The Journey Continues: Investing with an LGBTQIA* Lens in Kenya

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We started investigating a potential investment initiative in Kenya in October 2022 when we met with LGBTQIA* entrepreneurs and civil society organisations in Nairobi to discuss economic inclusion.

Even though the pressure on queer communities didn't seem to be all that high at the time, there was some nervousness around coming together in this way, especially considering that we wanted to engage with an audience that went beyond the usual civil society organisations.

Feedback from the meeting made it clear that access to affordable finance is very limited, with few entrepreneurs able to obtain bank loans and/or receive technical support to develop their business. As in all the other countries we are currently investing in, "mainstream" programmes don't seem to be accessible for underserved communities.

As we were launching the design phase of the investment pilot, Uganda passed its Anti-Homosexuality Act, and similar legislation

was being discussed in Kenya. The environment turned decisively hostile. That was a real test for us as well as our partners on the ground. We had to fundamentally rethink the way we talk about and reach the communities we are looking to support. The safety of the people involved became our top priority.

Our Kenyan investment partner organised various roundtables to gain further insights into the needs and challenges of LGBTQIA* entrepreneurs and work out the best design for the investment pilot. Instead of an open call for applications, we enlisted local "connectors" from the communities (including participants at the roundtables) to help spread the word. The language and imagery on the application website were distinctly inclusive, albeit without specifically naming LGBTQIA* as the target audience.

Applications remained open for four weeks, with our investment partner offering Q&A sessions, support via email, and one-to-one video calls to help people through the process. Contrary to the publicly available information, the application questionnaire that entrepreneurs had to fill in made it very clear who our target audience was. In the end, 44 businesses applied for financing: 25 were LGBTQIA+ owned; ten employed members from the communities; and nine targeted and served LGBTQIA+ communities. Eighteen businesses were invited to present to a panel of community and investment experts, with nine being selected to go through a more formal due diligence process. Five businesses were paired with a financial modelling expert to develop detailed historical and forecast financials as well as to determine the businesses' debt capacity based on their future plans. In the end, four businesses (9% of the 44 that applied) received financing between USD 6,000 and USD 14,000.

Key learnings

The following presents our key learnings from our LGBTQIA* lens investment initiatives across Kenya, Mexico, Poland, Romania and South Africa. We use Kenya to illustrate the various points as it is our most recent initiative, but the learnings apply equally to the other countries we are currently investing in—always bearing in mind some contextual differences. In all the countries we invest in, we

work with a *local* investment partner, as we are convinced that proximity to markets and local insights and know-how are paramount for building a sustainable infrastructure.

Enthusiasm doesn’t equal investment opportunity

Levels of enthusiasm among the communities, local partners and other stakeholders are typically very high when they learn about our investment initiative. However, across all the areas where we are investing, we have found that the needs are just as diverse as the queer communities themselves. While many of the applicants have years of experience running an informal business, for the majority of the entrepreneurs this is the first time they have interacted with a financing provider and gone through an application process. Most businesses would not be able to afford a loan at commercial rates, so a concessional structure needs to be developed. Also, our investment partners must be flexible and have the infrastructure to administer different types of products. All of that means the process requires time, patience and a willingness from all parties to do a lot of iterating and fine-tuning.

This can result in stakeholders feeling deflated (luckily, not our investment partners) and short-changed, as they initially had such high hopes that ultimately weren’t met. We were equally disillusioned when we first started doing this work, as the need for access to financing didn’t seem to reflect the investment opportunities we were able to identify. One key thing we have learned since is that there is a universal lack of infrastructure.

While most countries we operate in today have thriving start-up ecosystems, structural and societal barriers usually make these inaccessible to underserved communities. Combined with limited investment in economic inclusion programmes for marginalised groups, this gives a very different starting point for LGBTQIA* entrepreneurs. An infrastructure to support underserved entrepreneurs along their journey needs to be built from the ground up first so that new ecosystems can flourish, gradually creating a sustainable pipeline of investment-ready businesses (more on this here). That also means it will take years to get to that point and the timeline must be designed from a systems change perspective if the infrastructure is to be sustainable.

Navigating the informal sector can be tricky

Many businesses that apply are unregistered and operate in the informal sector. Some of them want to formalise their activities but they lack knowledge of how to go about the process, while others are actually unable to do so. For entrepreneurs whose gender doesn't reflect the gender they were assigned at birth this may, depending on the context and regulatory environment, be an insurmountable challenge.

An additional factor that is often underestimated is the fact that informal entrepreneurs (and in some cases formal ones as well) tend to mix their personal and business finances. This poses a challenge when assessing the business's credit risk. Luckily, in the case of Kenya (and Mexico) we have alternative credit scoring methodologies to complement the traditional ones.

