Gatsby Africa

HIGHLIGHTS REPORT

2021-2022

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Introduction

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The last few years have confirmed the need for inclusive and resilient growth in East Africa. The socioeconomic fallout from COVID-19, the acceleration of climate change, and the ongoing conflict in Ukraine represent major risks for East Africa's development. In the context of a volatile global environment and rapid demographic growth, economies across the region will have to become more resilient against shocks and promote growth which generates meaningful opportunities – across the East African Community (EAC), roughly 6,000 young people are joining the workforce every day.

I am proud of the contribution Gatsby Africa (GA) is making at this challenging and exciting time. East Africa has vast potential, and in all of our sectors we are seeing real opportunities for transformation. This report provides an overview of these opportunities, the progress we have made so far, and our areas of focus moving forward.

While we have taken many steps forward, we remain at an early stage in our journey, much like our high-potential sectors. We set the bar high: rather than seek marginal gains, we aim to catalyse transformational growth in our sectors, capable of benefitting as many people as possible and being sustained long into the future. We know our sectors will need to be dynamic in order to adapt to the fast-moving economic landscape and manage the emerging risks. At GA, this is why we strive to enable competitive, inclusive, and resilient growth.

While COVID-19 continued to impact the operating environment last year, the organisation made strong progress and achieved several successes across the portfolio. For example:

- In aquaculture, our investment and technical support has helped large-scale pioneer firms as well as high-growth SMEs establish profitable business models, and this is serving to demonstrate the sector's viability in East Africa. The success of these firms has attracted the interest of financial institutions, and a significant investment in a new feed mill in Kenya is set to make all producers in the region more competitive. Moreover, we continue to make progress on addressing issues of biosecurity and environmental sustainability – and we are working closely with governments on their sector strategies and regulatory frameworks.
- In commercial forestry, the governments in Kenya and Tanzania are increasingly committed to moving forward with public-private partnerships (PPPs) on state or community land. In addition, we have supported the development and distribution of improved seed and high-performing hybrid clones; rolled out a holistic geospatial technology package which enables growers to plant the right trees in the right areas; catalysed advances in secondary processing (from an investment and technology perspective); and started to help the region move into higher value markets.

Over and above our ongoing work in our portfolio, I'm exceptionally proud of the progress we have made as an organisation over the past year. Indeed, last year was a significant year for us, as we refreshed our strategy and formally integrated with our long-term partners Kenya Markets Trust (KMT) and Msingi. With all our exciting programmes and talented staff housed under one roof, I feel more confident than ever that we are set up for success.

As well as being able to invest more in our portfolio, we can now extract and share the learning from a wider array of sector programmes, which we hope governments across the region will continue to find useful as they seek to deliver inclusive growth. We are now building additional capacity in this area so we can engage more effectively with the public sector and help stakeholders navigate the complexity and capitalise on the opportunities.

We are taking deliberate action as we seek to become a best-in-class learning organisation, capable of learning from our work on the ground and drawing on the experiences and insights of others. As an integrated organisation, we now have the capacity to reflect on different approaches to sector transformation and - in turn - become a leading organisation in its delivery.

As an organisation with a footprint across East Africa, we are now in a strong position to assess the regional and national dynamics in our sectors and intervene where we see the greatest opportunity. Indeed, the value chains of our sectors typically operate across borders. Therefore, in addition to engaging at a country-level on issues of policy, we will increasingly engage at a regional-level on issues such as investment, recognising how some institutions will only countenance deals at that scale.

Going forward, we believe we are in a better position than ever to partner with governments, the private sector and development actors and demonstrate sector transformation in East Africa. I hope you enjoy the report and – as ever – we welcome comments and conversations about possible areas of partnership and shared learning.

Justin

AGRICULTURAL INPUTS

Achieving transformation in agriculture is fundamental to economic development and reducing poverty. The sector accounts for a third of the Kenyan GDP, employing 40% of the population and about 70% of the rural population.

An efficient agricultural inputs sector would boost yields and incomes for Kenya's four million smallholder farmers, improve soil health, strengthen resilience against climate change and strengthen the country's food security.

Agricultural productivity is dependent on the appropriate use of quality products and the best agricultural practices and services. A stronger inputs system in Kenya and across East Africa could help transform the agricultural sector and, by extension, the livelihoods of millions of smallholders who depend on the land.

THE OPPORTUNITY

While Kenya has seen limited progress in agricultural productivity in recent decades there are reasons to believe this could change. There is increasing intent from the Kenyan government to follow through on reforms in agriculture that will enable the private sector to flourish.

