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REGIONAL ENHANCED LIVELIHOODS  
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ENHANCED LIVELIHOODS IN  
THE MANDERA TRIANGLE

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ENHANCED LIVELIHOODS IN  
SOUTHERN ETHIOPIA

# EXPANDING INVESTMENT FINANCE TO NORTHERN KENYA AND OTHER ARID LANDS

Investment review and NKIF concept outline  
December 2009



# Expanding investment finance to Northern Kenya and other Arid Lands

Investment review and NKIF concept outline

15th<sup>st</sup> of December 2009



# Agenda

Introduction

Initial findings

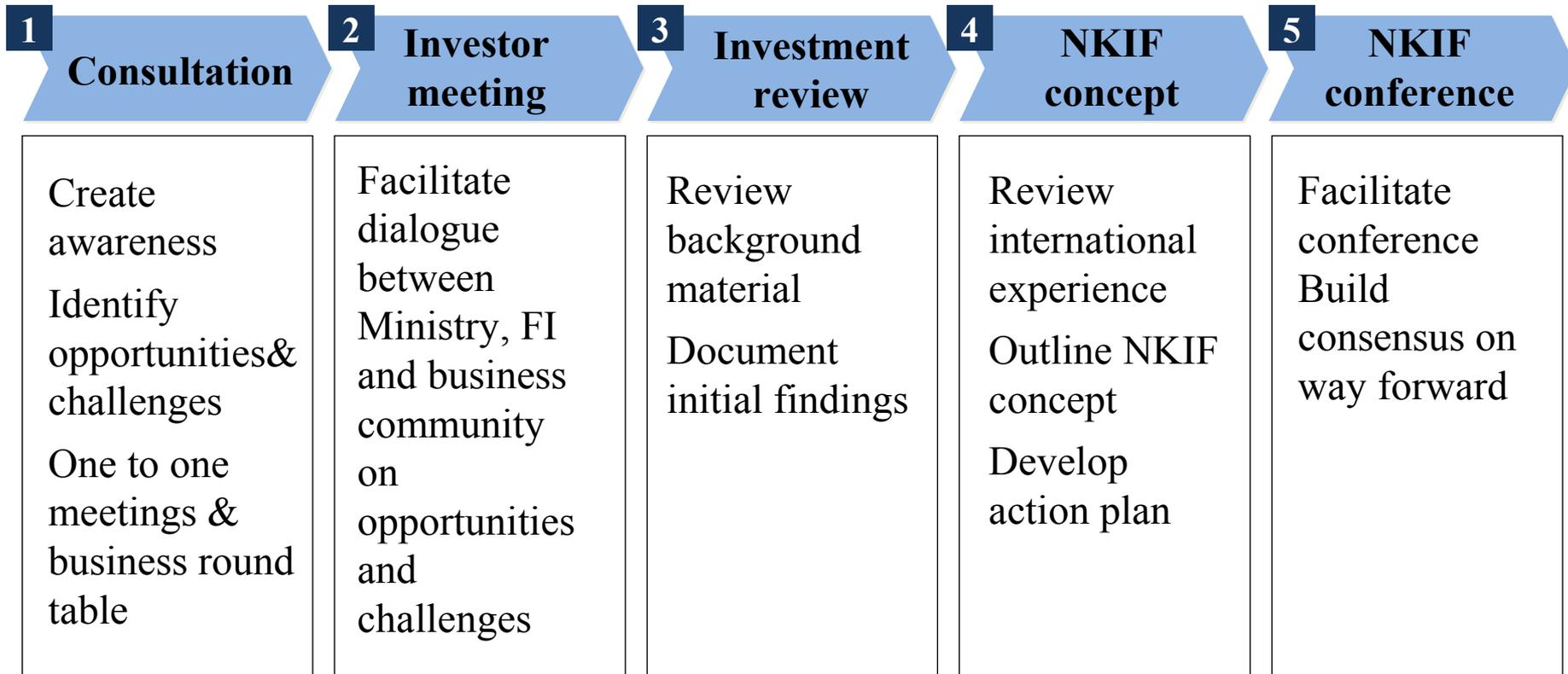
International experience

Design considerations

Core NKIF components

Conclusions and next steps

Our assignment aims at supporting 'intelligent' private sector investment contributing to regional development & national cohesion



This report covers the investment review (deliverable 2) and outlines our ideas for the NKIF concept (deliverable 3 and 4).

Deliverable	Content
Investment review (Deliverable 2)	List challenges and opportunities identified by financial institutions Mapping financial institutions
Draft NKIF concept outline (Deliverable 3)	Result of research on experience of investment funds in the region and globally Outline of the core elements of the proposed NKIF
Final NKIF concept outline (Deliverable 4)	Steps for refinement of NKIF work (see separate proposal submitted to CARE International in Kenya on 15 <sup>th</sup> Dec) Include comments from stakeholder meeting in January 2009 (large stakeholder meeting to be held at the end of the next phase , see proposal as of 15 <sup>th</sup> of Dec)

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*'I would never go up there even if you paid me'.  
Interview, financial institution, November 2009.*

Interviewees raised a number of constraints and challenges with regard to culture and politics.....

Constraints	A few quotes
Culture and nepotism	‘These people lack an entrepreneurial culture to commercialise the resources they got’; ‘They don’t even allow the cattle from another clan to drink their water’
Population	‘We tried to implement projects but the unit costs are just too high’; ‘ the region has poor purchasing power’; ‘people are always on the move’; ‘people are not educated’.
Donor dependency	‘These donors and the government are dishing out the money for free, no wonder that communities waiting for hand outs rather than taking their own initiative’.
Politics/ Corruption	‘If you create a fund and you don’t protect it well, local politicians will put all the money in their own pockets’; ‘local councils do not believe in the private sector’.

## ... the enabling environment...

Constraints	A few quotes
Infrastructure	'Why would I go for a 15 hours drive on a bumpy road to Turkana if I can do business in Nairobi'; 'The Gov't needs to put the basic infrastructure in place before we consider investing'.
Administration	'For small things we have to go all the way to Nairobi'; 'Government officials, posted from other parts of Kenya, have no interest in/experience dealing with locals'
Land tenure	'title deeds are not available and process takes years to complete'.
Security	'I would never go up there even if you paid me. It is too dangerous'.

...Or other business constraints. However, constraints often appear to be based on perception rather than on a solid knowledge of the region.

Constraints	A few quotes
Financing	'Financing from traditional sources not suitable and costs are too high'; 'Islamic financing not available';
Vested interests	'key players in the industry [livestock] do not have an interest in changing market dynamics in favour of the North. E.g. the establishment of an abattoir in the North would negatively affect business interests in other parts of the country'
Lack of information	'To be honest I know nothing about that region'.

## Few of the financial institutions we interviewed have an active engagement in the project region

- New players and products emerged, strong presence & financing available from DFIs, competition between financiers for financing of viable enterprises

BUT:

- Limited availability of risk capital, exit opportunities/undeveloped venture capital market
- Urban focus (Nairobi) & limited presence of FI in the North (if so, linked to the implementation of donor funded programmes)
- No business plans from North in VC pipeline



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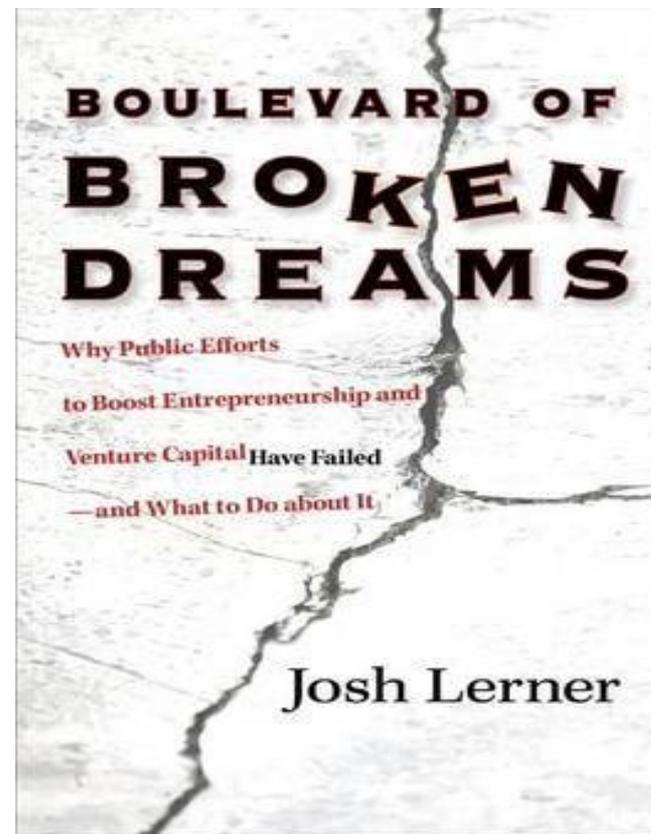
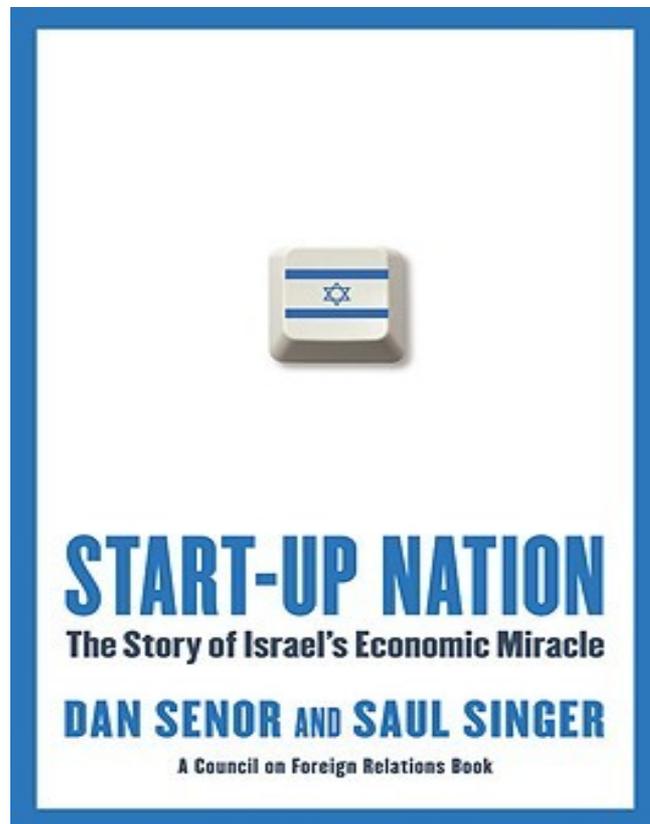
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When designing an investment vehicle for Northern Kenya we can learn a lot from international experience.....



*'It was not simple to convince people that growing fish in the desert makes sense.'* Prof Apfelbaum

*in*

*Senor, Singer (2009): Start Up Nation – the Story of Israel's Economic Miracle*

*'For every public intervention that spurs entrepreneurial activity, there are many failed efforts that waste untold billions of taxpayer dollars.'*

*In*

*Josh Lerner (2009): Boulevard of Broken Dreams*

Some lessons learnt: tensions between social impact and financial returns objectives can lead to programmes failure if not addressed.....

Name	American Research and Development (ARD), USA, 1946
Description	Established as a public company; Financing new businesses as post-war economic stimulus
Features/ lessons learned	Public sector officials not the right people to make tricky investment decisions Tensions between social goals and financial returns that have not been anticipated and addressed

... Assuming full downside risk with sharing upside returns turned out to be unsustainable....

Name	Business Development Fund, Denmark
Description	High risk loans to technology projects in start ups and established companies.
Features/ lessons learned	Fund did not share potential upside return since only received a modest fixed interest for commercially successful projects. However, it assumed a significant portion of the downside risk. More than 60 percent of funding lost on the 900 initial projects the fund supported.

.... How to incentivise fund managers if they are to meet both social and financial objectives.....

Name	Discovery fund, New York City, 1995
Description	USD 76 million fund with funding entirely from public sector and public utilities with interest in doing business in the city. Fund managed by local venture group
Features/ lessons learned	Low financial returns and doubts about achievement of social goals; fund manager not incentivised to reach social objectives Lack of demand for financing at the time the fund became operational

...Money was misused by M&E Consultants and Board members, fund managers were captured by MPs and beneficiaries spent money inefficiently – even in the US .....

Name	Tenant Opportunity Program (TOP), USA
Description	Promotion of enterprise development related to housing projects in various States
Features/ lessons learned	HQ in Washington had insufficient staff to monitor use of funds. Misuse of funds by M&E Consultants and Board members Lack of supervision and guidance led to ineffective spending by residents: ‘Word got round that there was money.....they knew they did not have to do anything for it’.

...Most of the money ended up with the incubator managers rather than the entrepreneurs....

Name	Australia Building on Information Technology Strengths (BITS), 1999
Description	USD 158 million to promote innovation and commercial success in the information industries by encouraging start ups and growth of ICT firms. Creation of 11 incubator centres for small and medium sized firms in ICT.
Features/ lessons learned	High proportion of funding spent on incubator managers rather than the ICT enterprises (in some cases up to 70%) Forced by incubator managers to use in-house professional and other services at inflated cost. Emergence of a 'subsidy lobby' that prevented the closure of programme.

.... Loan guarantee funds tend to have problems with moral hazard/incentive problems .....

Name	OSEO-Guarantee Initiative, France; Canada Small Business Loan Act; UK Small Firm Loan Guarantee Scheme
Description	Transfer to the public sector part of the risk of loans to innovative firms
Features/ lessons learned	<p>Dual objective: Ability to achieve low default rate while providing loans to borrowers that are generally considered to risky</p> <p>Moral hazard problems: the bank may be more casual in evaluating the potential borrower if ultimately the banks money is not at risk. E.g. Study of French scheme finds that probability of bankruptcy of borrower goes up from 9 percent with no guarantee to 21 percent if loan has a guarantee.</p>

...Planning: Government initiative was unresponsive to entrepreneurial needs ('if we build it, they will come') .....

Name	BioValley Initiative, Malaysia 2001
Description	Target development of biotechnology sector with combination of research, education, business incubation and recreation (USD 150million)
Features/ lessons learned	Demand: Government did not ask whether firms wanted to be located in BioValley ('if we build it, they will come') Inconsistencies of policies and lack of Government commitment (establishment of bio-tech centres in each State; revised policies in 2005)

....Design matters: muddled objectives, incompetent fund management, restrictive investment regulations, massive investment size crowding out private sector.....

