture SEs is to development opportunities to support Kenya’s pastoral community.

5.5 Health sector findings

5.5.1 Needs and opportunities

Table 2 below captures some of the niches within the health sector in Kenya that are being addressed by SEs interviewed in this study. The majority of SEs attempt to reduce the inequality of health care that is evident in Kenya – between rural and urban areas as well as between the wealthy upper classes and impoverished masses – and to improve access and affordability without compromising on quality.

Table 5: Niches being addressed by health SEs

	Niche	Example of SE addressing this niche
Access-Affordability-Quality Trilemma	Micro-clinics and primary care	Viva Afya and Access Afya both use micro-clinic models to provide affordable, accessible primary health care in poor areas where previously there was limited access and low quality care. These models are made sustainable largely through the use of a ‘hub and spoke’ model where one larger, more equipped ‘hub’ supports and provides more specialised services to a number of ‘spoke’ clinics, as well as through the efficient use of supply chains and through internal efficiency.
	Affordable	Metropolitan Hospital and Melchizedek Hospital both offer comprehensive hospital-based health care,

	secondary and tertiary care in hospitals	both inpatient and outpatient, that is affordable and accessible to low-and middle-income groups. Metropolitan Hospital uses a fully integrated, in-house software system to increase efficiency and reduce costs. Melchizedek uses a model of cross-subsidisation to extend services to a wider range of clients.
	Affordable specialist care	UHEAL (Upperhill Eye and Laser Centre) uses profits to run specialist eye clinics in rural areas and to substantially subsidise treatment costs. This maintains the financial sustainability of the model while allowing health care to be provided to people who previously did not have access to it.
Product and Model Innovation	Access to safe, quality drugs	Sproxil provides a code to pharmaceutical companies to include on their drugs so that the consumer can text or phone to verify instantly whether the drug is genuine or counterfeit – in a context where fake drugs are prolific (acting as placebos at best or dangerous substances at worst). This innovation safeguards the consumer and reduces the market for counterfeit products.
	Product innovation	ZanaAfrica focuses on adapting the way sanitary pads are designed, manufactured and packaged to make them more affordable to the low-income segment of the population. Not only does this improve women's health indicators and better meet the consumption patterns of its target group by being packaged in units of one and two pads per pack, but it also reduces school absenteeism.

'One of the biggest challenges is lack of proper diagnostics, specifically in relation to cancer. This is due to a lack of equipment and expertise; Kenya only has 10 or 12 oncologists catering for 40 million'. – health SE

5.5.2 Enablers

Regulation

The consensus regarding the state of regulation in the health sector seems to be that the lack of strict rulings allows a level of flexibility that encourages innovation rather than presenting any substantial obstacles. Additionally, the process of devolution being undertaken in Kenya offers opportunities for public-private collaboration and partnerships. This can help foster engagement between different actors and increase efficiency by reducing overlaps and allowing each to focus on its strengths.

Partnerships

Public-private partnerships were seen as positive for all stakeholders involved, as the government has certain targets to meet but does not always have the capacity to do so, which encourages collaboration between the different actors and improves provision of care to the population. This is particularly relevant in health-care provision, where there is still much ground to cover in order to raise standards and offer universal coverage. An interesting point to note is that there seems to be very little collaboration between different SEs or between SEs and social entrepreneurship networks. A type of collaboration that came up a lot was with groups of students from top international universities travelling on short-term projects, who would come to Nairobi to spend time with the SE. Their assistance ranged from model development to financial systems structuring and market research.

Technology

In the health sector, technology innovation takes a number of forms including electronic medical records, SMS text-messaging services (to disseminate health information and remind patients of check-up dates and medicine schedules), verification of authentic drugs through mobile services, remote second opinions for complicated medical conditions in rural areas, and integrating information technology systems throughout hospitals in order to increase efficiency and minimise costs.

Model innovation

Model innovation plays an important part in enabling health needs and opportunities to be met and utilised. Micro-clinics, cross-subsidisation and low-margin/high-volume models are three of the major broad classes of models used to address gaps in the provision of quality, affordable and accessible health care.

'It being a micro-clinic, it is small, you can set it up pretty quickly, you don't need to invest in any infrastructure, and the price model makes it affordable, offering quality drugs that most people don't get'.

– health SE

5.5.3 Challenges

Access and retention of talent

A major challenge in the health sector is the lack of adequately qualified professionals, especially (but not only) doctors. Those that are trained and qualified are difficult to attract largely because of the significant differential between the salary a typical start-up SE can offer and the salary offered by an established high-end private facility. Rural health facilities in particular suffer from severe shortages of qualified health workers as there is very little incentive for them to work in rural areas when they can have a superior standard of living, a better-equipped work environment and higher pay in urban centres (either in the public or private sector) in Kenya or overseas.

Another factor is that in the health sector, where many SE staff and founders have a medical background, the specialist business, financial and management know-how is often lacking, which makes these partnerships and collaborations even more important.

'There is a lot of flight of nurses; nurses are always on the move to bigger, better grounds. They come here for training, then they move to a bigger hospital, then another country. Nurses don't stay for long'.

– health SE

Quality-affordability-access trilemma

Health SEs must achieve a balance between quality and affordability, which is particularly difficult because of the need to reach poor, remote areas and communities in informal settlements, to whom access is also difficult. As a result, health SEs are typically high volume, low margins, and so struggle with sustainability. One support organisation felt that short-term thinking is a constraint for health SEs – both those at the enterprise level and support organisations – as is the high-risk nature of these SEs.