In addition, technological advances are easing supply constraints: mobile platforms are making it easier to communicate with farmers, mobile payment and trading systems are lowering transaction costs, and the digitisation of agriculture means data is now increasingly informing decision making.

POTENTIAL IMPACT

By 2030 – if Kenya improves the quality, access and affordability of agricultural inputs and raises the level of farmer knowledge – the country could:

- More than triple agricultural yields (e.g. increase smallholder maize yields from 1.8 MT/Ha to 6 MT/Ha)
- Ensure the agricultural sector can compete regionally, in terms of quality and price
- Move 2 million smallholder households from subsistence farming to commercial farming
- Increase smallholder incomes by at least $200 p.a.
- Increase agriculture's direct contribution to Kenya's GDP by 37% - and its indirect contribution by 27% through its linkages with other sectors in the economy
- Introduce innovations and promote farming practices that reduce soil degradation and acidity

THE JOURNEY SO FAR

We have worked in the agricultural inputs sector in Kenya since 2012, when the sector's growth was being inhibited by an array of factors, including a prevalence of counterfeit products; limited farmer access to quality products and information; weak farmer demand for agricultural inputs; a lack of appropriate credit solutions; an inefficient subsidy regime; insufficient public and private investment; and inadequate governance structures.

The team is committed to enhancing the market fundamentals for agricultural inputs and supporting the development of standards and advisory services. This will enable farmers to benefit from higher yields and incomes and build resilience in the face of climate change.

In support of the agricultural inputs sector in Kenya, the team has sought to:

- Demonstrate the benefits of – and increase access to – yield-enhancing technologies (e.g. granulated lime, crop-specific fertiliser and soil testing kits)
- Design and implement efficient quality control measures – and address the issue of product affordability
- Ensure farmers are aware of how to effectively use inputs as they gain access to them (e.g. via pilots of last-mile distribution and private extension models)
- Strengthen cross-sector coordination, governance, and dialogue

Over the last decade, the team's efforts have yielded significant shifts in the sector.

By supporting the introduction of scratch labelling technology, we have helped reduce the incidence of counterfeit seeds from 40% to 10% over a 10-year period. Historically, the pervasiveness of counterfeit products meant farmers bought poor quality seeds, endured weak yields, suffered from reduced income, and – ultimately – lost faith in the agricultural inputs market. Scratch-labels are serving to change this situation, enabling farmers to verify the provenance and quality of the seeds they buy in real time via text message.

In addition, the team supported a regulatory review which helped pave the way for self-certification and thereby reduce the lag time between production and distribution for seed companies. Previously, the lengthy delays effectively prevented quality seeds from reaching farmers in time for the planting season. By facilitating public-private dialogue on the issue and arranging an impactful learning visit to Zambia, the team enabled stakeholders to reach an agreement on greater private sector involvement in the process. As well as significantly reducing the burden on the regulator, certification now typically takes less than 14 days rather than 4-6 weeks and is underpinned by an automated system co-developed by the team and Trademark East Africa. This information management system has effectively digitised the certification process, which is creating operational efficiencies and enabling enhanced data management.

To increase the availability and quality of fertiliser, the team has partnered with the likes of Toyota Tshusho and Yara EA to introduce crop-specific fertiliser to address the issue of depleted soil nutrients. By supporting the development of a competitive fertiliser market, the team is aiming to increase the accessibility, affordability, and availability of quality and tailored products for smallholders. According to a study undertaken by the team, farmers increased their income by 20-30% as a result of switching to crop-specific fertilisers and more and more farmers are investing as they become aware of the product's economic advantages (see *"Highlights in FY21-22" for more info*).

A major and growing issue in Kenya, soil acidity affects as much as 65% of the country's arable land. In recognition of this, the team has partnered with firms such as Soil Cares, Quest Agriculture and Homa Lime to explore the benefits of soil testing and the application of granulated lime. In the case of lime, the market is relatively nascent in Kenya: less than 8% of affected farmers use lime on a regular basis, only a fifth of farmers have ever used the product, and just 4,000 MT of the 187,000 MT sold annually is granulated. However, the opportunity is vast, with the lime market expected to reach 300,000 MT over the next 5 years. In a small-scale pilot, the team helped deploy granulated lime on Kenyan soil and revealed how the

product dramatically increased maize yields (by 10 bags per acre) and incomes (by £160 per acre). To help further strengthen the investment case for granulated lime production in Kenya, the team then conducted an influential economic feasibility study and found that local production could reduce the product cost by 23%, create jobs and save foreign exchange (*see "Highlights in FY21-22" for more info*).