Name	Canadian Labor Fund Program, 80s and 90s
Description	Funded by small individual investors attracted by considerable tax incentives; managed by labour unions; investment pool increased from USD 800 million to USD 7.2 billion.
Features/ lessons learned	<p>Raised significant funding but performance of funds far behind both private and public equity indexes in US and Canada</p> <p>Unions turned to ‘cronies and fast buck operators’ rather than experienced investors to manage the funds</p> <p>Wide ranging, muddled mandates ranging from generating financial returns to providing labor education and promoting local economic development</p> <p>Spending regulations: e.g. 50% of fund needs to be invested in the first year, 70% in the first two years irrespective of funding opportunities</p> <p>Crowding out of private investors who – temporarily - focused investments on USA</p>

## ...Crowding out private investment with cheap public money.....

Name	European Investment Fund, EC, 2001
Description	EUR 2 billion fund (compared to EUR 4 billion European Venture Fund) to address low level of venture activity and low returns in Europe
Features/ lessons learned	<p>‘Unfair competition from public money may have induced private funds with stricter financial criteria to leave the European venture capital industry’ (European Fund of funds investor)</p> <p>Promising entrepreneurs may prefer to take funds from public sources that demand a lower rate of return.</p>

.... Political pressure on fund management: in the name of geographic diversity firms with inferior prospects were funded spreading available funding too thinly.....

Name	Small Business Innovation Research (SIBR), USA,
Description	USD 1.5 billion risk capital in entrepreneurial technology intensive firms
Features/ lessons learned	Congressman and staffers pressured programme managers to award funding to companies in their states, i.e. in the name of geographic diversity firms with inferior prospects were funded

....And some allowed the fund manager to exit with all the benefits even in the case of non-performance....lucky him!

Name	Heartland Seed Capital Fund, State of Iowa, USA
Description	USD 15million funded by Public Employment Retirement Fund and managed by private venture group
Features/ lessons learned	Fund manager compensated by a relatively high fund management fee (3%); Lack of incentives to identify investments.

... Government interventions without global perspectives have failed.....

Name	Japan Development Bank programmes 90s'
Description	Assistance with a variety of forms including incubators, equity investments and loans at subsidised rates to young firms. Loans secured through patents and other intellectual property.
Features/ lessons learned	Efforts 'almost uniformly unsuccessful', venture capital industry in Japan plummeted Incentives not designed to attract overseas investors with required skill sets

...Matching funds: a good example on how direction on investments can be provided by the market rather than by government.....

Name	New Zealand Investment Fund, NZ, 90s, 2002
Description	Encourage the formation of pool to invest in early stage businesses. Fund of funds model: screens private venture capital fund and co-invests equity into VC as limited partner; option to buy out NZVIF investment; matching funds (1:2 NZVIF: VC)
Features/ lessons learned	Structured as a stand-alone company to increase independence from Government in appointment of venture capital fund managers and investment decisions; Initially (prior to 2002) inability to attract institutional investors due to the lack of a limited liability structure; Direction is provided by the market

...Mentorship from the Diaspora: non-financial support may be as important as financing.....

Name	Mentorship in India/Singapore
Description	<p>India's extensive and highly skilled diaspora (18 million in 130 countries) have served as a valuable resource to local entrepreneurs. E.g. 2/3 of Indian born entrepreneurs working in Silicon Valley advised entrepreneurs in India, 18 percent invested in Indian firms.</p> <p>Connect@SG: Programmes to reach out to Singaporeans working in Silicon Valley to connect them to local entrepreneurs</p>
Features/ lessons learned	In particular useful for entrepreneurs outside of major centres of software development: firms with these contacts were found to perform considerably better than others in their region.

....Before Yozma there was nothing: how a Government programme successfully created a venture capital industry in Israel.....

Name	Yozma Venture Capital, Israel, 1992
Description	USD 100m fund wholly owned by the public sector. Key goal was to bring foreign venture capitalists investment expertise and contacts to Israel.
Features/ lessons learned	Provision of matching funds to international investors with right to buy back government stake within the first five years Simple administration of fund with incentives aligned to investors interests. Yozma alumni club to learn from each others experience

Some funds recently established in EA region have some interesting features...

Name	Health in Africa Fund; REGMIFA; AAC; AECF; Fanisi Fund
Description	Recently established funds in East Africa
Features/ lessons learned	<p>Performance contract with fund manager includes social criteria (Health in Africa Fund)</p> <p>Three classes of investors shielding commercial investors from exchange rate losses by donor grants (REGMIFA)</p> <p>Creating windows in proportion of investment priorities of respective donors.</p> <p>Integrating TA and investment finance in one single investment vehicle (Fanisi Fund, AECF for one of their windows)</p>

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*'Too many regions default to generic, ready made strategies like incubators, science parks or venture capital funds. This approach ignores the local context, assumes – often absent - resources and neglects local strengths'.*

*in*

*The Monitor Group (2009): Promoting entrepreneurship in the 21<sup>st</sup> century*

There are good reasons why Government (donors) should promote entrepreneurship - and a strong case against it.

### Rationale for Government Intervention

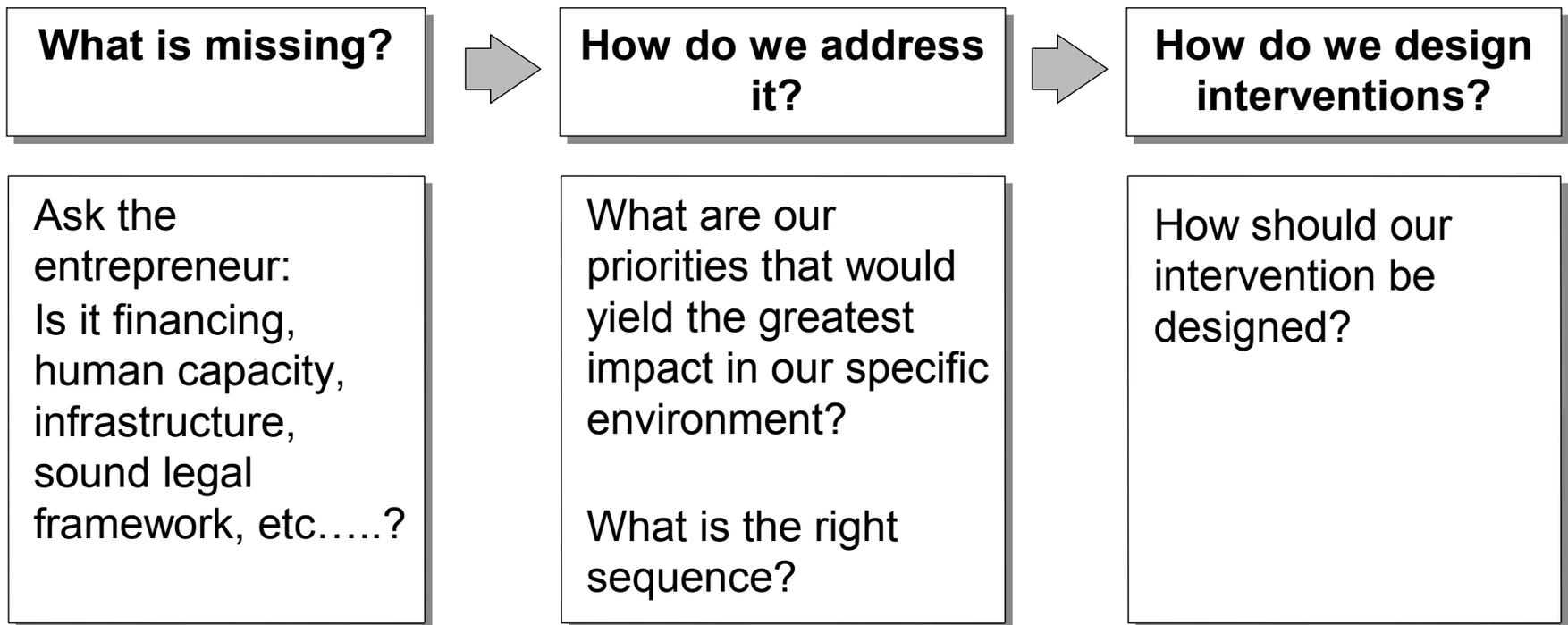
Facilitate pioneering entrepreneurs & intermediaries  
Improve data, information, create networks and promote clusters  
High social returns of innovation, knowledge spill over & entrepreneurial growth

### The case against Government intervention

Lack of competence  
Information asymmetries  
Capture by 'subsidy lobby'  
Distortions  
Crowding out of private sector investments

**Role of Government in promoting entrepreneurship**

‘In their eagerness to jump-start entrepreneurial activity, governments frequently race to hand out capital. This is equivalent to serving the main course before setting the table.’\*



\* Quote from: Lerner, J (2009): Boulevard of Broken Dreams, p . 109

Providing investment finance without the appropriate entrepreneurial environment will not yield the expected results.

TABLE 1  
Doing Business in Kenya—where is it easiest?

Locality	AGGREGATE RANK
Narok (easiest)	1
Malaba	2
Thika	3
Kisumu	4
Mombasa	5
Nyeri	6
Garissa	7
Eldoret	8
Kilifi	9
Nairobi	10
Isiolo (most difficult)	11

Note: The aggregate ranking index is calculated as the ranking on the simple average of locality percentile rankings on each of the 4 topics covered in *Doing Business in Kenya 2010*.

Source: *Doing Business* database.

Typical areas for public intervention to create an enabling environment:

- Legal, administrative and fiscal framework
- ‘Doing business indicators’:
- Infrastructure and security
- Information and knowledge
- Networks & industry clusters
- Facilitating access to international knowledge
- Strengthen capacity

Any investor into an investment fund (IV) - public or private  
- would ask for a clear profile and investment strategy

**Rationale**

- Which constraint or gap does the fund aim to address?

**Distinction**

- Why would the fund be more appropriate than other mechanism to address these particular constraints/gap?

**Investment principles**

- Should the fund follow a commercial orientation or a social and environmental development orientation?

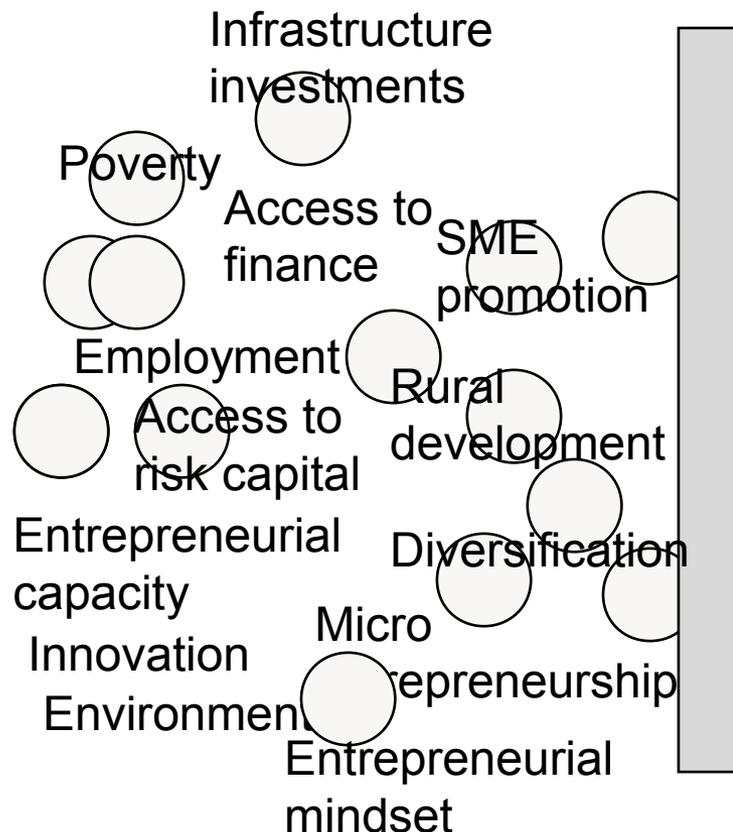
**Investors**

- Which kind of investors would be attracted and what are their respective terms and conditions?

**Products**

- Which would be the products that the fund would offer and how should they be designed?

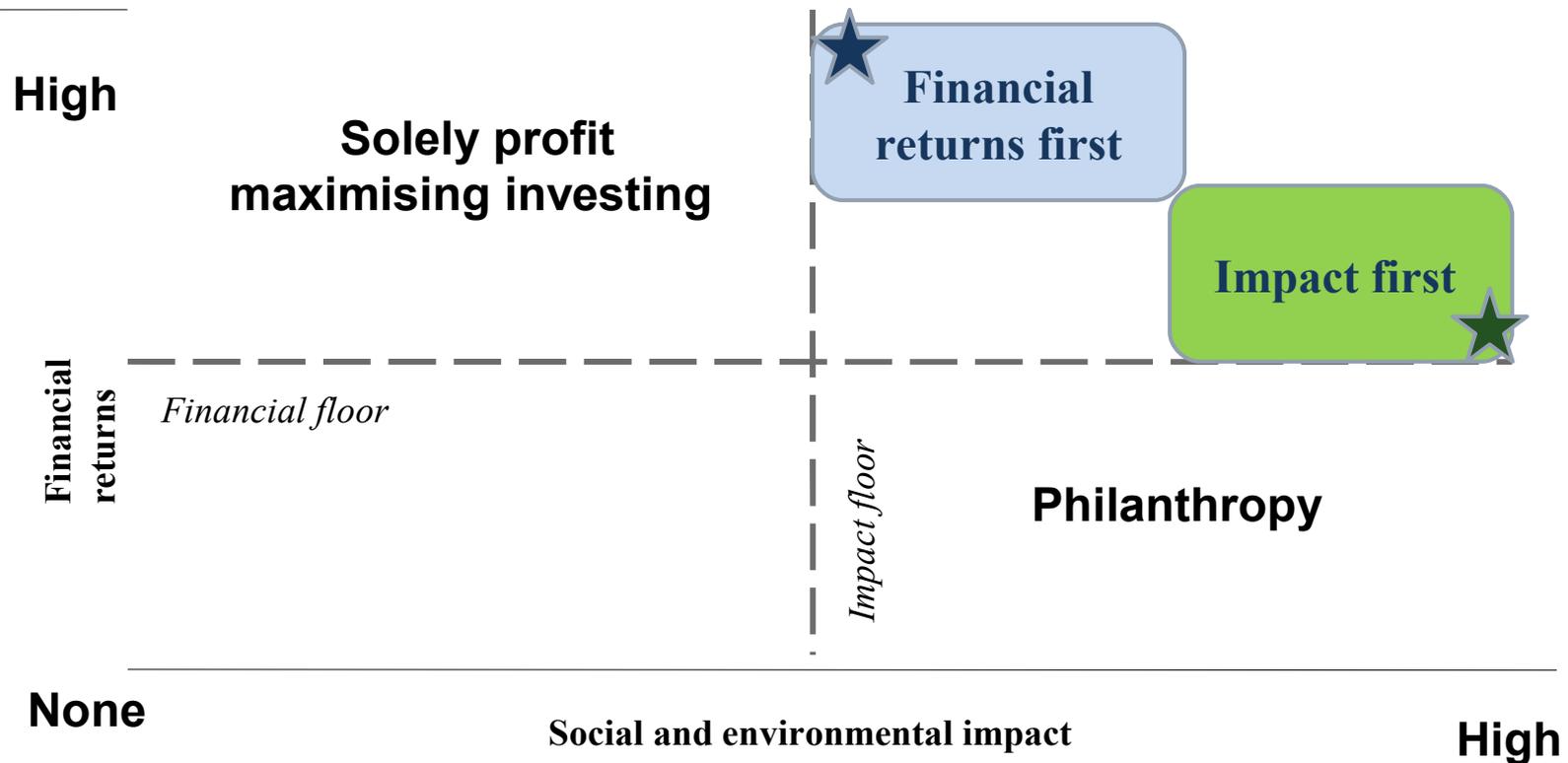
## The IV will not aim to solve all development constraints in Northern Kenya and ASAL.