6 Conclusions and recommendations

6.1 Conclusions

This study has confirmed certain assumptions about social enterprise in Kenya, namely that it is a dynamic space at the moment, but that there is a lack of common terminology and understanding of how SEs fit into wider sectoral contexts.

SE models have filled gaps between government, NGOs and mainstream private sector goods and service provision. Yet their interrelations with other sectors, and self-identification as a coherent sector themselves, remain nascent.

At a sectoral level, SEs have found niches within which their entrepreneurial and social skills and focus are enabling them to tackle intractable problems. Stakeholders are seeing a shift in mindset, towards seeing people in the lowest economic groupings as consumers of goods and services for which they are willing and have some capacity to pay, and this is driving focus towards demand-led provision and reduced dependency.

Many obstacles facing SEs in Kenya are common to SMEs and some are common to NGOs. These include recruiting and retaining staff who are talented and sufficiently committed to the social vision of the SE that they will accept below-market salaries; access to appropriate finance and to relevant business development and technical assistance support; and sector level coordination to facilitate collaboration between the state and non-state actors.

6.2 Key findings and recommendations

6.2.1 Policy and regulation

SE definition

There is no clear consensus at present in Kenya on either the need to define *social enterprise* or what such a definition should be. Indeed, a significant number of actors question the term's use, although only one interviewee overtly questioned the validity of supporting enterprise to contribute social value as well as to gain financial returns. Many of the Kenyan support organisations interviewed provide either sector level support, or support to SMEs – including but not exclusively SEs.

Differentiating SEs from NGOs and SMEs

The opinion was expressed that the government is neither inhibiting SEs nor promoting them. Although this hands-off approach was not criticised, SEs and support organisations felt that government could provide support to SEs by differentiating SEs from regular businesses. The social welfare aspect of the products and services that they deliver could be recognised, and government could find ways to incentivise and complement their efforts. Sector level liaison with central and local government, for example on sector-specific regulation and implementation barriers, could be discussed. Tax breaks would be popular with certain SEs, but contentious in the Kenyan community at large, particularly without a clear definition of an SE.

Advisory role and mutual knowledge sharing

Government engagement could be increased through the establishment of an advisory body that could encourage mutual government-SE understanding, improve dialogue, and also provide advice to SEs. Government stakeholders interviewed suggested that they would welcome inputs on how best to support SEs.

There is a gap in terms of knowledge sharing. Universities and business schools could play a larger role in the wider sharing of knowledge if their engagement with the private sector were more effective; donors and other support organisations could help facilitate this.

SE-relevant legislation framework

In the absence of a clear and immediate case for an SE legal status in Kenya, research could explore the relative advantages and disadvantages of the NGO and 'company limited by guarantee' options currently available to Kenyan SEs. Compilation of a framework of SE-relevant legislation would also be a useful knowledge addition in Kenya.

6.2.2 Support and service infrastructure

The interviews and workshop provided a range of suggestions for support organisations.

Tailored support provision

Support organisations should not provide readymade solutions. It is important that they evaluate and understand needs before offering solutions. Once the needs are identified, tailor-made solutions can be designed, and the support organisations must be ready to invest long-term until the need is addressed. In order to facilitate this, support to SEs need to be more flexible, offering products that combine business skills, technical assistance and finance and accommodate high risk of SE ventures.

Appropriate finance, realistic impact reporting

Instruments for providing finance, and the stage at which they are available, are important in order for SEs to be able to develop and scale. Many support organisations are recognising the missing middle financing gap and striving to address this, but SEs still perceive financing options to be narrow and rigid.

Funder demands in terms of impact reporting could also be better tailored to complement business models, rather than impose onerous – and irrelevant – additional reporting demands. SEs and funders could work together to identify mutual needs in terms of impact data and to understand best practice on data collection and reporting.

One SE noted that there is a focus on impact investing and on ideas that financial returns can and should be sought from SEs, and said that this focus risks reducing the availability of grants, which are vital to build and grow SEs.

Collaboration on recruitment and skills support to SEs

Support organisations sometimes face similar recruitment issues as SEs, especially support organisations which themselves function as SEs. Cross-organisational best practice and knowledge sharing may be beneficial. There is also a perception among some stakeholders that institutions of learning could do more to promote social entrepreneurial values, which strongly emphasise and award public recognition for delivering social returns, as opposed to a value system that encourages people to chase the highest salary.

6.2.3 Individual enterprise and operational level

This paper does not seek to provide advice to SEs on their development, but one or two points regarding SEs' engagement in their ecosystem are made here.

SE engagement can best be driven by SEs, for example by leading the dialogue concerning the development of the SE space in Kenya, as well as engagement with necessary stakeholders. As each SE represents a network of value chain organisations and relationships with universities, media, and public institutions, the SE can help articulate the ecosystem from a point of participation and observation, and lobby for changes that make it more cohesive.

SEs need to be clear themselves what they might gain – and lose – from lobbying for greater government recognition and wider donor support. One suggestion was that SEs develop a framework and gain buy-in from stakeholders with it, for example producing a 10-page document summarising what SEs are, and what support they seek, that could help build consensus around the concept. Local SE-specific organisations, such as RISE and EASEN, could play an important role in developing this, if they can access sufficient SE interest and support organisation financing.

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Cover image: Farmers in Kisii, Kenya, smile after receiving their farm inputs for the 2013 planting season. Photo courtesy of Hailey Tucker, One Acre Fund.



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