To improve how the sector is coordinated, we have helped the private sector engage more meaningfully with the public sector. The team has strengthened the capacity of the Seed Trade Association of Kenya (*see "Highlights in FY21-22" for more info*) and partnered with the State Department of Agriculture and IFDC to launch a high-level Kenya Fertiliser Roundtable (Ke-FERT), which has helped address issues relating to the regulation of standards and subsidies.

In Kenya, the agricultural sector has faced several challenges in recent years, as production and marketing have been affected by severe droughts, major locust outbreaks and restrictions associated with COVID-19. Following the outbreak of the pandemic, the team partnered with Precision Agriculture for Development (PAD) to conduct primary research and understand how containment measures were economically impacting agro-dealers and smallholders. The findings were shared with the Ministry of Agriculture, Livestock and Fisheries, sector stakeholders and development practitioners at a webinar, resulting in proposals for how to support farming communities and calls for broader sector reforms.

Indeed, while the pandemic revealed the country's vulnerability from a food security perspective, the crisis has inspired progressive policymaking in agriculture, with the government pledging to reduce the role of parastatal companies and liberalise markets. Specific interventions include the restructuring of the National Cereals and Produce Board and a transition to an e-voucher system for inputs distribution, which will replace the previous subsidy regime. Indeed, the team's work stands to benefit from this recent shift in government policy, owing to the new emphasis on facilitating greater private sector participation in markets.

HIGHLIGHTS IN FY21-22

BOOSTING YIELDS THROUGH THE LOCAL DISTRIBUTION AND PRODUCTION OF CROP-SPECIFIC FERTILISERS

In an effort to expand the crop-specific fertiliser market and ensure smallholders are adequately served, the team has been working closely with major manufacturers like Yara East Africa and Toyota Tsusho. The trendline is strong: over the last five years, the market share of crop-specific fertilisers has grown from less than 2% to over 25%, owing to increasing demand among farmers and the establishment of local production facilities. As a result of applying the crop-specific fertiliser which is now available in the market, over 450,000 smallholders have experienced a significant increase in farm yields (an additional 8 bags of maize per acre) and an average increase in annual income of $200.

PROTECTING SOILS BY BUILDING THE MARKET FOR AGRICULTURAL LIME

Having helped establish the Ke-FERT platform for industry dialogue, the team convened an event to advocate for greater investment in granulated lime in Kenya, drawing from an economic feasibility study which we commissioned. It is clear lime can play a critical role in tacking the twin issues of falling productivity and degraded soils which are severely impacting Kenya's agricultural sector. Following the roundtable and in response to the evidence, two investments were made in the domestic manufacture of granulated lime, which will cost 50% less than the imported product. Moreover, the team has influenced the national soil liming agenda, joining a technical committee tasked with drafting a soil acidity and liming manual and a Kenya Bureau of Standards (KEBs) committee focused on developing liming standards.

STRENGTHENING THE SECTOR'S RESILIENCE

The team has helped two industry associations – the Fertiliser Association of Kenya (FAK) and the Seed Trade Association of Kenya (STAK) - to develop distinctive value propositions and attract new fee-paying members. The team is seeking to ensure the financial sustainability of these industry associations, which play an important role in facilitating dialogue between the private and public sector and building the sector's overall resilience. As a result of the programme's technical advisory support, STAK has now increased its membership to 46 - the highest in its history. In addition, the association has published two market intelligence reports to help inform the investment decisions of members.

WHERE NEXT?

Over the course of the year, the agricultural inputs team is focused on...

- **Improving the management of soil health and expanding the use of crop-specific inputs to boost yields and restore land**

  The team is aiming to continue making the case for international and local investment in the production and distribution of granulated lime and crop-specific fertiliser – and will promote sustainable soil management practices among smallholders.

- **Implementing and enforcing quality standards in the sector that improve the quality of inputs available and the confidence of farmers in them**

  The team is aiming to increase the use of scratch labels among farmers and self-certification among seed companies to further reduce the prevalence of counterfeits – and make progress on its proposal for an agro-dealer accreditation system.

- **Enhancing the public-private dialogue within the sector to reach alignment on regulatory and policy issues and enable sustained growth**

  The team is aiming to support the development of fertiliser regulations and liming standards – and finalise a soil acidity and liming handbook for Kenya.

- **Strengthening farmer access to good quality information and advice**

  The team is aiming to pilot a range of extension models (incl. digital models), assessing their effectiveness (as a means of promoting good agricultural practices and easing last mile distribution); their commercial viability; and their scalability.