Step 1 Analyse environment and entrepreneurial demand: What is missing? Which gap, market failure, market niche is the investment vehicle supposed to address?

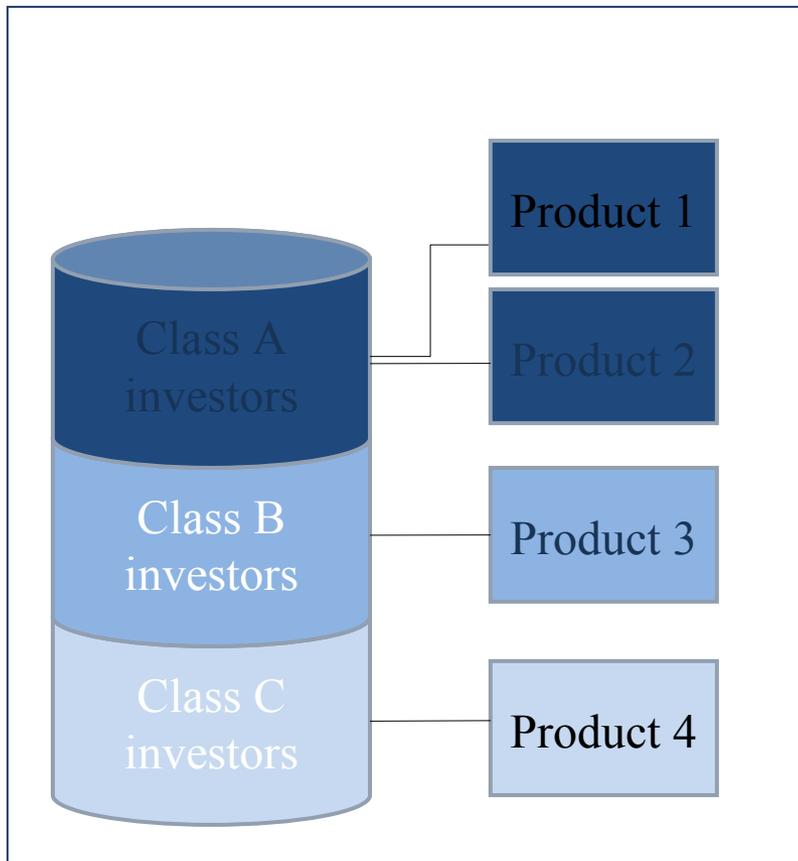
Step 2: Is the proposed investment vehicle best positioned to address this gap? How does it complement other existing programmes/supply by private sector/funding mechanism?

Should the IV have a purely commercial orientation, a commercial orientation with an impact floor, a development orientation with a financial floor or purely a development orientation?\*



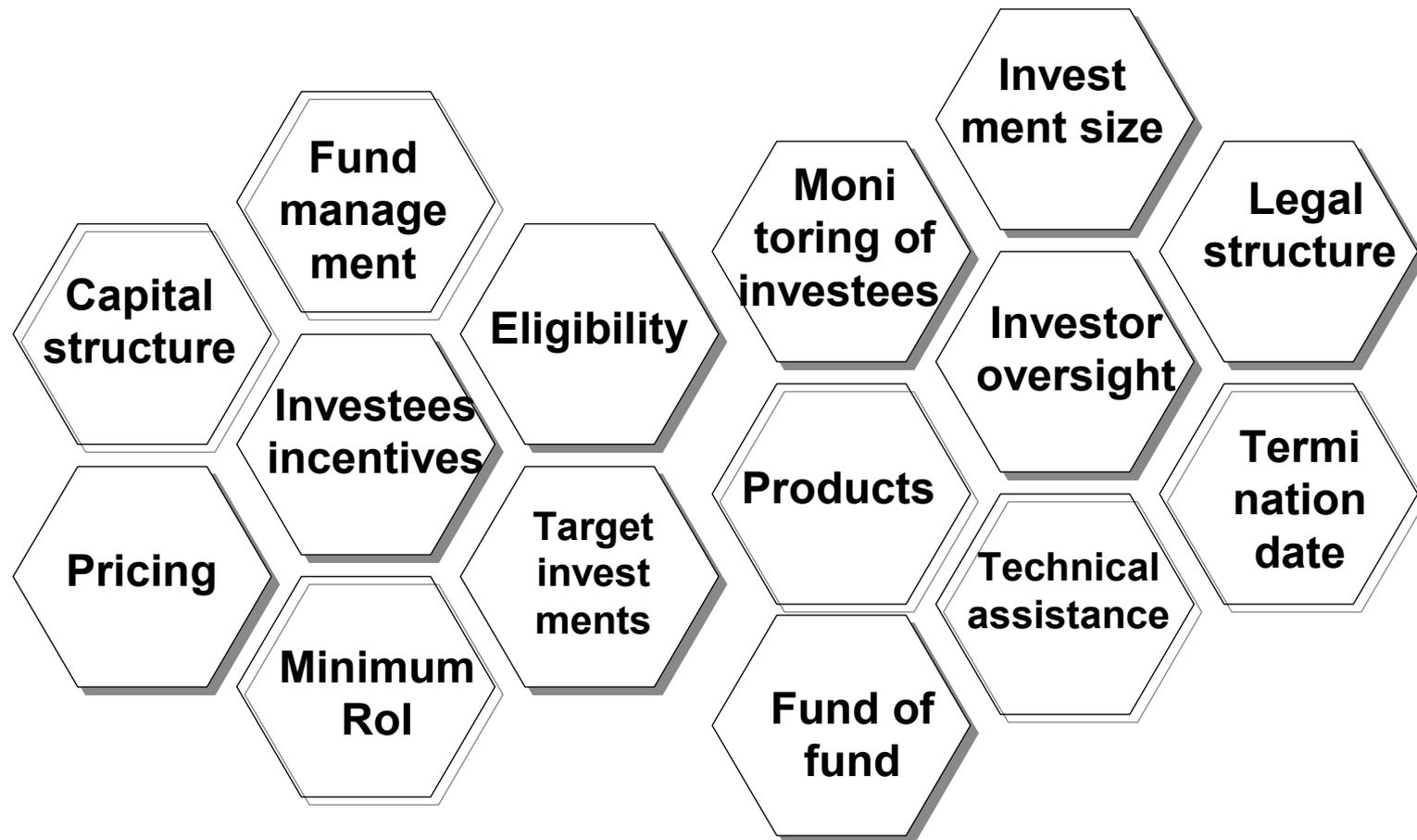
\* Adopted from: Monitor Institute (2009) – investing for social & environmental impact.

Once the investment principles are clear, like-minded investors with aligned interests to the fund's investment objectives need to be identified .



- Public, private, DFIs or non-traditional investors?
- Different classes of investors could be identified & reflected in the products offered by the fund:
  - profit maximising investors class (debt, quasi equity, equity);
  - Development oriented investor class (TA).
  - Sector specific investors?
- BUT: need to address likely tensions that arise from variety of investors with different objectives

There are many ways to get it wrong (or right): Which are the critical areas for design and implementation?



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## We are looking at design options for five key components

Investment Capital	
<p><u>Micro / Small</u> KES 50k – 40m Sharia compliant if possible Intermediaries:</p> <ul style="list-style-type: none"> <li>• Banks</li> <li>• Micro-finance</li> </ul>	<p><u>Medium +</u> KES 40m – 500m Direct investments</p> <ul style="list-style-type: none"> <li>• Equity</li> <li>• Mezzanine</li> </ul>

Infrastructure Investment
<ul style="list-style-type: none"> <li>• Roads</li> <li>• Energy</li> <li>• Water Supply / Treatment</li> </ul>

Investment Promotion
<ul style="list-style-type: none"> <li>• Oversight by Ministry for Northern Kenya</li> <li>• Infrastructure – advocacy within GoK ministries, parastatals</li> <li>• Commercial business:             <ul style="list-style-type: none"> <li>• Database for N Kenya investment opportunities</li> <li>• Liaison with Investment Promotion Centre and other GoK agencies</li> </ul> </li> </ul>

Enterprise Assistance
<ul style="list-style-type: none"> <li>• Pre-investment - project preparation / technical / marketing / management</li> <li>• Post-investment – financial management / operations management</li> <li>• Shared cost – min 50%</li> </ul>

Business Development Services
<ul style="list-style-type: none"> <li>• Small companies</li> <li>• Open business methods training programmes</li> <li>• General business counselling</li> <li>• Up to 80% grant funded</li> </ul>

## Infrastructure finance: In many cases infrastructure is a pre-requisite to commercial investments

- Primary Infrastructure Sectors – Roads, Energy, Water, Communications
- Access to land is a major issue requiring negotiation between multiple stakeholders
- Private Financing
  - Possible for smaller projects with well defined potential users
  - May need negotiation with GoK agencies for concession
  - Needs to be managed to avoid monopolistic pricing
- Public Financing
  - Very slow, reliant on donor agencies
  - KES infrastructure bonds useful but very expensive; multilateral financing agencies (eg. World Bank) financing terms (low interest rate, long maturity) much easier to manage
  - Middle Eastern funds underused; should be approached, especially with sharia compliant financing structures
  - Chinese funding available, but usually tied to Chinese companies

## Investment capital: the design of the fund will depend on market opportunities in the project region

- Limited Life Investment Fund: 10-15 years
- Fund size: \$50m - \$100m
- Investment instruments: Equity, mezzanine (should also be sharia compliant)
- Individual investments: \$0.5m - \$10m
- Investors – early stage
  - Middle East investment funds (government and private)
  - Multi-laterals (AfDB, IFC)
  - Bilateral financiers (AFD, KfW, CDC)
  - Development finance banks (DEG, Proparco, FMO)
  - Social investment funds
- Investors – second stage
  - Institutional investors (pension funds)
  - Private investors

## Enterprise assistance: we will need to look at both pre- and post investment assistance

### Pre-Investment

- Works with medium and larger companies to develop projects and negotiate financing
- Specialist technical and financial advisors engaged as required

### Post-Investment

- Financial management
- Strategic / markets development
- Technical training
- Cost shared 50:50 with project promoter
- Potential Financiers:
  - Multilaterals (World Bank, AfDB)
  - Bilaterals (USAID, KfW, AFD, Middle East funds)
  - CSR programmes

## Business development services may be targeted at small and micro enterprises

- Training in a number of formats:
  - Business management training for operating companies
  - General training modules available individuals (whether in business or not)
  - Basic packages in financial management, regulatory compliance, access to technical information
- Grant funding up to 80% (100% in exceptional cases)
- Funding Sources
  - NGOs: CARE, Technoserve
  - Bi-laterals: USAID, other bilateral agencies
  - Existing organisations offering services: SNV

## There is an important role for investment promotion....

- Infrastructure Development
  - Prepare regional development plans; identify priority infrastructure requirements
  - Publicise infrastructure development requirements
  - Negotiate 'in principle' financing commitments with potential investors
  - Preliminary evaluation and selection of projects against pre-determined priority measures and regional development plans
  - Determine regulatory requirements; prepare plan for regulatory compliance alongside project development milestones
  - Ensure GoK agencies comply with their commitments so as not to hinder project development
- Commercial Enterprise Development
  - Keep and update market and economic data on priority investment sectors
  - Facilitate regulatory compliance with GoK agencies and local councils

## Investment promotion / Enabling environment (ctd)

- Ministry for Northern Kenya
  - Role as focal point for aforementioned activities
  - Contract specialist advisors to provide services; develop working relationships with other institutions carrying out relevant economic surveys (e.g. World Bank, GTZ, etc.)

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We are just starting, but here are some preliminary conclusions.



- We need better information on what the constraints to entrepreneurship in Northern Kenya are
- We need a clear strategy 1) for promotion of entrepreneurship in the region and 2) for any investment vehicle – avoid muddled objectives
- Let the market provide direction: incentives & aligned interests rather than support of substandard firms and hand out of ‘free money’
- Resist the temptation to over-engineer

## We will refine our analysis in the next phase of the project

- **Task 1: Market assessment**
  - Investment opportunities
  - Profile of entrepreneurial environment
- **Task 2: NKIF design**
  - Set up and linkages between core components
  - Design considerations (products, screening methodology, pricing strategy/target RoI, fund management, incentives, M&E)
  - Capital structure & financing sources
- **Task 3: Investment strategy**
  - Risk matrix/fund briefing
  - Identification of potential investors/donors

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## Appendices

- [Appendix 1: Mapping of financial institutions](#)
- Appendix 2: Mapping of investment funds
- Appendix 3: Results of business meetings/roundtable discussions
- Appendix 4: Minutes of symposium on 1<sup>st</sup> of December 2009

## Overview

Organisation	<i>Acumen Fund Social Venture Capital Fund</i>
Meeting	<i>23 of October</i>
Contact	<i>Biju Mohandas</i>
Position	<i>East Africa Manager</i>
Board/Shareholders/Members	<i>Board: Investor representatives, academia (J Sachs); Investors: 400-500 individuals, foundations, corporations, mainly US based</i>
Financing	<i>Philanthropic financing/donations (Acumen fund); capital markets (Acumen Capital Markets Fund)</i>
Description	<i>Acumen Fund is a non-profit global venture fund that uses entrepreneurial approaches to solve the problems of global poverty and achieve improved public services. Acumen Fund was incorporated on April 1, 2001, with seed capital from the Rockefeller Foundation, Cisco Systems Foundation and three individual philanthropists.</i>
Target clients	<i>Low income communities; India, East and South Africa, Pakistan</i>
Portfolio	<i>Water, energy, agriculture, housing and water</i>