Lastly, there is a regulatory aspect that should not be overlooked. Lending to informal businesses is akin to lending to a private individual, i.e. basically a consumer loan. In most countries, consumer loans are highly regulated and have different oversight rules than loans to legal entities. While we fully appreciate the need for a solution, the regulatory environment may not always be conducive to providing one. We are lucky to have financial partners by our side who are able to structure loans to informal businesses, but this may not always be possible in all countries.

Start small and grow from there

We had initially earmarked significant capital to be deployed across the various investment initiatives. However, given the lack of infrastructure, our pace of deployment has been a lot slower and has led us to adjust our strategy to a much broader, longer-term approach. In addition to investment capital, we are now supporting the build-out of infrastructure so that new ecosystems can develop, since the existing ones seem to be inaccessible for LGBTQIA* communities.

The case in Kenya exemplifies perfectly what we are seeing across numerous countries: the single biggest challenge for most of the 44 businesses that applied was providing financial records. Thirty-three of them (!) were not able to produce records that would have allowed

us to do some sort of a credit analysis. In an ideal world, there would have been an existing infrastructure that these businesses could have turned to for support.

Associated with the limited data and insights regarding the financial side is the businesses' lack of ability to right-size the loan amounts. Most entrepreneurs apply for significantly larger "tickets" than their businesses could sustainably absorb, even assuming that they manage to expand by employing that capital. The original amounts requested from the four businesses that did receive financing ranged from USD 20,000 to USD 32,000 whereas the loans extended by our local investment partner were only between USD 6,000 and USD 13,000. The financial modelling exercise with the support of an expert is therefore a real eye-opener for the entrepreneurs and is typically the first time they gain immediate experience of analysing their financials.

Look beyond traditional collateral and loan structures

None of the businesses that applied had previously received a loan from a lending institution. In some cases, they have or had had some personal credit card debt in arrears or were behind with their personal taxes—all of which impacts on the entrepreneurs' credit rating within the formal credit system. They also universally lacked traditional collateral, such as real estate, to secure their loans. However, formal lending institutions generally ask for collateral when dealing with micro, small and medium-sized enterprises (MSMEs). What we are witnessing is real-life experience of the MSME financing gap, known as the "missing middle". It comes as no surprise that the financing gap in Kenya alone is estimated to be in excess of USD 19 billion.

If we want to improve access to financing, we need to find alternative ways of dealing with unsecured loans. This could be done through guarantee schemes, alternative credit analysis, special guidance through mentorship and training, or financing structures (e.g. interest rate, tenor) tailored to the reality of MSMEs. Applying traditional methodologies will not solve the problem.

In the case of the pilot in Kenya, we and our financial partner opted for slightly lower loan amounts than what the business might

actually have been able to take on, in order to give them a chance to establish a track record and credit history. The tenor of the loans awarded was 48 months—significantly longer than any SME loan products—and priced at 7.5% (about 50% of current market rates), with no other fees. We also incorporated a six-month grace period on interest and principal repayments to allow the businesses to use the capital to expand before they have to start repaying.

Trust and community matters

Underserved communities are notoriously difficult to reach. The communities are diverse, with different, sometimes competing, priorities and agendas. Establishing inroads into the communities and earning their trust takes time. Traditional social marketing strategies may fall short and in some cases even put people at risk. Better results will be yielded by a more targeted approach of working with a range of connectors who reflect the diversity of the communities and can help spread the word through their channels.

The need for safe spaces where people can feel free to share their experiences and have the confidence to speak their mind is clearer and more urgent than ever. There are very few platforms and networks today—in most cases actually none at all—where entrepreneurs from LGBTQIA* communities can get together, share experiences, seek advice and learn from each other. It typically takes very little to change that, but there needs to be somebody to organise the space and facilitate the exchange—in person or virtually.

Finding and working with value-aligned partners who are willing to invest the time and resources to build deep relationships with LGBTQIA* communities is paramount for long-term success. We had the greatest success with partners who had experience with iterating and constantly adapting to very dynamic environments, as the original plan will inevitably continue to change and evolve. We are very fortunate to have found such partners.

In the early stages of launching a new initiative, the outreach approach, the application process, the evaluation metrics and the product suite on offer have to be tailored to the needs of the business applying. At the same time, we have to find common denominators that will allow the programmes to scale up and grow.

Conclusion

The lessons from Kenya and from our initiatives in other countries underscore the need for flexible, patient, and context-specific approaches that effectively support underserved entrepreneurs. A combination of blended finance solutions and building up the necessary supporting infrastructure has shown to be the most effective approach. By continuing to adapt and refine our strategies we aim to create sustainable ecosystems that empower LGBTQIA* businesses and allow them to thrive.