Over the course of FY22-23, we are exploring agricultural inputs from a regional perspective, determining the greatest areas of opportunity in East Africa, and assessing where we can add the most value. Building on our existing work in Kenya and historical work in cotton in Tanzania, we are aiming to enrich our understanding of the trajectory of agriculture – and the sector's key opportunities, constraints, and risks – across Kenya, Tanzania, and Uganda, with a view to identifying how the sector could be transformed and what role we could play in catalysing change.

AQUACULTURE

Aquaculture is different from our other sectors: it's presently a nascent sector operating at a relatively small scale with vast potential for growth.

While East Africa presently imports frozen fish from China, the consumption of fish in the region is well below what it should be, and much of the population has a protein deficient diet.

The sector has the potential for significant growth which creates several hundred thousand jobs and could provide a carbon friendly source of protein for the population of East Africa.
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THE OPPORTUNITY

East Africa is the home of tilapia, and the region has an abundance of high-quality water bodies, well suited to productive aquaculture. In the recent past, wild stocks of tilapia have stagnated and they may well dwindle in future, making aquaculture a viable substitute source of protein.

Within the region, consumers are also keen to consume more fish, and many prefer local fish to imported fish. At the same time, East Africa has a fast growing, young population that will sustain a sizeable demand for protein moving forward.

Increasingly, it is possible to competitively farm fish as many of the sector's constraints are in the process of being eased. Indeed, the quality and price of fish-feed is improving and pioneer firms with effective and data-led management are now profitable. There is significant scope to raise productivity further through advances in feed and genetics.

East African governments are starting to recognise the sector's potential – and they are starting to put in place an enabling environment which will help aquaculture thrive. This is an important development that will not only drive the sector's growth but also mitigate key risks, with effective biosecurity and environmental management measures rising on the agenda.

POTENTIAL IMPACT

By 2030 – with the right conditions and support - we estimate the industry in East Africa could contribute:

- 200,000+ jobs - most of these would be low- or semi-skilled and located in areas where job creation is sorely needed
- $324+ million per year in employment income
- $495 million per year in additional value for the region's economy
- 1.65 billion additional meals per year, which are likely to be predominantly consumed by low-income groups

THE JOURNEY SO FAR

We initiated our aquaculture programme in 2017. While the programme has a regional scope, the team initially focused largely on Uganda and Kenya, as the two countries are where most of the industry is based. However, the picture is changing rapidly, and the programme is now actively pursuing opportunities in Tanzania and Rwanda where aquaculture is gaining momentum.

Given aquaculture in East Africa is a nascent sector, there were naturally few demonstrations of commercial success in the programme's early days and knowledge regarding fish farming was limited from a technical and business perspective. The programme therefore focused on developing the commercial engine of the sector, with the belief that this would trigger a ripple effect of changes. Indeed, the team felt it could deliver the most impact by growing the production base – recognising how this could catalyse investment in the feed sub-sector and thereby enhance the competitiveness of all firms This entailed developing and showcasing viable business models which had the potential to underpin large-scale firms and small and medium-sized enterprises (SMEs) – while at the same time raising awareness of good fish farming. Over the years, the programme has delivered considerable success on the production side.

Three years ago, the team embarked on a partnership with Victory Farms in Kenya, investing early-stage capital in the promising start-up and providing technical assistance. At the time, there we no large-scale aquaculture farms in the region and commercial investors were reluctant to invest in a capital-intensive start-up in a nascent sector (characterised by a weak ecosystem of inputs, services, and regulation). Since then, Victory Farms has grown to production levels of >7,000 MT per year and become profitable. The positive trajectory of this pioneering and fast-growing firm is a demonstration of how large-scale aquaculture in East Africa is capable of generating outstanding commercial returns. Following in the footsteps of Victory Farms, the sector has now seen the entry of another two large and fast-growing farms in Uganda.

Alongside its work with Victory Farms, the programme has developed a programme to support high-potential mid-size fish farms with early-stage finance and technical assistance on data-led farm management practices, in an effort to establish a successful and replicable model for aquaculture SMEs in East Africa. This programme has yielded considerable results: there are now at least 5 mid-sized farms that are consistently employing data-led farm management practices. These farms are now achieving remarkable productivity levels and are set to become profitable for the first time.