## NK and ASAL related business activities

### Product description

Products/Services/Strategic activities	<i>Debt; guarantees, direct equity, quasi-equity and 'lab investments' from Acumen Fund. About to set up an Capital Markets Fund which attracts commercial investors who expect a return.</i>
Eligibility	<i>Investment criteria: significant social impact; financial sustainability; achieve scale. While financial sustainability required, required minimum return on equity not defined; Established projects/companies rather than seed capital; the new Acumen Capital Markets Fund will aim for some return on equity - still to be determined</i>
Investment/Commitment size	<i>Typical range between USD 0.2- 2 million. Acumen Fund: USD 85 million funding available aiming to attract up to USD 130 million. Approx. USD 40 million committed.</i>
Interest rate and fees	<i>Interest rates determined on a project by project basis. Commonly Government bond rate plus 2-3 percentage points</i>
Terms and conditions	<i>For debt financing: Grace period 'patient capital' (5 to 7 years) equity investment: often minority stakes; preferred shares, in some cases affirmative voting rights; revenue sharing may be agreed upon (e.g. sub-ordinated notes, quasi-equity investments).</i>
Other specific features	<i>Emphasis on technical support before and after investment approval. Acumen fellowship program places young professionals as volunteers in Acumen</i>
<b>Opportunities and challenges</b>	
Market potential	<i>No investment so far. Some investments did not materialise (see below). Water Energy: 1. Integrated Solid Waste Project. The promoters had a contract to build 15 Ecotact-style toilets in town, using a build-operate-transfer. They also want to build a large biogasification plant to turn waste from the toilets and manure from surrounding parstorallists into energy. They are trying to secure power purchasing agreement with the municipality. We haven't turned them down, but concern is the high capex makes the unit economics challenging -- and secondly that the biogas plant is a fairly complicated piece of infrastructure that the promoters do not seem to have much experience with. 2. Water Project: A water engineer wants to set up a reverse osmosis water treatment plant to purify and sell water affordable. The main barrier for Acumen was capex relative to the population served -- the investment would fund one plant producing 50,000 lpd. The unit economics would also require charging a significant amount (maybe 10x what our indian investments charge) to recover costs.</i>
Challenges	<i>Agriculture: 1. Slaughterhouse: A request for slaughterhouse upgrading in Turkana North District; with upgrading, the facility could process 1,000 head of cattle daily; we passed because the business was seeded with donor money and has not yet reached financial sustainability. 2. Conservancy: Active pipeline opportunity in research stage; seeking working capital and capital expansion of livestock purchasing and processing scheme; this enterprise will source cattle from pastoralist communities in the North and avail a purchase premium due to improved market linkage</i>

## Conclusion/follow up

Conclusion	<i>Emphasis on pre-investment as well as post-investment technical assistance in addition to investment finance only. Contribution by client to grant important (minimum 10 %). Acumen aims at expanding volunteering through local business professional. However, generally, volunteering may only cover parts of the TA needs.</i>
Follow up	<i>Quite enthusiastic to remain involved in project. Acumen appears interested in NKIF as a potential funder to Acumen Fund providing 'flexible' capital for Acumen investments in Northern Kenya.</i>

## Overview

Organisation	<i>Business Partners International - Kenya Private Equity Fund - US\$41.1 Million</i>
Meeting	<i>Thursday October 29th, 10:00 am</i>
Contact	<i>Sally Gitonga</i>
Position	<i>Chief Investment Officer</i>
Board/Shareholders/Members	<i>IFC, EIB, CDC Group, TransCentury Group, East African Development Bank</i>
Financing	<i>IFC US\$5M, EIB US\$5M, CDC US\$1.6M, TransCentury US\$1.5M, EADB US\$1M</i>
Description	<i>The Kenya BPI SME fund is a wholly owned subsidiary of Business Partners Limited in South Africa, an established SME investment company.</i>
Target clients	<i>Private Small and medium enterprises; no on-lending, no investment in NGOs</i>
Portfolio	<i>Tours &amp; travel, Dry cleaning and laundry services, Leather processing, Food manufacturing, Taxi cab services, Manufacture of school uniforms &amp; textiles, Auto garage services, Fuel service stations. No primary agriculture.</i>

## NK and ASAL related business activities

### Product description

Products/Services/Strategic activities	<i>Invests using equity, quasi-equity, equity-related and debt instruments. Estimated to be around 30% equity and 70% debt (likely to be mostly debt financing according to market insiders)</i>
Elegibility	<i>The majority of the assets of all client companies must be held in Kenya, and the majority of their revenues must be earned in the country</i>
Investment/Commitment size	<i>US \$50,000 - US \$500,000, currently around 30 investment deals closed</i>
Interest rate and fees	<i>Debt: currently around 13.5%. For equity: BPI may charge royalties. Min ROR &gt; 25%</i>
Terms and conditions	<i>Maximum Term of 60 months (5 years)</i>
Other specific features	<i>A Technical Assistance Facility is available for Business Partners International Kenya to use in support of the Fund's investments in companies. The US\$2.5 million Technical Assistance Facility is funded by the Government of Kenya through the World Bank. For pre-investment assistance companies may access support of the IFC SME Solution centre, which is located in the same offices</i>

### Opportunities and challenges

Market potential	<i>No specific investments related to NK and ASAL</i>
Challenges	<i>Sees major challenge in culture, insecurity, lack of infrastructure, health and education. Would like to see the Government do something about development in that region first, before becoming involved. Seems to have had little contact with that region.</i>

## Conclusion/follow up

Follow up	<i>May attend the 1st of Dec meeting, but no significant level of interest.</i>
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## Overview

Organisation	<i>KfW Bankengruppe Development Finance Institution</i>
Meeting	<i>27-Oct-09</i>
Contact	<i>Piet Kleffmann</i>
Position	<i>Director</i>
Board/Shareholders/Members	<i>Chaired by German Ministry of Finance/Owned by German Federal Government and States</i>
Financing	<i>German Government and capital markets KfW banking group is a promotional bank for the German and European economy as well as for developing countries. German</i>
Description	<i>Development Bank manages financial cooperation projects in developing countries on behalf of the German Government. Offers loan, grants and equity products (through DEG)</i>
Target clients	<i>KfW typically works with Governments and government institutions</i>
Portfolio	<i>In Kenya main focus area based on Kenya Joint Assistance Strategy and bilateral negotiations between German and Kenyan Government: private sector in agriculture, water and health. Other activities include geothermal power and roads.</i>

## NK and ASAL related business activities

### Product description

Products/Services/Strategic activities	<i>Provides loans and grants to water, agriculture and health sector. A health voucher fund, managed by PwC, has been set up to finance output based aid health services in Western Kenya.</i>
Eligibility	<i>Based on government agreement, financial support is provided to government institutions in three focus areas. Geographical focus mostly on Central and Western.</i>
Investment/Commitment size	<i>Pipeline approximately USD 300 million. Annual disbursements on average US 30 million (higher disbursements likely in 2009 and 2010, linked to lump sum disbursement in energy sector).</i>
Interest rate and fees	<i>Development loans 0.75%, promotional loans 2%.</i>
Terms and conditions	<i>10-13 years grace period and 30 to 40 years maturity</i>
Other specific features	<i>KfW voucher programme is an output based aid system in the health sector. Health services are provided in return for vouchers that can be bought by the target group at subsidised prices. Social services are based on clearly defined outputs.</i>

### Opportunities and challenges

Market potential	<i>N/A</i>
Challenges	<i>N/A</i>

## Conclusion/follow up

Conclusion	<i>KfW would have difficulties to get involved in Northern Kenya/NKIF, since outside of its three focus areas. Regional funds (REGMIFA) are easier in this respect, since KfW is not bound to adhere to any focus sectors. In addition, other than in Microfinance sector, DEG is in charge of investment funds.</i>
Follow up	<i>KfW would be a potential founder, but unlikely given internal administrative regulations (see above). It may still be interested to attend the respective meetings under this project.</i>

## Overview

Organisation	<i>Gulf African Bank Sharia compliant commercial bank</i>
Meeting	<i>October 28th 2009, 4:00pm</i>
Contact	<i>Mohamed Haris</i>
Position	<i>Head of Corporate Banking, Structured Finance &amp; Product development</i>
Board/Shareholders/Members	<i>Istithmar World, BankMuscat International, Mr. Abdullah Mohammed Al Romaizan, GulfCap Group, PTA Bank, Individual investors</i>
Financing	<i>from Shareholders</i>
Description	<i>Sharia compliant financial services provider</i>
Target clients	<i>Consumers, households, corporate clients in urban areas</i>
Portfolio	<i>Deposit taking, corporate financing including asset financing (30%) and Trade financing (70%), Treasury services</i>

## NK and ASAL related business activities

### Product description

Products/Services/Strategic activities	<i>Deposit taking branch and personal banking products in Garissa</i>
Eligibility	<i>N/A</i>
Investment/Commitment size	<i>Does not conduct lending business in Northern Kenya</i>
Interest rate and fees	<i>Based on Sharia compliant practices; Bank does not charge interest but acts as a trade partner</i>
Terms and conditions	<i>Sharia banking requires an asset as a security for any loan; in some cases the bank acts as a partner in a business to which it has provided financing</i>
Other specific features	<i>Interested in acting as intermediary to distribute donor fund in Northern Kenya; Only conducted one livestock transaction</i>

### Opportunities and challenges

Market potential	<i>Livestock industry, Transportation, Hotel structures, Mining of bauxite &amp; gypsum, Real estate</i>
Challenges	<i>Risk profile of businesses is too high, Newly established so does not have resources to carry out aggressive expansion</i>

## Conclusion/follow up

Conclusion	<i>As a new bank in the market offering sharia products it has the potential to be a significant player in the North. Currently however, management is focusing on growing the corporate business in Nairobi and other larger centers</i>
Follow up	<i>Interested to be a financial intermediary</i>

## Overview

Organisation	<i>First Community Bank Sharia Compliant Commercial Bank</i>
Meeting	<i>October 29th 2009, 1:00 pm</i>
Contact	<i>Yussuf Dahir</i>
Position	<i>Head of Retail Banking</i>
Board/Shareholders/Members	<i>Owned by a diverse base of community businessmen and professionals from Kenya and Tanzania</i>
Financing	<i>Shareholder Financing</i>
Description	<i>First fully fledged sharia bank in Kenya with 6 branches in Northern Kenya including Garrisa, Wajir, Moyale, and Mandera</i>
Target clients	<i>Consumers, households, micro-entrepreneurs both urban and rural, corporate clients</i>
Portfolio	<i>Micro-loans, deposit taking, corporate loans, housing products, introducing Islamic insurance, Islamic bonds and Islamic mutual funds</i>

## NK and ASAL related business activities

### Product description

Products/Services/Strategic activities	<i>Extensive branch network in Northern Kenya providing sharia personal banking &amp; business banking products. Also provides real estate financing, asset financing and trade financing in accordance to sharia compliant standards. Views Northern Kenya as the low hanging fruit for expansion of business due to demographics</i>
Eligibility	<i>Must adhere to Sharia compliant standards in conducting transactions</i>
Investment/Commitment size	<i>Micro-loans of nominal value up to corporate lending of KSH 50 million plus</i>
Interest rate and fees	<i>Based on Sharia compliant practices; Bank does not charge interest but acts as a trade partner</i>
Terms and conditions	<i>Sharia banking requires an asset as a security for any loan; in some cases the bank acts as a partner in a business to which it has provided financing</i>
Other specific features	<i>Has engaged in the lending of donor money from CARE to micro-entrepreneurs</i>

### Opportunities and challenges

Market potential	<i>Potential in livestock sector, transportation, wholesale food distribution, leather &amp; tanning industry, Salt factory, gums &amp; frankincense</i>
Challenges	<i>Dealing with unstructured businesses, poor internet/communication infrastructure, lack of qualified people</i>

## Conclusion/follow up

Conclusion	<i>As an indigenous bank from the Northern region, FCB is committed to doing business in the North. Aggressive expansion to take new and existing Sharia products to the major centers in the Northern Region. FCB has a long-term view and is willing to invest in areas of ICT and branch expansion, areas which pose significant hurdles to other banks</i>
Follow up	<i>Expressed interest to be involved with NKIF as an advisor and financial intermediary</i>

## Overview

Organisation	<i>Financial Sector Deepening Kenya Independent Trust</i>
Meeting	<i>30th October and 9th November</i>
Contact	<i>David Ferrand and James Kashangaki</i>
Position	<i>FSD Director and Head of Growth Fin</i>
Board/Shareholders/Members	<i>Governed under the supervision of professional trustees, with policy guidance from a programme investment committee</i>
Financing	<i>DFID, Ministry of Trade &amp; Industry/World Bank and Swedish SIDA</i>
Description	<i>Trust working with the financial services to significantly expand access to services among lower income households and smaller scale enterprises</i>
Target clients	<i>Financial institutions (micro-level), business service providers and support institutions (meso-level)</i>
Portfolio	<i>Projects focused on the Core Financial System, Rural Finance, and Finance for Growth</i>

## NK and ASAL related business activities

### Product description

<i>1. Hunger Safety Net Programme</i>	FSD heads the payment component of the HSNP (Administration by Care International amongst other NGOs). The Hunger Safety Net Programme (HSNP) is an unconditional cash transfer programme targeted at the chronically food insecure. The goal of the HSNP is to reduce extreme poverty in Kenya. The purpose is to support the establishment of a government-led national social protection system delivering long-term, guaranteed cash transfers to the poorest and most vulnerable 10% of Kenyan households. . The principal objective of Phase 1 is to implement a cash transfer programme in the arid and semi-arid lands (ASAL) districts of northern Kenya, making regular cash transfers to 60,000 households every 2 months for 3 years. Idea is that predictable, long term cash transfers will eventually result in small investments and livelihood businesses.
Eligibility	Poor households; geographical targeting (9 ASAL communities); Criteria: poverty levels, security situation, cash economy, feasibility and cost-effectiveness in delivering payments (location of the payments points which is determined by the available infrastructure e.g. electricity, mobile phone coverage, etc).
Investment/Commitment size	<i>TBC, KES 300-500 per month</i>
Interest rate and fees	<i>N/A</i>
Terms and conditions	<i>N/A</i>
Other specific features	<i>The cash scheme will use mobile payment schemes. Phase 2 aims to roll out the HSNP under a national social protection system addressing the needs of 1.5 million Kenyans, with Government of Kenya (GoK) and donor funding.</i>
<i>2. Rural enterprise Fund</i>	<i>Still at early conceptual stage only. Such a fund would address gaps in the value chain between small farmers/entrepreneurs and large wholesale buyers (e.g. Brookside).</i>

### Opportunities and challenges

Market potential	<i>Engaged in above activities Otherwise, very sceptical about market potential (see below)</i>
Challenges	<i>Did not seem to know a lot about that specific region. Assumed that the challenges would be: mobility/pastoralism, lack of information and data, seasonal variances due to climatic conditions, inability of FI to understand specific challenges.</i>

## Conclusion/follow up

Conclusion	<i>Sceptical about NKIF: warned against market distortions by subsidizing a regional fund. Was relatively positive about non-traditional financing as an additional source of financing: investment clubs, CSR</i>
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## Overview

Organisation	<i>Technoserve NGO</i>
Meeting	<i>5th of November 2009</i>
Contact	<i>Fred Oganga</i>
Position	<i>Managing Director</i>
Board/Shareholders/Members	<i>Individuals and corporates</i>
Financing	<i>See above</i>
Description	<i>Founded by an individual US business man. Focus on developing entrepreneurship to improve livelihoods.</i>
Target clients	<i>rural poor</i>
Portfolio	<i>Focus on agriculture and agribusiness, alternative energy and tourism</i>

## NK and ASAL related business activities

### Product description

Products/Services/Strategic activities	<i>1) Developing entrepreneurs 2) Improving business environment 3) building businesses and industries. No financing but advice on access to capital</i>
Eligibility	<i>N/A</i>
Investment/Commitment size	<i>N/A</i>
Interest rate and fees	<i>N/A</i>
Terms and conditions	<i>N/A</i>
Other specific features	<i>N/A</i>

### Opportunities and challenges

Market potential	<i>Involved in two relevant projects: 1) Fishery project Lake Turkana, which failed due to lack of infrastructure, insecurity and insufficient linkages to markets. 2) Study on livestock opportunities. Discussed individual opportunities as set out in the KIE report: 1) Renewables: windfarm may not have the potential to benefit the local communities since little money will remain in local community; Solar panels appropriate for settled communities; appropriate equipment expensive (USD 800-1000) with little productive use ie. clients would be poor local governments 2) Meat (goat/beef): needs to be looked at as a value chain and interlinkages. Starting with reservoirs/man made lakes which may change the entire social and entrepreneurial structure in the North (reduced mobility, uptake of alternative businesses, coping with seasonal variances and drought). Cattle should not be transported over long distances, but instead cut and frozen. Meat Commission to move up North. Price differentiation strategy between frozen and fresh meat. Goat meat market is fragmented and untapped and may have huge economic potential. 3) Crops (cotton, beans, vegetables), honey, sugar etc in certain areas. Last: Limited potential for bakery, tourism (limited scaling up, impact) Sees main constraints in culture: local traders not ready for true commercialisation (cattle seen as a source of pride rather than the value to be obtained by selling it), lack of entrepreneurial culture, high donor dependency (e.g. Mandera), mistrust against outsiders who may want to do business. Focus on livestock business only.</i>
Challenges	<i>Sees main constraints in culture: local traders not ready for true commercialisation (cattle seen as a source of pride rather than the value to be obtained by selling it), lack of entrepreneurial culture, high donor dependency (e.g. Mandera), mistrust against outsiders who may want to do business. Focus on livestock business only.</i>

## Conclusion/follow up

Conclusion	<i>Sees a significant need for a NKIF, which is based on specific bottlenecks and requirements of that region. Needs to act as a catalyst rather than a dealmaker. Integrated portfolio of services: financing (including equity) plus technical assistance, project development and industry/value chain research. Argues that sectoral focus makes sense for NKIF as well as the entire regional development strategy: development of industry clusters, understand competitiveness of NK compared to other regions. What does Northern Kenya want to be famous for (e.g. M Porter, competitiveness strategies).</i>
Follow up	<i>Advisory role, resource person, later possible an interest to carry out some TA work (industry analysis, enterprise development).</i>

## Overview

Organisation	<i>European Investment Bank Development Finance Institution</i>
Meeting	<i>2nd of November 2009</i>
Contact	<i>Kurt Simonsen</i>
Position	<i>Head of Regional Representation EIB East &amp; Central Africa Office</i>
Board/Shareholders/Members	<i>27 Member States of the EU. Board of Governors: Finance Minister of Member States; Board of Directors (28 members; takes decisions on loans etc): appointed by member states; Experts; Alternates; Management Committee (9 members): executive forum for day to day management</i>
Financing	<i>Sovereign Funds and Private Financing from Capital Markets EIB Group consists of EIB and European Investment Facility. EIB provides long term loans to large capital investment projects. It supports SMEs through credit lines and venture capital activities. EIB provides loans, technical assistance, guarantees and venture capital. Focus on Private Sector development, Infrastructure development, Security of energy supply, and Environmental sustainability through the Cotonou Investment Facility and EU-Africa partnership on Infrastructure</i>
Description	
Target clients	<i>Large corporations, municipalities, SMEs</i>
Portfolio	<i>In Kenya: Energy (Olkaria, Mombasa - Nairobi Transmission line), Transport (JKIA upgrade) financial services. Investor in various investment funds: REGMIFA, GroFin Africa Fund, BPI</i>

## NK and ASAL related business activities

### Product description

Products/Services/Strategic activities	<i>Debt; Equity investments and investments in venture capital funds catalytic (non-controlling minority holdings); temporary (exit strategy considered from inception); pricing (variable remuneration as a function of performance); flexibility (allocation thresholds can be amended); additionality (EIB brings non-financial value e.g. by mobilising additional funds, involvement at board level)</i>
Eligibility	
Investment/Commitment size	<i>Varies depending on type of project and type of financing being provided. Venture capital investments: EUR 5m to 20m and max 50% of total investment costs (direct participation) or a max of EUR 30m and max 25% of total fund size (indirect participation)</i>
Interest rate and fees	<i>Varies</i>
Terms and conditions	<i>Varies</i>
Other specific features	<i>N/A</i>

### Opportunities and challenges

Market potential	<i>Limited knowledge about specific market potential in NK and ASAL (even though they are looking at the Turkana wind energy project)</i>
Challenges	<i>Limited knowledge about specific market potential in NK and ASAL</i>

## Conclusion/follow up

Conclusion	<i>Mr Simonsen has just taken over position from previous head of EIB. Showed interest, but needs to identify whether there is no duplication with existing financing strategies (e.g. SME credit lines). They have invested in a number of funds in the past (e.g. BPI, etc)</i>
Follow up	<i>Established contact with officers in charge (investment finance) and local business analyst, who will attend 1st of December meeting.</i>

## Overview

Organisation	<i>Faulu Microfinance Institution</i>
Meeting	<i>November 3rd 2009, 11am</i>
Contact	<i>Helen Kithinji</i>
Position	<i>GM Business Development</i>
Board/Shareholders/Members	<i>Food for the Hungry</i>
Financing	<i>NGO, Development finance institutions, World Bank, commercial banks</i>
Description	<i>Christian deposit taking micro-finance institution</i>
Target clients	<i>Microentrepreneurs both urban and rural</i>
Portfolio	<i>Microloans and business development training</i>

## NK and ASAL related business activities

### Product description

Products/Services/Strategic activities	<i>Micro-credit products with flexible repayment periods and easy access requirements; Savings products</i>
Eligibility	<i>Focus is on the economically active Kenyan who seeks to improve their economic status. Customers can be served through co-guaranteeing groups or check-off on their salaries if their institutions have contracts with Faulu</i>
Investment/Commitment size	<i>N/A</i>
Interest rate and fees	<i>Variable</i>
Terms and conditions	<i>Initial grace period, flexible repayment schedules, group co-guarantee schemes</i>
Other specific features	<i>Prefers not to accept grant funding due to the constraints that are imposed by donor institutions; Prefers to concentrate on expanding business in existing locations creating a base for viable outward expansion</i>

### Opportunities and challenges

Market potential	<i>Does not see much potential for expansion in Northern Kenya due to sparse population density</i>
Challenges	<i>Perceives Northern Kenya to have a high cost of operation and would not fit well with the Grameen model adopted by Faulu; lack of telecommunication infrastructure in the is also a deterrent</i>

## Conclusion/follow up

Conclusion	<i>Faulu prefers to concentrate on growing its existing markets before expanding outward and does not consider Northern Kenya in its plans at present</i>
Follow up	<i>Expressed interest to be involved in the NKIF process as a participant</i>

## Overview

Organisation	<i>DEG - KfW Bankengruppe German Development Finance Institution for the Private Sector</i>
Meeting	<i>05-Nov-09</i>
Contact	<i>Eric Kaleja and Christopher Evans</i>
Position	<i>Country Director; Equity investment offices</i>
Board/Shareholders/Members	<i>KfW Bankengruppe, German Government</i>
Financing	<i>KfW Bankengruppe</i>
Description	<i>Development finance institution for long-term project and company financing. DEG has been financing and structuring the investments of private companies in developing and transition countries</i>
Target clients	<i>Private enterprises committed to growth and effecting a positive development impact, meeting environmental standards and complying with social Equity, Mezzanine and term-loan investments in Telecoms, Water, Transportation, Power generation and Renewable Energy projects. In Kenya investment in energy (IPPs and Olkaria), agrar business (horticulture), financial institutions (I&amp;M bank), transport (transportation business). Investment in Health Care Fund Africa (Private equity fund with IFC, AfDB). Pipeline or particular interest in energy in particular renewable (Transmission line Turkana</i>
Portfolio	<i>Health Care Fund Africa (Private equity fund with IFC, AfDB). Pipeline or particular interest in energy in particular renewable (Transmission line Turkana</i>

## NK and ASAL related business activities

### Product description

Products/Services/Strategic activities	<i>Equity Financing, Mezzanine financing including convertible loans, preferred shares and warrants, Long-term loans</i>
Eligibility	<i>Private sector projects that are efficient in terms of business and development impact; particular focus on agribusiness, financial sector, infrastructure, manufacturing and public-private partnerships Equity: EUR 5 million - EUR 20 million not exceeding 30% of share capital</i>
Investment/Commitment size	<i>Mezzanine: EUR 5 million - EUR 20 million Loans: up to EUR 25 million in principle</i>
Interest rate and fees	<i>Expect yields on all financing as per market standards Equity: Preferred entry via capital increase; Exit between 4 - 10 years via IPO, Put Option or trade sale; Tag-along &amp; Drag-along rights</i>
Terms and conditions	<i>Mezzanine: Tenor up to 15 years, subordination to senior lenders, yields boosted by country risk margin, deferred interest or performance kicker Loans: in EUR, USD or local currency, up to 15 year tenor, require security including first ranking mortgages or assignment of rights</i>
Other specific features	<i>Have invested in various equity funds across Africa</i>

### Health Care Fund Africa

Description	<i>USD 150 million Health Care Fund managed by Aureos Capital. Expected returns 15-20% i.e. below full profit ROR of 25%. Aureos with a performance contract which sets out social objectives (e.g. 15% of investments directly benefit low income communities). Aureos provides 1 % of financing to the fund</i>
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### Opportunities and challenges

Market potential	<i>Little knowledge about NK and ASAL area. No on-going investment in companies with strong activities in that region. Actively looking at investment into transmission line for Turkana wind energy project.</i>
Challenges	<i>DEG has not received financing request from that region.</i>

## Conclusion/follow up

Conclusion	<i>DEG only allowed to invest 10% of its portfolio in investment funds, therefore seeks to increase opportunity for co-investment in investees. Project politically supported by German Government, i.e.. accepted lower ROR. Advisable to design a fund with fully commercial orientation even if DFI are to be involved. Grant elements, if at all, need to be kept separate from commercial business since affects market discipline (see interview with AfricInvest on Acumen Fund). Investment of Fund manager in fund desirable re alignment of objectives, but beyond 1% contribution difficult (fund managers set up as Interested (not enthusiastic since preference to invest in fully viable ventures); recommends contact with SEAF, Small Enterprise Assistance Fund, one of the fund management bidders for the Health Care Fund. SEAF has experience with funds that combine commercial and social objectives.</i>
Follow up	

## Overview

Organisation	<i>Co-operative Bank of Kenya Commercial Bank</i>
Meeting	<i>10th November 2009, 3:00pm</i>
Contact	<i>Zachary Chianda</i>
Position	<i>Director Co-operatives Banking</i>
Board/Shareholders/Members	<i>65% Co-operative Movement, 20% Individual cooperatives, balance is publicly listed</i>
Financing	<i>From shareholders</i>
Description	<i>Kenyan bank with a strong countrywide presence, playing a central role in the co-operative movement and providing relevant and innovative financial services to our customers for the optimum benefit of all our stakeholders</i>
Target clients	<i>Co-operative societies, SACCOs, consumers, corporate &amp; institutional clients</i>
Portfolio	<i>Deposit taking, corporate loans, insurance finance, personal loans, investment banking advisory</i>

## NK and ASAL related business activities

### Product description

Products/Services/Strategic activities	<i>Provides several loan products to SACCOs including personal loans, asset financing, development loans and maziwa loans to milk traders; Provides consultancy to SACCOS and Co-ops; Short &amp; long-term loans to commercial businesses, institutions and govt.; Innovative payment and money transfer services</i>
Eligibility	<i>Individuals or corporates do not have to be clients of the bank; Businesses must be registered and have existed for at least 1 year; SACCOS must be registered</i>
Investment/Commitment size	<i>Varies based on loan product</i>
Interest rate and fees	<i>Market rates</i>
Terms and conditions	<i>Tenor up to 10 years for certain products, security requirements</i>
Other specific features	<i>The Bank is already in a franchising partnership through which we will provide wholesale banking services to individual FOSAs which then provide retail banking services to members</i>

### Opportunities and challenges

Market potential	<ul style="list-style-type: none"> <li>- Bank does not see the opportunity to do business in Northern Kenya, except with a handful of co-operatives that have formed in the region and with a handful of individuals who may act as banking agents</li> <li>- Bank has a large ongoing expansion program and has the capacity, as well as, established contacts allowing for rapid expansion into Northern Kenya</li> <li>- Is willing to lend to any projects in the region that it deems to be commercially viable</li> </ul>
Challenges	<ul style="list-style-type: none"> <li>- Has found that people in the North do not want to form Co-operatives</li> <li>- Does not see any sustainable economic activity in the region that would merit expansion</li> </ul>

## Conclusion/follow up

Conclusion	<i>Bank is operating an aggressive expansion process but needs to see the encouragement of the formation of co-operatives and sustainable economic activity before North Kenya can be considered in its plans</i>
Follow up	<i>Interested to be part of the NKIF process as an advisor and financial intermediary</i>

## Overview

Organisation	<i>Equity Bank Commercial Bank</i>
Meeting	<i>23rd November 2009, 8:00am</i>
Contact	<i>Mbaabu Muchiri</i>
Position	<i>Director Credit</i>
Board/Shareholders/Members	<i>Listed on the NSE</i>
Financing	<i>Capital base of KSH 19 Billion</i>
Description	<i>It has evolved from a Building Society, a Microfinance Institution to now the all inclusive Nairobi Stock Exchange and Uganda Securities Exchange public listed Commercial Bank</i>
Target clients	<i>Retail Clients, corporate clients</i>
Portfolio	<i>Deposit taking, corporate loans, personal loans, micro-loans</i>

## NK and ASAL related business activities

### Product description

Products/Services/Strategic activities	<i>Extensive loan product portfolio including business and working capital loans, personal loans, asset financing, innovative payment systems and money transfer, and micro-loans targeted at groups of entrepreneurs with an emphasis on women's groups</i>
Eligibility	<i>Minimum requirements</i>
Investment/Commitment size	<i>Varies from KSH 1000 up to KSH 10 Million plus depending upon loan product</i>
Interest rate and fees	<i>1.25% monthly</i>
Terms and conditions	<i>Flexible repayment schedules, low collateral obligations, no hidden charges</i>
Other specific features	<i>Significant branch network in Northern Kenya</i>

### Opportunities and challenges

Market potential	<ul style="list-style-type: none"> <li>- <i>Equity currently administers a Cash Safety Net program on behalf of DFID, and has used this program as a platform to develop its own branches</i></li> <li>- <i>Potential for micro lending</i></li> </ul>
Challenges	<ul style="list-style-type: none"> <li>- <i>Infrastructure (ICT) challenges and sparse populations</i></li> </ul>

## Conclusion/follow up

Conclusion	<i>Using innovative banking technology to expand into new areas that were previously inaccessible. Helping to develop a market for its own products.</i>
Follow up	<i>N/A</i>