The team's success in supporting the competitiveness and growth of Victory Farms and other smaller firms has enabled progress to be made on strengthening the input markets. In a move which promises to transform the aquafeed landscape in East Africa, the programme has helped broker a deal with an international operator which will result in the establishment of a high-quality fish feed mill in Kenya. As a co-investor in the deal, the team expects the mill – which will be commissioned in early 2023 - will accelerate the production of more competitive feed in the region and ultimately reduce the sector's reliance on expensive imports. Moreover, the team has enlisted the support of international genetics experts to support the establishment of sophisticated tilapia breeding programmes.

Over the past decade, a significant amount of donor support has been channelled to small-scale aquaculture, yielding mixed results. Many smallholders continue to struggle with the lack of available and relevant management expertise; the high cost of feed; the low quality of seed; and market access issues. However, despite these challenges, the uptake of aquaculture among small-scale farmers has continued to grow. In a promising development, a recent study commissioned by the team revealed some small-scale pond production models could be highly commercial. From an impact perspective, this is a critical insight, as scalable models could serve as a vehicle for economic empowerment and ensure the sector grows in an inclusive way. The team is now exploring how to enable the wide-scale adoption of these models.

Since the sector's commercial trajectory has been encouraging, the programme's strategic focus has started to shift over the past year towards the enabling environment. As the industry continues to grow, a strong enabling environment will be critical in helping stakeholders sustain their competitiveness, mitigate the risk of fish health issues, and avoid negative environmental impacts. Importantly, the team believes it can make a difference in this overlooked yet important area, helping to jumpstart progress in collaboration with governments and industry associations. While the task ahead remains significant, the team has realised encouraging progress over the last year.

Biosecurity and environmental management represent the major areas of risk for the future of aquaculture in East Africa. In recognition of this, the programme has helped secure private and public sector buy-in for designing and implementing zoning and carrying capacity approaches. Such approaches have the potential to form a foundation for the industry's effective management of biosecurity and environmental issues. In parallel, the team has started to develop biosecurity and environmental codes of practice in Uganda and Kenya, which have the potential to shape the industry's self-regulation in future. Moreover, the programme is in the process of designing a significant fish health programme for farms.

Given the complexity of these issues, it is essential the private sector is well-organised and able to engage in a positive dialogue with the region's governments. While the coordination mechanisms are relatively weak at present, industry groupings across East Africa are increasingly recognising the need for stronger and more proactive engagement with the public sector. Moving forward, the team is aiming to step up its support for these coordination mechanisms.

HIGHLIGHTS IN FY21-22

DEMONSTRATING THE COMMERCIAL VIABILITY OF MID-SIZE FARMS

With GA's support, a cohort of SMEs are adopting improved practices and a data-based approach to farm management. Evidence collected from the group over the last year has revealed how the team's technical assistance is driving sustained improvements in key productivity indicators, including feed-conversion ratios, stocking profiles, and production pipelines. These interim results from the programme effectively confirm the team's hypothesis that a professional and data-led management approach has the potential to significantly raise farm productivity and lay the foundations for scale. The success of these SMEs will demonstrate the viability of the business model and build the knowledge base required to implement the model sector-wide.

SECURING BUY-IN ON BIOSECURITY AND THE SECTOR'S ENVIRONMENTAL SUSTAINABILITY

As a result of our engagement and the sector's growth, private and public stakeholders have become significantly more committed to protecting biosecurity and ensuring aquaculture is environmentally sustainable in East Africa. For example, the team is now working closely with the government in Kenya to put in place a spatial planning, zoning, and carrying capacity framework for Lake Victoria. This framework has the potential to support a more intelligent approach to the regulation of the industry, which – in turn - should encourage investment and help stakeholders mitigate the risks. In Uganda, the team has taken the opportunity to work with the country's leading industry association - the Uganda Commercial Fish Farmers Association – on a range of issues. Most recently, the team has helped the association develop a set of biosecurity and environment management protocols for its membership. The team are seeking to test the extent to which firms can self-regulate in these areas.

ADVANCING THE SECTOR'S REGULATORY AGENDA IN SUPPORT OF GROWTH

There has also been an increased interest among governments to effectively regulate the sector. For instance, the government in Rwanda - in partnership with the team - is putting together a national aquaculture strategy aimed at shaping the growth of the sector over the next 10-15 years. In addition, the government in Kenya has drafted new aquaculture regulations, which the team has supported. Indeed, following the programme's effort to coordinate industry engagement on these regulations, an industry body was formed, driven by the desire of stakeholders to maintain an ongoing dialogue with policymakers. In the past year, this new association has formalised its membership.

WHERE NEXT?

Over the course of the year, the aquaculture team is focused on...