## Appendices

- Appendix 1: Mapping of financial institutions
- [Appendix 2: Mapping of investment funds](#)
- Appendix 3: Results of business meetings/roundtable discussions
- Appendix 4: Minutes of symposium on 1<sup>st</sup> of December 2009

## Overview

Organisation	<i>AfricInvest</i>
Fund structure and board	<i>FMO, Belgian Investment Company for Development, EIB, FinnFund, PROPARCO, IBTC chartered bank, Oikocredit</i>
Fund size	<i>EUR 150 Million (AfricInvestII Fund) out of which 40-50 EUR million for EA ; EUR 150 Million (Magreb Private Fund); EUR 30 Million out of which EUR 10 million for EA (Financial Services Fund)</i>
Management	<i>AfricInvest Capital Partners incorporated in Mauritius; East Africa Management by George Odo formerly with Care Enterprise Partners and Capital</i>
Description	<i>Generalist venture capital / private equity fund operating in the Maghreb region and West Africa, now expansion into East Africa. CEP originally acting as Local Partner supporting with deal origination, investment assessment etc. SMEs across Africa in sectors include consumer products and services, retail, food and beverage, packaging, transport and distribution, media, information technology, telecommunications, financial services, health-care, tourism, energy generation and manufacturing. I.e. everything except real estate &amp; infrastructure. In EA/Kenya, only one deal closed so far (see Financial Services Fund) . In the Pipeline for AfricInvest II Fund: agricultural businesses, manufacture, banking; in UG: Health care. May consider investment in Turkana project (e.g. Transmission line), despite infrastructure being</i>
Target clients	

## NK and ASAL related activities

### Product description

#### Product 1

*AfricInvest II Fund*

#### Eligibility

*Focuses on investments in mid sized enterprises with a turnover below Euro 15 million at the time of investment, but does not exclude companies of larger size with significant growth potential. AfricInvest focuses on growth investments, but will not exclude buy-outs, privatizations, seed, and restructuring investments, if sufficient comfort/management expertise is provided.*

#### Investment/Commitment size

*between EUR 5 million and 15 million. Intended to server smaller business partners with a new fund after disbursement of AfricInvest II with TBL Mirror, Kibo, AAC, found that there was a gap in the market for larger financing*

#### Interest rate and fees

*Target gross compound IRR of 20%-25% in EUR*

#### Terms and conditions

*Typical PE terms: minority shares, board seat, exit strategy agreed,*

#### Other specific features

#### Product 2

*Financial Services Fund*

#### Eligibility/Description

*Small fund designed to focus on development of new markets and products. Recent expansion to Southern Sudan, Djibouti. Deal closed with deposit*

#### Care Enterprise Partners/CEP

#### Description

*Promotion of social enterprises, market based developments. Provided mix of grant, debt, venture capital (CEP Investment Trust Fund). Provides seed loans and equity and trade finance. Experiments with new instruments that would allow reduced traditional collateral, focus on value chain, willingness to compromise on RoR. Initiated cooperation between MBA Associates in Canada and entrepreneurs.*

#### Other features

#### Management, financing, Information management etc

*TunInvest/Africinvest financed by DFIs and commercial investors.*

## Conclusion

#### Assessment AfricInvest

*AfricInvest just launched operations.*

#### Assessment Care CEP

*Internally available*

#### Conclusion

*NKIF needs to be set up as independent organisation, facilitators to remain in the background, play a role as enabler, but should not be the main face of NKIF. Fund needs to be set up as a commercial fund with professional fund management. Need to identify appropriate instruments to balance social and commercial objectives: capital structure with tranches; TA component/subsidy element and financing (should be within one structure but still separated); Believes there is a shortage in mezzanine/innovative financing. If investors are interested in specific sectors, investment cells of the fund could be blocked in proportion of capital contribution. Government: explore possibilities of tax break and other incentives, Gov needs to focus on value chain not just individual deals, identify competitive advantage of NK region. Investment potential in NK may be too small to focus on selected sectors No need to contract equity fund management out (as TBL or Acumen suggested). Need to find experienced fund manager with equity/debt financing and TA/social experience. Equity investment still requires significant awareness raising with traditional entrepreneurs, in NK likely to be a particular challenge. Warned against Acumen model: Cheap financing (Acumen is mostly grant financed) leads to lack of discipline in fund investments.*

#### Follow up

*Recommends FMO or FSD for financing of follow up consultancy of this project. Possibly interested in financing. Good resource person for advice/feedback on future NKIF ideas.*

## Overview

Organisation	<i>GroFin/GroFin Africa Fund</i>
Meeting	<i>2nd of November 2009</i>
Contact	<i>Guido Boysen</i>
Position	<i>Chief Investment Officer</i>
Fund structure and board	<i>CDC, AfDB, IFC, FMO, Norfund, EIB, FISEA, Shell Foundation, GroFin Investment Holdings</i>
Fund size	<i>USD \$170 Million</i>
Management	<i>GroFin Management</i> <i>GroFin is a multi-national specialist SME finance and development company offering an innovative combination of risk capital and business development assistance to viable enterprises. Originally, started in SA (most of management team formerly with Business Partners International). Due to GroFin's owners activities in energy sector, formation of strategic partnership with Shell Foundation.</i>
Description	<i>GroFin Africa Fund invests in 7 countries in Africa incl. Kenya</i>
Target clients	<i>SMEs in East Africa, South Africa, Nigeria, Ghana and Rwanda across all sectors</i>

## NK and ASAL related activities

### Product description

Products and services	<i>Debt, performance based incentives and some equity, if needed.</i>
Eligibility	<i>Entrepreneurial SMEs with less than 100 employees, sales not exceeding US\$5 million and gross assets of less than US\$3 million. All sectors except primary agriculture.</i>
Investment/Commitment size	<i>US\$50,000 to US\$1 Million; Average investment size USD 350,000; Target investment envelope in Kenya: 4-5 million/year, i.e. 10-15 deals per year.</i>
Interest rate and fees	<i>Vary depending on business profile, royalty fees ranging between 1-10% of revenues; GroFin Africa investors expects 10% USD RoE ie. return needs to be between 25% and 35%</i>
Terms and conditions	<i>Repayment between 4 - 6 years, grace period of 1-2 years possible depending on situation of the company. Unsecured loans, based on cash flow possible.</i>
Other specific features	<i>Offers business development assistance to entrepreneurs. 'equity like' partnership with entrepreneurs with strong on-going GroFin involvement. Higher risk takers than BPI, less traditional collateral, larger deals. Identify deals mostly through internal personal network.</i>

### Other features

Management, financing, Information management etc	<i>Dedicated teams of professionals in 8 countries across Africa. GroFin Investment Holding is owned by an individual entrepreneur, Jurie Willemse, management team does not hold shares. Identification of deals based on personal network of GroFin investment officers.</i>
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### Opportunities and challenges

Market potential	<i>Existing financing of a Kenyan owned borehole drilling enterprise, with substantial orders in Northern Kenya (funded by NGOs &amp; UN); Financing of transport business with operations in North</i>
Challenges	<i>Financing requests from Northern Kenya have been rare (if at all). Believes that investment in that region requires lot of hand holding, local presence and know how. Returns for such investment are uncertain, would consider it if appropriate incentives were in place to cover initial costs.</i>

## Conclusion

Assessment	<i>Seems expensive (see royalties); GroFin accepts that it has been opportunistic so far: going for the low hanging fruits; deals identified through personal networks.</i>
Conclusion	<i>With regard to NKIF: Recommended to start with basic financial services and to avoid too sophisticated products (equity). Need for hands-on involvement in company to monitor progress and secure investment.</i>
Follow up	<i>Open to consider business opportunity in the North</i>

## Overview

Organisation	<i>TBLMirror Fund</i>
Meeting	<i>29th of October</i>
Contact	<i>Eline Blauboor</i>
Position	<i>Fund Manager</i>
Fund structure and board	<i>Individual investors (the Netherlands);</i>
Fund size	<i>N/A</i>
Management	<i>Individuals appointed by board of investors</i>
Description	<i>Private Equity fund with limited life of 10 years setup in Mauritius. Started operation in Kenya in 2009</i>
Target clients	<i>SME in all sectors other than real estate &amp; tourism</i>

## NK and ASAL related activities

### Product description

Products and services	<i>Equity and quasi equity Investments</i>
Eligibility	<i>Entrepreneurial commitment; With a good exit potential in 5 to 7 years with significant commercial and development returns; Comply with ethical norms, have a good environmental policy and labor conditions; all sectors except tourism &amp; real estate</i>
Investment/Commitment size	<i>between USD 100,000 and USD 1million, preferably USD 500,000 to USD 1million</i>
Interest rate and fees	<i>N/A</i>
Terms and conditions	<i>board representation</i>
Other specific features	<i>Fund investors are actively involved in companies; joint development of strategies; act as advisors to the management of the companies;</i>

### Other features

Management, financing, Information management etc	<i>Investors of the TBL Mirror Fund are private individuals with a wide variety of industry backgrounds, from CEOs of large multinationals, to seasoned entrepreneurs and experienced venture capitalists.</i>
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## Conclusion

Assessment	<i>Relatively small fund with well selected investments in sophisticated companies. Four deals closed since 2007.</i>
Conclusion	<i>Specific feature of the fund is the strong involvement of fund manager with investees. (Equity investment may only be relevant for a small percentage of the market, i.e. companies with well developed management structures who welcome strong external party involvement in strategic decisions (may not be the case for most family run enterprises). Eline raised the question whether NKIF would need to be manage equity or whether it should rather be outsourced to an existing fund manager (e.g. provision of zero rate credit line to PE Funds).</i>
Follow up	<i>Eline helpful resource person</i>

## Overview

Organisation	<i>Africa Enterprise Challenge Fund</i>
Meeting	<i>Andre Dellevoet, AECF Manager</i>
Date	<i>11th November 2009</i>
Fund structure and board	<i>Hosted by AGRA, funded by The Consultative Group to Assist the Poor (CGAP), DFID, International Fund for Agricultural Development (IFAD), and the Netherlands Ministry of Foreign Affairs. Investment Decisions are made by an investment committee (1 AGRA representative, private consultants)</i>
Fund size	<i>USD \$50 - \$100 Million</i>
Management	<i>KPMG Development Services Ltd.</i>
Description	<i>A private sector fund who's aim is to encourage private sector companies to compete for like-for-like investment support for their new and innovative business ideas</i>
Target clients	<i>The AECF (the "fund") is a competition, open only to for-profit private companies which have, or intend to, start business enterprises in Sub-Saharan Africa in the field of agriculture, agri-business, rural financial services and media and information services to these sectors.</i>

## NK and ASAL related activities

### Product description

Products and services	<i>Grants or zero interest loans</i>
Eligibility	<i>Agri-business with at least 2 years of audited financial statements or clear evidence of the capacity to implement a project. Criteria include: No of beneficiaries, innovation, systemic change potential</i>
Investment/Commitment size	<i>US\$ 250,000 to US\$ 1.5 Million</i>
Interest rate and fees	<i>Zero interest loans</i>
Terms and conditions	<i>Selection focused on projects rather than companies. Successful applicants are expected to contribute a minimum of 50% of the total cost of the project, and 40% of the amount requested from AECF in the case of the FSW. Applicants may associate with non-private sector clients (e.g. NGOs, Farmers' Association etc).</i>
Other specific features	<i>Is setup as a competition where fund are granted to the most innovative proposals that are judged to have the greatest impact on the largest number of rural poor people. 5 windows (created based on interest of specific donors): Tanzania, Zimbabwe, Common Agriculture Development Programme, Research into Business; Renewable Energy &amp; Adaptation to Climate Change REACT. Several rounds for call for proposal =&gt; increase competition between projects</i>

### Other features

Management, financing, Information management etc	<i>Setup as a continental fund, AECF has local partner organizations in various countries to help with fund management.</i>
TA Facility	<i>No TA facility so far. Pre-investment TA facility considered for NEPAD window but aware of a conflict of interest between TA and financing function =&gt; separation by contracting out to a TA provider</i>

## Conclusion

Assessment	<i>Response to request for proposals was significant. Assessment of AECF will depend on the long term sustainability of supported projects. Crowding out private investments? AECF works in areas that private investment has not and would not occur easily (agriculture finance etc)</i>
Conclusion	<i>Such a fund relies fully on donor/cheap money =&gt; whether this has made a difference/sustainable will only show in 5-10 years. If NKIF was private organisation, it may be able to obtain grant money (e.g. InfraCo received funding for market infrastructure in Rift Valley); Windows that reflect different donors/investors interests;</i>
Follow up	<i>Andre is very interested to keep in touch.</i>

## Overview

Organisation	<i>Africa Seed Investment Fund</i>
Fund structure and board	<i>The Alliance for a Green Revolution in Africa (AGRA)</i>
Fund size	<i>USD \$12 Million</i>
Management	<i>African Agricultural Capital - Investment Manager</i>
Description	<i>To provide affordable and flexible risk capital to seed companies operating in agriculture value chains in eight countries in eastern and southern Africa</i>
Target clients	<i>Invest in businesses (smallholder farms) principally engaged in the provision of seed or vegetatively propagated products for delivery to markets within East Africa, Ethiopia, Malawi, Mozambique, Zambia and Rwanda</i>

## NK and ASAL related activities

### Product description

Products and services	<i>Equity participation, term loans or tailored quasi-equity instruments Need to satisfy:</i>
Elegibility	<i>Enterprise Criteria including market growth, production advantages, and stable prices Performance Criteria including good track record, entrepreneurial management team, good growth plan Development Criteria including job creation, economic impact, and no adverse environmental impact</i>
Investment/Commitment size	<i>\$150,000 +</i>
Interest rate and fees	<i>N/A</i>
Terms and conditions	<i>N/A</i>
Other specific features	<i>ASIF's target beneficiaries are poor farm families. ASIF expects to achieve a demonstrable and measurable positive impact on poverty alleviation in the region, primarily through increasing household income levels, either through direct employment creation or through linkages to smallholder farmers.</i>

### Other features

Management, financing, Information management etc	<i>Recognising that a number of early-stage seed businesses may not be eligible for investment under the proposed investment criteria fund has earmarked up to \$1 million for small investments of between \$50,000 and \$150,000, specifically for capital investment in small (normally early-stage) businesses with high potential</i>
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## Conclusion

Assessment	<i>N/A</i>
Conclusion	<i>NKIF may adopt a similar strategy of providing risk capital to small and early stage businesses in order to propel entrepreneurship in the region. Targeting a specific industry may also be a model to consider for NKIF.</i>
Follow up	<i>N/A</i>