- **Helping to demonstrate the viability of business models and pioneer firms**

  The team is aiming to deepen and widen the gains that have been made to date - i.e. to facilitate the continued growth of several pioneering large farms; expand the programme of support for promising mid-tier farms from Kenya and Uganda to Rwanda and Tanzania; assess the scalability of proven small-scale pond business models; and pilot land-based commercial farm models.

- **Supporting advances in feed and genetics given these are key competitive drivers for the sector**

  The team is aiming to support the construction of a new high-quality fish-feed mill with investment capital, upskill local feed mills, support feed importation aggregation structures (in the interim as local feed production develops and scales) – and technically assist hatcheries with their selective breeding operations.

- **Ensuring effective bio-security measures are in place to enable the sector to scale up responsibly**

  The team is aiming to assist governments in the delivery of risk-mitigating policies and regulations – and work with industry associations and leading firms to design and implement systems which will enable them to self-monitor biosecurity, environmental, and fish health issues.

- **Securing strong buy in and alignment from governments and associations and working with banks and investors to attract the finance for growth**

  The team is aiming to work closely with governments across East Africa to approve and improve national plans and regulations for the industry – and help catalyse commercial investment in proven fish farm models.

COMMERCIAL FORESTRY

Commercial forestry in East Africa is a highly important sector in its own right – and a strategic sector for the wider economy, feeding into construction, furniture, electrification, packaging, and commodity exports.

The sector is a major contributor to the economies of East Africa – for example, commercial forestry accounts for 4% of GDP in Tanzania. It is also central to the delivery of national climate change targets.

The transformation of the sector would spur significant 'green' job and wealth creation across the region and support the development of downstream manufacturing sectors.

THE OPPORTUNITY

Commercial forestry in East Africa has enormous potential for growth and value addition. Parts of the region have large swathes of land with highly suitable growing conditions. In addition, East Africa has some of the fastest-growing urban centres in the world which offer significant market opportunities for products, and host labour-intensive manufacturing sectors reliant on timber (e.g. furniture).

Currently, commercial forestry is falling well short of its potential. Despite some growth in tree planting over the last ten years – and except for plantations in Uganda - the overall quality of tree growing and efficiency in processing remains low. This is primarily due to a lack of investment, insufficient access to quality inputs and services, knowledge gaps and uncertainties related to market access.

The demand for wood and wood products continues to grow rapidly across the region and countries are struggling to keep up: in 2020, Kenya imported over $100 million of sawn timber and plywood, with annual sawn timber imports growing by a factor of fifty since 2014. Across the region, there is an urgent need to foster trade links and match demand with supply: while Kenya has a significant wood deficit, the expansion of plantations in Uganda is projected to increase the country's wood supply from less than 500,000 m³ to over 3 million m³ in the coming years.

There is a significant opportunity to drive value-addition. If the right processing technologies are adopted and the production from small-scale tree growers can be effectively aggregated in the right models, then tree growing will make commercial sense for all stakeholders in the value chain in East Africa.

The governments are starting to recognise the role forestry could play in driving rural industrialisation and green manufacturing. For the first time in decades, the governments in Kenya and Tanzania are starting to explore public-private partnership (PPP) models for the sustainable management of plantation forestry, building on the successful deployment of the model in Uganda (where investment in plantation establishment has risen significantly). In Uganda, the development of forest cluster processing industries is a key strategy within the country's current National Development Plan.

POTENTIAL IMPACT

The team's detailed analysis of the sector's potential in **KENYA** reveals that by 2035 the country could:

- Enable 1 million+ households to generate an additional $50 million per year from tree-growing
- Create 150,000 additional formal and skilled jobs in wood value chains
- Generate an additional $340 million per year in value add from primary processed goods
- Establish nearly 200,000 Ha of additional commercial forestry coverage
- Sequester carbon of 28.7 MtCO2 equivalent

By 2035 - if **TANZANIA** develops the right infrastructure and investment environment - the country could:

- Create more than 280,000 jobs in wood production and processing
- More than treble annual government revenue from forestry to TSh 300 billion / $0.13 billion
- Become a net exporter of wood products, with a positive trade balance of at least $50 million per year
- Become a net producer of improved planting material for base species - with the potential to plant 14,000 Ha (valued at $10 million per year)
- Open and plant 225,000 Ha of public land under the forestry concession agreement
- Catalyse over $160 million of investment in wood processing

In **UGANDA**, there are plans to expand private commercial forestry plantations by c. 45,000 Ha by 2027 and establish a network of forest cluster processing industries. The team are actively assessing the potential social and economic impact of this growth.

THE JOURNEY SO FAR IN KENYA

In 2016, we began our work in Kenya's forestry sector by assessing the commercial opportunities; testing innovative production and processing models; leveraging world-leading expertise and technologies; and kickstarting growth in partnership with pioneering firms, the government, and other interested parties.

In Kenya, commercial forestry remains at an early stage in its transformation journey: the coordination of the sector is weak; the productivity of firms and growers is low; and the raw materials and wood products are of relatively poor quality. However, the government is increasingly recognising the sector's vast potential and a handful of dynamic firms are emerging and catalysing positive change across the sector.

Indeed, commercial forestry is now included within the government's broader plans for the country's forests, and the team have supported public sector counterparts with the development of a National Forestry Policy which positions the industry as a means of conserving tree cover and driving economic growth. With a view to unlocking the amount of land required to transform the sector, these plans and policies encouragingly outline a prominent role for public-private partnerships (PPPs) in the management of public plantations (c.f. the National REDD+ Strategy which was published in 2021 with inputs from the team). While the associated legal approvals and public consultations will take time, the momentum in this area is positive and building, with the Kenya Forest Service's (KFS) Chief Conservator of Forests publicly endorsing PPPs at the Kenya Forestry Research Institute's (KEFRI) inaugural Commercial Forestry Investment Conference in November 2021. Driven in part by the country's ambitious green pledges at COP26, the government has strengthened its focus on commercial forestry and is now recognising the role the private sector could play in accelerating production (e.g. one green pledge relates to increasing the private plantation footprint in Kenya from 50,000 Ha to 200,000 Ha by 2030).

In parallel, there are some medium- and large-scale private actors which are showing a real and growing interest in commercial forestry in Kenya. For example, some vertically integrated firms are actively exploring expanding their plantation area. For some these growth plans are partly a response to a changing climate which is affecting tea growing in certain areas. Maize is another widespread crop which is facing environmental and market challenges and some players are consequently seeking to rebalance

their portfolios in favour of commercial forestry. The team is engaging with these firms to support with the identification of investments which could maximise value creation for them and the wider sector.

As well as engaging with growers, the team has sought to enhance the regulation and quality of seed in Kenya, in order to maximise yields and returns. Working alongside the likes of the Kenya Plant Health Inspectorate Service (KEPHIS) and KEFRI, the team has played a key role in the revision of the tree seed regulations, which will ultimately enable domestic suppliers to smoothly procure improved seed from internal and external sources. In addition, the team has recently implemented a successful seedling production pilot with Plantech, the first commercial-quality tree nursery in East Africa, and we are in the process of rolling out a holistic geospatial technology package across the region, with a view to ensuring seeds are planted in suitable areas and growers receive the right support *(see "Highlights in FY21-22" for more info).*

The amount of private investment in primary processing has been rising in recent years, as firms seek to capitalise on the enhanced supply of wood. Drawing on the team's technical assistance and backed by several development finance institutions, Komaza has recently invested in East Africa's first high-quality sawmill supplied by farm forestry. Following this example, the team is working with other pioneer firms who are considering similar investments in the region. With the team's help, the recent advances in primary processing are starting to stimulate interest and innovation in the country's secondary processing market *(see "Highlights in FY21-22" for more info).*

Investors and development partners are evidently enthused by the country's significant climate commitments and Nairobi is fast becoming the centre for new regional investment initiatives: New Forests – an Australian asset manager for global timber – has established a new office to manage a new $500 million+ fund backed by European development finance. In addition, the Japan International Cooperation Agency has set up a new forestry sector support programme with provisions for commercial forestry and UNDP is supporting the government of Kenya with the implementation of the REDD+ strategy (via the Green Climate Fund). The UK Foreign Commonwealth Development Office has also set up a fund specifically aimed at helping the government deliver on its ambitious climate targets.

HIGHLIGHTS IN FY21-22 FOR KENYA

MAKING THE CASE FOR BEST-IN-CLASS SEED PRODUCTION SYSTEMS

Last year, the team successfully implemented a seedling production pilot with Plantech and this has resulted in the nursery investing in new technologies to help expand its best-in-class production system (with minimal ongoing technical assistance). The quality of the product prompted several industry operators to commit to off taking the plants in future, with orders expected to exceed 1 million in FY22-23 from large and small growers.