## Overview

Organisation	<i>REGMIFA Microfinance Fund for Africa</i>
Fund structure and board	<i>Funding partners: German Ministry for Economic Cooperation &amp; Development (BMZ), IFC, Netherlands Development Finance Company, Oesterreichische Entwicklungsbank (OeEB), KfW, European Investment Bank. An Advisory Council with 'African' independent local stakeholders (e.g. central banks). Structured on the basis of several classes of investors with different levels of risk taking and rewards: first loss tranche (C-Shares) funded through donor grants, mezzanine tranche (B-Shares) financed by DFIs and IFIs and senior tranche (A-Shares), partly by DFIs and IFIs and remaining shares open to attract commercial investors.</i>
Fund size	<i>USD 200 Million in 5 years, closing expected in 2009</i>
Management	<i>ConCap (split off from Frankfurt School) is providing pre-closing management services</i>
Description	<i>Dedicated microfinance investment fund with pan-African exposure and a technical assistance facility to support capacity building initiatives in its partner institutions. Focus on refinancing of MFIs.</i>
Target clients	<i>Microfinance institutions, downscaling banks and other relevant micro &amp; small enterprise finance actors serving micro-entrepreneurs and SMEs. Regional fund for Africa.</i>

## NK and ASAL related activities

### Product description

Products and services	<i>Medium to long-term debt financing and Mezzanine Financing with an emphasis on local currency lending</i>
Eligibility	<i>Commercially viable and preferably smaller MSME lending intermediaries in all Sub-Saharan Africa (MFIs). Focus on small promising MFIs to make them attractive for fully commercial private sector investment.</i>
Investment/Commitment size	<i>N/A</i>
Interest rate and fees	<i>Market Rates 'lending will be at rates observing the local market environment and at a competitive level</i>
Terms and conditions	<i>N/A</i>
Other specific features	<i>Aligned with its development goals, the fund will observe the principles of sustainability and additionality combining public mandate and market orientation. Emphasis on 1) extending the tenors of funding and 2) denominating exposures in local currency and/or providing appropriate exchange rate risk solutions. Exchange risks to be hedged, for example, with recently launched TCX Fund and exchange losses to be covered by first loss cushion (tranche C).</i>

### Other features

Management, financing, Information management etc	<i>Complex capital structure allows the fund greater flexibility to vary the duration and return of its investments. Equity provided by Donors/Govt agencies Mezzanine provided by DFIs and IFIs Senior Notes provided by commercial investors (at a later stage)</i>
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## Conclusion

Assessment	<i>Newly setup</i>
Conclusion	<i>Set up as corporate legal entity offering shares in three types of risk tranches tailored to profile of financial institutions. Private fund management (even though CapCon only has one more reference project, EFSE).</i>
Follow up	<i>More information could be obtained through KfW director in Nairobi, if needed</i>

## Overview

Organisation	<i>KIBO Fund</i>
Meeting	<i>29th of October</i>
Contact	<i>Josep Oriol</i>
Position	<i>Fund Manager</i>
Fund structure and board	<i>CIEL Group, International Development Bank of Netherlands, FMO, DEG, Anglo-Mauritius Assurance Society, IBN &amp; National Pension Fund. Cielgroup is owned by a Mauritius based family.</i>
Fund size	<i>Euro 28.9 Million</i>
Management	<i>CIEL Capital Limited</i>
Description	<i>Private Equity fund with limited life of 10 years setup in Mauritius. Started operation in Kenya in 2009</i>
Target clients	<i>Tourism, Banking, Telecommunications, Energy, Property &amp; Agro Industry in Southern and Eastern Africa</i>

## NK and ASAL related activities

### Product description

Products and services	<i>Equity Investments</i>
Eligibility	<i>Expansion stage projects; ideally established companies.</i>
Investment/Commitment size	<i>Typically between USD 500,000 and USD 2million</i>
Interest rate and fees	<i>N/A</i>
Terms and conditions	<i>Minority stake with strong protection rights, exit less than 10 years</i>
Other specific features	<i>Kibo Fund client has access to global CIELGROUP structure; relevant for exit strategy</i>

### Other features

Management, financing, Information management etc	<i>Part time manager appointed since 2009. Fund manager otherwise involved in Conservation Capital, an investment banking &amp; Consulting outfit linked to the Northern Rangeland Trust in Laikipia (Ian Craig, Jonathan Moss, Giles Davies). There are plans to launch Conservation Capital as a private regional fund early 2010 focusing on investment in conservation projects in East Africa. Target investors: conservation philanthropists and other environmental investors. RoE may be lower than purely commercial funds but still designed to be attractive to private investors. Appreciates that projects in conservation require an active investors, who contributes to developing projects. Professional fund management required (approx 2 %).</i>
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## Conclusion

Assessment	<i>Kibo Fund just being set up, Conservation Capital not established.</i>
Conclusion	<i>Common ground with Conservation Capital regarding concerns to balance financial and environmental objectives</i>
Follow up	<i>Josep Oriol good resource person for this project through his involvement with Conservation Capital.</i>

<b>Overview</b>	
Organisation	<i>AfriCap Microfinance Investment Company</i>
Fund structure and board	<i>ACCION International, AFRICAP Sweden (SIDA), Blue Orchard Finance, CALMEADOW, Calvet Foundation, EIB, FINNFUND, FMO, GRAYGHOST fund, IFC, Nordic Microcap Investment, NORFUND, Swedfund, Hivos-Triodos Funds</i>
Fund size	<i>USD \$50 Million</i>
Management	<i>AfriCap Investments based in Johannesburg</i>
Description	<i>Fund mandated to invest in microfinance institutions and financial services dedicated to serving the low-income segment of the African market</i>
Target clients	<i>Microfinance institutions and microfinance related institutions micro-insurance, low-income housing, micro-leasing and money transfers across Africa</i>
<b>NK and ASAL related activities</b>	
<b>Product description</b>	
Products and services	<i>Equity, quasi-equity and debt where it enhances existing equity positions</i>
Eligibility	<i>Organizations committed to commercial viability who are dedicated to serving those excluded from traditional financial services</i>
Investment/Commitment size	<i>Aggregate exposure of \$1.5 Million per investment with equity stakes ranging from 15% - 30%</i>
Interest rate and fees	<i>N/A</i>
Terms and conditions	<i>N/A</i>
Other specific features	<i>Technology Assistance Package for capacity building structured through the AfriCap managed grant fund: Technical Services Facility. In addition AfriCap has developed certain proprietary tools (e.g. a Microfinance strategy framework) that are made available to all investees</i>
<b>Other features</b>	
Management, financing, Information management etc	<i>AfriCap assumes the position of active minority investor, always taking a seat on the board and playing a proactive governance role</i>
<b>Conclusion</b>	
Assessment	<i>AfriCap managed to recapitalize and has invested in 20 different microfinance institutions across Africa. Its first fund, AfriCap Microfinance Fund, produced an IRR of 15% to investors and served about 370,000 borrowers and 2 million savers through its portfolio companies</i>
Conclusion	<i>N/A</i>
Follow up	<i>Need for further research, follow up interview with contact person</i>

**Overview**

Organisation	<i>Health in Africa Fund</i>
Fund structure and board	<i>IFC, African Development Bank, Bill &amp; Melinda Gates Foundation, DEG</i>
Fund size	<i>USD \$100 - \$120 Million in 2 years</i>
Management	<i>Aureous Capital</i>
Description	<i>Fund investing in small- and medium-sized companies in sub-Saharan Africa, such as health clinics and diagnostic centers, with the goal of helping low-income Africans gain access to affordable, high-quality health services</i>
Target clients	<i>Clinics, hospitals, diagnostic centers, labs, health management organizations, insurance companies, eye clinics, pharmaceutical chains, logistics companies, pharmaceutical and medical-related manufacturing companies; medical education; and providers of medical education in Sub-Saharan Africa</i>

**NK and ASAL related activities****Product description**

Products and services	<i>Long-term equity and quasi-equity investments</i>
Eligibility	<i>Socially responsible and financially sustainable private health companies with the aim of scaling up successful businesses, taking proven business models into new regions, and identifying and investing in areas where there are critical gaps</i>
Investment/Commitment size	<i>about 30 investments between \$250,000 - \$5 Million</i>
Interest rate and fees	<i>N/A</i>
Terms and conditions	<i>N/A</i>
Other specific features	<ul style="list-style-type: none"> <li>- <i>Fund will help implement key recommendations of IFC's landmark report, <i>The Business of Health in Africa: Partnering with the Private Sector to Improve People's Lives</i>, which found that the private sector already delivers about half of all health-related goods and services in Africa, and that greater investment in private health companies could have major health and economic benefits for low-income Africans</i></li> <li>- <i>The fund will be measured not only by fiscal performance but also by its ability to cultivate businesses serving the poor</i></li> </ul>

**Other features**

Management, financing, Information management etc	<i>Investments from IFC (\$20 million), the African Development Bank (\$20 million), the Gates Foundation (\$7 million), and DEG (\$10 million)</i>
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**Conclusion**

Assessment	<i>N/A</i>
Conclusion	<i>Defining fund performance measures other than financial returns may prove to be important driver of fund management and strategy</i>
Follow up	<i>N/A</i>

## Overview

Organisation	<i>Commonwealth Africa Investment Fund (COMAFIN)</i>
Fund structure and board	<i>CDC group, DBSA, Zimbabwe Reinsurance Corporation, Botswana Development Corporation, Mauritius Commercial Bank, Employees Provident Fund Malaysia, Brooketon Sendirian Berhad and Cencap Investments Singapore</i>
Fund size	<i>USD \$63.5 Million</i>
Management	<i>Comafin Management Ltd.</i>
Description	<i>Private Equity fund with the objective of providing risk capital to private sector businesses</i>
Target clients	<i>Businesses in Sub-Saharan Africa</i>

## NK and ASAL related activities

### Product description

Products and services	<i>Equity Investments and quasi-equity</i>
Eligibility	<i>Entrepreneurial SMEs with less than 100 employees, sales not exceeding US\$5 million and gross assets of less than US\$3 million</i>
Investment/Commitment size	<i>US\$1 Million to US\$6 Million with equity stakes of 10% - 40%</i>
Interest rate and fees	<i>N/A</i>
Terms and conditions	<i>Nominate a director or an investee company's board and invest alongside other committed shareholders</i>
Other specific features	<i>N/A</i>

### Other features

Management, financing, Information management etc	<i>Focusing on business expansions, restructurings, management buy-outs or buy-ins, privatisations</i>
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## Conclusion

Assessment	<i>N/A</i>
Conclusion	<i>N/A</i>
Follow up	<i>Need for further research, follow up interview with contact person</i>

## Overview

Organisation	<i>ECOWAS Regional Development Fund</i>
Fund structure and board	<i>ECOWAS Bank for Investment and Development</i>
Fund size	<i>\$500 Million</i>
Management	<i>Self-Managed by team of appointed professionals</i>
Description	<i>Fund focuses on the public sector, particularly financing basic economic infrastructure and poverty alleviation projects</i>
Target clients	<i>Basic infrastructure projects and economic and social projects in ECOWAS member states</i>

## NK and ASAL related activities

### Product description

Products and services	<i>Primary focus on medium to long-term concessionary loans, May provide equity</i>
Eligibility	<i>Basic infrastructure; microfinance; health; education and professional training; rural and semi-urban development and environment</i>
Investment/Commitment size	<i>N/A</i>
Interest rate and fees	<i>N/A</i>
Terms and conditions	<i>Loans with duration between 10 - 20 years with grace period on principal of between 4 - 7 years - Implementing ECOWAS special projects and Funds</i>
Other specific features	<i>- Resource mobilization and equity stakes in commercial, financial and industrial firms - Financing of feasibility studies</i>

### Other features

Management, financing, Information management etc	<i>A subsidiary of ECOWAS Bank for Investment and Development</i>
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## Conclusion

Assessment	<i>N/A</i>
Conclusion	<i>N/A</i>
Follow up	<i>N/A</i>

## Appendices

- Appendix 1: Mapping of financial institutions
- Appendix 2: Mapping of investment funds
- Appendix 3: Results of business meetings/roundtable discussions
- Appendix 4: Minutes of symposium on 1<sup>st</sup> of December 2009

## Overview

Position	<i>CEO</i>
Industry/Sector	<i>Petroleum distribution</i>
Home Town	<i>Wajir</i>
Company Present in Region	<i>No</i>
Organisation / Business Description	<i>Fuel importer and distributor with retail outlets across East Africa, Rwanda and Zambia. Over half of the retail outlets are located outside of Kenya</i>

## NK and ASAL Potential Business Activities

Region Overview	<i>N/A</i>
Business Opportunities	<ul style="list-style-type: none"> <li>- Potential for Slaughterhouse, Meat processing and Milk Processing (i.e. industries that are based on livestock)</li> <li>- Hass would consider adding fuel stations and create distribution business in North once roads are built from Lamu to Sudan, Ethiopia</li> </ul>
Percieved Constraints	<ul style="list-style-type: none"> <li>- North East has a poor purchasing power and cannot afford many products limiting the potential market for businesses (need to concentrate on encouraging small scale entrepreneurs to put more shillings in more peoples hands before larger businesses can come into the market)</li> <li>- Lack of education and leadership of people to promote businesses, group people, encourage development</li> <li>- Hass finds opportunities in other areas of the country/other countries are easier to undertake and provide higher returns than investments in North</li> </ul>
Potential Interventions	<i>N/A</i>

## Conclusion/follow up

Overall Outlook	<i>Optimistic that there is potential for the petroleum business once trade routes and supporting road infrastructure can be established with bordering countries in the North</i>
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## Overview

Position	<i>Vice Chair Isiolo Chamber of Commerce / Entrepreneur</i>
Industry/Sector	<i>Livestock</i>
Home Town	<i>Wajir</i>
Company Present in Region	<i>Yes</i>
Organisation / Business Description	<i>Currently engaged in the livestock trading business and commodity trading. Owns and trades livestock out of Isiolo. Currently the Vice Chair of the Isiolo Chamber of Commerce on a voluntary basis and has a good understanding of the area. In 1978, wanted to setup an abattoir in Isiolo but was unable to secure financing for this project from govt. sources</i>

## NK and ASAL Potential Business Activities

Region Overview	<ul style="list-style-type: none"> <li>- Livestock is the backbone of the economy in the region</li> <li>- Small scale commodity trading exists</li> <li>- Small scale subsistence farming also exists</li> <li>- Govt. parastatals such as KMC used to have a ground presence in the North but have all pulled out</li> <li>- Opportunity to modernize livestock industry – Hussein is currently putting together a project to build feed locks</li> </ul>
Business Opportunities	<ul style="list-style-type: none"> <li>- Need to modernise livestock market structure in order to create development</li> <li>- Development of cottage industries</li> </ul>
Percieved Constraints	<ul style="list-style-type: none"> <li>- Skeleton HR and other resources provided by govt. institutions in the region – e.g. if you want to register land, you have to come all the way to Nairobi to do it, there are no facilities to do it up there</li> <li>- Often govt. officials are posted there from other parts of the country and have no interest/experience dealing with the people</li> <li>- Problems of land ownership is a significant factor affecting investment in the region– No title deeds for lands</li> <li>- Lack of electricity and other basic infrastructure hampering development i.e sewage systems, water systems</li> <li>- County councils do not recognise the power of private sector as a development partner and therefore do not attempt to provide added assistance</li> <li>- Sees cost of financing from traditional sources to be too high to merit investment</li> <li>- Corruption is also a key problem</li> <li>- Key players in industry are not in favour of changing market dynamics – i.e. if abattoirs were built in the north, and meat products were allowed to be exported from Wajir then livestock market dynamics would change with negative effect on those established businesses in other parts of the country relying on livestock from the North</li> </ul>
Potential Interventions	<ul style="list-style-type: none"> <li>- Entrepreneurs in the North need to be exposed to regional best practices (livestock and other industries) in order to develop their businesses</li> <li>- Believes development in the region is as simple as building a warehouse with power and water and renting the space out to cottage industries (entrepreneurs will naturally step-in once good facilities are available)</li> <li>- There is a need for money to conduct feasibility studies and research/ provide technical assistance to entrepreneurs</li> <li>- Potential to use existing Chambers of commerce as a vehicle to promote growth</li> </ul>

## Conclusion/follow up

Overall Outlook	<i>Believes several factors need to be addressed in order to spur economic development. Insists that any interventions be targeted toward the creation of cottage industries and use these as a building block to create larger industries. Feels that the focus should be on creating a good business environment and providing adequate support and the entrepreneurs will automatically step-up</i>
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## Overview

Position	<i>Entrepreneur</i>
Industry/Sector	<i>Various Businesses including Hotels, Real Estate, Cement</i>
Home Town	<i>Garissa</i>
Company Present in Region	<i>Yes</i>
Organisation / Business Description	<i>Local businessman from Garissa. Owns a hotel in Garissa which he says has been doing very well. Currently a shareholder in First Community Bank, and has various other businesses in Nairobi and Garissa including a real estate business</i>

## NK and ASAL Potential Business Activities

Region Overview	<ul style="list-style-type: none"> <li>- Garissa has experienced growth because it has become the focal point for Somali settlement in Kenya. Somalis in the diaspora consider Garissa as a 'home base'. NGOs working in and around Somalia also use Garissa as a base.</li> <li>- Good road to Garissa, Telecommunication infrastructure and close proximity to Nairobi and Somalia are reasons for its development as a center (road was completed about 10 years ago and the development of Garissa can be traced back to about 10 years ago)</li> <li>- Livestock industry is main business for a majority of the population</li> <li>- Garissa should be used as an example of how basic infrastructure transformed the town into a progressive center</li> </ul>
Business Opportunities	<ul style="list-style-type: none"> <li>- Potential for large scale agricultural businesses (Tana river is close by)</li> <li>- Transportation business is growing rapidly – over 40 passenger buses a day from Nairobi to Garissa</li> <li>- Potential for Independent Power Producers – Heavy oil/diesel power generation and Wind Power (Omar is currently working on a proposal to setup and independent Power Producer and is an advanced stage of the process)</li> <li>- Sees potential for grain milling business – viability depends on the access to stable power source</li> <li>- Potential for housing projects in Garissa. Somalis in the diaspora are looking to acquire land and properties for family living in Garissa</li> <li>- Potential for milk and yoghurt processing plants</li> </ul>
Perceived Constraints	<ul style="list-style-type: none"> <li>- Lack of electricity is the key stumbling block which is curtailing Garissa's growth – KPLC cannot meet demand and provides inefficient service.</li> <li>- Garissa produces ~3MW of electricity but has potential to consume between ~ 8-10MW</li> <li>- Difficulty in obtaining land ownership is a major constraint to investment. Title deeds are not available and process takes years to complete</li> <li>- Somali businessmen are very aggressive and interventions should be seen as adding value to their businesses rather than interfering</li> <li>- Does not consider financing as a constraint for large projects – noted that there are several Arab development institutions that he has contacted who are interested in supporting his projects</li> </ul>
Potential Interventions	<ul style="list-style-type: none"> <li>- Govt. should take the initiative to open up trade routes in the region – allow goods to be traded from Wajir and Mandera Airports. Goods imported from Arab countries can be landed and distributed in the region, significantly reducing costs. Potential for export of meat and milk products from directly from the region.</li> <li>- Legalize Somali border trade</li> <li>- Availability of Islamic financing is important to businessmen</li> </ul>

## Conclusion/follow up

Overall Outlook	<i>Very optimistic about the potential of the region and he believes that once Garissa has adequate power supply, the growth potential and business potential is immense</i>
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## Overview

Position	CEO
Industry/Sector	Tours & Travel
Home Town	Wajir
Company Present in Region	Yes
Organisation / Business Description	<i>From Wajir and currently runs a travel agency and forex bureau business in Nairobi and Mombasa. He has a Safaricom dealership which is located in Wajir and owns some land in his hometown on which they farm pumpkins, onions, tomatoes and sell at the local market</i>

## NK and ASAL Potential Business Activities

Region Overview	<ul style="list-style-type: none"> <li>- Access to get to Wajir is difficult</li> <li>- No flights from Nairobi to Wajir – although there is an airport</li> <li>- Less insecurity in the region</li> <li>- Trader import food from Garissa</li> </ul>
Business Opportunities	<ul style="list-style-type: none"> <li>- Potential for building conference facilities and lodging for use by govt. and NGO's (these institutions transport people all the way to NBI for conferences)</li> <li>- Potential for commercially viable educational facilities – he would invest in a school/college if he had the money</li> <li>- Sees potential for cement manufacturing business</li> </ul>
Percieved Constraints	- Lack of education and investment in education facilities hampering growth
Potential Interventions	N/A

## Conclusion/follow up

Overall Outlook	<i>Believes that the completion of a good road to Wajir is the only thing required for development to take place. Also places emphasis on the better usage of the airport will result in increased business opportunities</i>
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## Overview

Position	<i>Managing Director</i>
Industry/Sector	<i>Petroleum distribution</i>
Home Town	<i>Wajir</i>
Company Present in Region	<i>No</i>
Organisation / Business Description	<i>Fuel importer and distributor</i>

## NK and ASAL Potential Business Activities

Region Overview	N/A
Business Opportunities	<ul style="list-style-type: none"> <li>- Potential for low-cost housing in Garissa</li> <li>- Agriculture on the Ewaso Nyiro plains</li> <li>- Mining of limestone and cement production in Wajir</li> <li>- Security Concerns</li> </ul>
Percieved Constraints	<ul style="list-style-type: none"> <li>- Cannot secure financing without high collateral obligations</li> <li>- Low demand capacity of people in the area</li> </ul>
Potential Interventions	<ul style="list-style-type: none"> <li>- Establishment of viable projects as an example to provide the people with exposure and new knowledge</li> </ul>

## Conclusion/follow up

Overall Outlook	<i>Optimistic that there is potential for the region to become a leader in agricultural output particularly in the Ewaso Nyiro Plains</i>
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## Appendices

- Appendix 1: Mapping of financial institutions
- Appendix 2: Mapping of investment funds
- Appendix 3: Results of business meetings/roundtable discussions
- Appendix 4: Minutes of symposium on 1<sup>st</sup> of December 2009

## **Welcome Address**

The meeting began with an introduction from Mr Farid Mohamed of Pipal Limited. The Permanent Secretary, Ms. Mary Ngari also gave a vote of thanks by way of introduction. She then underscored the regions potential, and emphasized the role of the Ministry as a coordinating vehicle to ensure development in Northern Kenya. She also mentioned that there was political will to push the Ministry's agenda and welcomed suggestions from the participants.

## **Presentation by Hon Mohamed Elmi: Minister for the Development of Northern Kenya and other Arid Lands.**

The Minister for Northern Kenya and other Arid Lands Hon. Mohamed Elmi then began his presentation by noting the lack of infrastructure in the region, citing various examples such as lack of a high court to enable speedy dispute resolution, as well as lack of a good road network. The absence of a national grid was also noted. He gave an example of how marginalization of the region had been perpetuated, an example being the Road Development Budget of 50 billion shillings as well as the Road Repair Budget of 10 billion, where in both instances there was no allocation for North Eastern Province. A lack of information was mentioned as one of the factors contributing to marginalization and he gave an example where the Ministry of Fisheries' design criteria was flawed due to lack of knowledge of existing water bodies in the region.

The Minister underscored the need for investment in this region, by describing its vastness. With a population of more than a hundred million people, and more than 50 investment opportunities in various sectors, with 20 of these already earmarked for feasibility studies, the development of this region would play a vital role in uplifting the country's economy.

He also noted some challenges, key being the high investment cost without infrastructure development, coming to approximately 50 million shillings for the region.

The Minister described some of the available resources, which were provided key investment opportunities as follows;

- Livestock
- Renewable Energy
- Dryland Products
- ICT services
- Tourism

He mentions that the uniqueness of the region should not be a hindrance, but should be embraced positively as diversity, which would provide different sources of revenue for the region.

The minister also highlighted the role of the newly formed Ministry as transitory i.e. to amplify the work of the government, and that a transformational agency would be set up to replace the Ministry as a lasting institution.

The Minister also highlighted key developments currently being undertaken in the region:

- The creation of a second corridor to open up Northern Kenya.
- The port of Lamu is also under development, with feasibility studies in the pipeline.

Other proposed development measures included the development of Isiolo as a resource city, to ensure sustainable development, and to act as a gateway to the region, as well as the development of ICT to a suitable degree keeping in mind that most services in the region are centralized. As an example, teleconferencing could be used for businesses.

The Minister also encouraged the private sector and businessmen to form partnerships that would encourage forward thinking & hence development.

### **Presentation by Anja Koenig: Consultant**

The second presentation was done by Anja , who mapped out the team's progress, highlighting key concerns of the institutions that the team had met so far, one of which was lack of information/ She noted that most investors claimed that they had not been approached for funds.

She also carried out a detailed analysis, highlighting various pitfalls of trying to design such an investment facility in different countries, from lack of proper research to conflict of interest in the case of fund managers. She noted the importance for the investors to understand the investment strategy, noting that it should be as concise as possible, so that the said objectives are achieved. The investment facility / vehicle, should be goal oriented to ensure that a specific target for which the fund is set up, is achieved. The North Kenya Investment Fund should therefore be assigned specific tasks, to avoid muddling or sophisticating duties.

Farouk (CARE) seconded this, noting that the need to avoid wastage of funds by development institutions was critical therefore proper design of the facility is vital. He also emphasized the need for cushions to ensure sustainability.

Biju (Acumen Fund) also noted the importance of encouraging entrepreneurship.

Another issue / obstacle to development that Anja pointed out through her presentation was land ownership, with substantial amounts of land being held in trust therefore hindering development.

Another observation was that the approach should not displace pastoral livelihoods, but should accommodate the culture of the people in the region.

### **Presentation by Mr Nathif Adam: CEO First Community Bank (FCB).**

Mr. Adam began his presentation by noting the commitment of First Community Bank to investing in the region. FCB has the largest presence in the region, and is driven primarily by people from the region, with a strong stake in ensuring development. The bank has branches in Garissa, Wajir, Habaswein, Masalani, Isiolo and Moyale.

He pointed out that the region is underdeveloped, not due to marginalization but neglect.

The various existing opportunities were highlighted, including:

- Livestock and related businesses
- Processing of dairy products such as camel milk
- Meat Processing including slaughterhouses,
- Hides and skins among many others

Other potential areas described were the domestic sector, including the manufacture of clothing, footwear and other personal items. On an industrial level opportunities exist in making car seats and furniture.

He also cited farming and related agri-businesses as another area with development prospects, as well as fruit and vegetable processing plants, and tourism.

Mr. Adam also described the development of First Community Bank, with a dedicated investments banking subsidiary currently being put in place (FCB Capital) as a mutual fund, which will provide an extensive product base both in terms of liabilities and assets. It would invest in sharia compliant products on behalf of its customers, and establish good links with the government and development agencies to foster development activities, especially in this region.

Mr Adam noted that First Community Bank could play a key role in development finance, as it is active in trade finance, housing finance. It also has a youth finance program, as well as a micro finance program in place.

The trade finance arm (musharaka) caters to start up businesses and there also exists Istisna a facility that finances housing projects.

He mentioned that the financing and implementation of investment activities could occur in conjunction with various partners including public government funds, private funding as well as Public Private Partnerships (PPP's).

Mr Adam described three development projects that FCB is trying to set up in the region, the first being the construction of a 'soko' land within the Garissa municipality, as well as BOT Sukuk, a local municipality toll roads system. Investment bonds would be bought as certificates, to be paid off with returns generated. FCB also intends to establish a pilot project; an integrated export oriented livestock center, financed with foreign funding. FCB will act as a security agent to hold project assets for foreign financiers. In summary Mr. Adam cited the way forward through the promotion of innovation, a problem solving orientation, learning from other communities and the willingness to test new ideas. He also emphasized that Kenyans should develop an entrepreneurial spirit.

For stakeholders, Mr. Adam noted that they have a key role in creating employment through generating self help income initiatives, and empowering the youth and women. In line with this, FCB has an investment development department, whose activities include investment finance, advisory services, as well as providing data and information on specific investment opportunities.

## **Question and Answer session**

The first question was on the cost of financing from FCB.

Mr Adam emphasized that FCB prefers to develop a partnership to ensure that funds are put to good use, and that profitability comes after assessment of the individuals' ability to put funds allocated to good use.

A certain level of comfort is provided based on sharia banking rules. Collateral is provided in the evidence of negligence or fraud, but FCB ensures a thorough background research is done prior to disbursement of funds.

The next question was directed to the Minister, regarding the status of power supply to the region. With demand currently exceeding supply, most participants sought to confirm if measures could be undertaken to ensure that this is boosted, through measures such as offering a separate tariff structure for off grid areas, as well as whether independent power generation could be undertaken.

The Minister noted that electricity supply was not properly liberalized in the country, and that quick infrastructure support through various means including Independent Power Producers would be a suitable option. He also noted the current development of a pilot project for the generation of renewable energy in Mpeketoni at the coast.

## **Comments**

Farouk (CARE) noted the importance of carrying out feasibility studies, as well as determining the impact of financial instruments on the development of Northern Kenya, to be used as a means of leveling the playing field.

He also mentioned the need to leave a low carbon footprint, in line with the upcoming Copenhagen talks, by means including the use of solar (disruptive innovation) rather than leaving the task of power supply solely to the government.

The need for a customized incentive scheme for high-risk areas such as Northern Kenya was also highlighted. Noted features include tax holiday and feed in tariffs.

The water situation was also discussed, with the construction of dams being cited as a method of reducing shortages. Capacity building, including putting up water pumps was also emphasized.

To ensure that the project economics are feasible, it was suggested that subsidies be incorporated, such as subsidizing capital expenditures to ensure low project costs. It was also suggested that the local water services board (North Water Services Board) work in partnership with the local community to ensure self-sustainability. To ensure proper use of water for farming purposes, it was agreed that the government would identify farm areas suitable for cultivation.

On the issues of financial products, it was recommended that an incubation period be set aside to allow development of enterprises, as well as tax holidays for management specialists and sector based allowances as some of the incentives to be provided. On the issue of sustainability of subsidies, it was noted that they should not favor one institution over another.

The meeting came to a close with a vote of thanks from the facilitators.