ROLLING OUT A HOLISTIC GEOSPATIAL TECHNOLOGY PACKAGE

Over the last three years, the team has developed a tool which helps tree growers match species to their sites (the “Site Species Matching Tool”). With the tool tested and endorsed by KEFRI, the team reached an agreement with Swift Geospatial to host the SSMT and develop a holistic package of commercially viable geospatial services. Across East Africa, there is high industry demand for this technology package, with several organisations now independently procuring the firm’s services. The potential in this area is vast: beyond supporting growers with their planting investment decisions, the package could shed light on the viability of inclusive “hub and spoke” processing models and help with the management of PPP land lease models (e.g. via performance-based compliance and incentive systems).

FACILITATING THE DEVELOPMENT OF THE SECONDARY PROCESSING MARKET

The team’s efforts to develop a market for high-value timber is gaining considerable momentum. Recent pilots undertaken with furniture manufacturers have revealed the commercial viability of substituting unsustainably harvested hardwoods (like mahogany from the Democratic Republic of Congo) with sustainable, kiln-dried and locally grown eucalyptus. Indeed, a table produced in one of the pilots sold for 80% of the price of a mahogany equivalent, with the materials costing $30/m³ rather than over $100/m³. In the context of reaching net zero deforestation by 2030, these market-driven solutions are generating significant interest among regional and global players.

THE JOURNEY SO FAR IN UGANDA

We formally incorporated Uganda into our scope of work in 2022, recognising how the country's impressive production base needs to be linked to a higher value timber market within East Africa. After the successes in expanding its plantation area from 3,000 Ha in 2004 to around 100,000 Ha today, Uganda's commercial forestry sector is at a critical juncture in its development. Limited market opportunities are resulting in depressed prices, with anecdotal evidence suggesting producers are starting to divest. To incentivise renewed investment in planting as the stock reaches maturity, the team are engaging closely with the government and industry associations on a value addition strategy, linking Ugandan producers with Kenyan processors, and working with large integrated firms as well as small- and medium-sized growers to explore opportunities for value-orientated sawmilling.

From a regional perspective, there is a strong and growing interest in commercial forestry among development partners. The World Bank (c. $90m) and European Union (c. $45m) are setting up large-scale sector development programmes which will target private investment in value addition strategies. The team continues to input into these initiatives, sharing market insights and making connections with private and public stakeholders across East Africa.

HIGHLIGHTS IN FY21-22 FOR UGANDA

DEPLOYING THE SITE SPECIES MATCHING TOOL

In response to strong industry demand, the team is working with Swift Geospatial to expand the SSMT and the package of geospatial services into the Ugandan market. The team are working with local firms and growers to demonstrate how use of such tools can help maximise yields and minimise the risk of poor returns owing to offsite planting.

LAUNCHING AN INVESTMENT FACILITATION MECHANISM

Forming the core of our initial strategy in Uganda, the team has focused on identifying value addition opportunities and developing markets. In support of this, the team has started targeting private grower groups in the country, helping investment-ready groups to assess their forest resources, develop an investment plan and make connections with potential investors.

THE JOURNEY SO FAR IN TANZANIA

In 2013, Gatsby established the Forestry Development Trust (FDT) to work with public and private stakeholders and transform commercial forestry in Tanzania.

Given the sector's relatively low productivity, FDT recognised an urgent need to invest in research and development (R&D) and has helped implement a comprehensive tree improvement strategy for many years. This has involved establishing a flagship 10 Ha demonstration plot and developing site-species trials in the Southern Highlands and other parts of the country. In Tanzania, the team has now trialled 117 species, clones, and hybrids across 23 sites, involving 13 partners and covering 4 climatic zones. Underpinned by the most substantial tree research infrastructure in East Africa, the trial findings are now influencing the planting decisions of investors (*see "Highlights in FY21-22" for more info*). Indeed, public and private stakeholders have collaborated in the establishment of four seed orchards, which are expected to start producing Eucalyptus seeds in FY23-24. The local manufacture of high-productivity varieties represents a significant step forward for the sector: currently, growers must buy imports from suppliers or selected nurseries supported by the team.

As well as focusing on the seed market, FDT has helped growers access extension support, and this is encouraging city-based investors to consider opportunities in commercial forestry. Increasingly, quality services are being delivered to growers, such as site species matching assessments and plantation management support, and this is enabling them to plant the right species and tend to their trees effectively. Indeed, almost 5,500 Ha have now been planted by medium-sized tree growers deploying good silvicultural practices – and a successful validation exercise in Tanzania has led to the Tanzania Forestry Research Institute (TAFORI) recently approving the use of the innovative "site-species matching tool" (SSMT), following its development by our team. The team will continue to work hard on raising the demand for – and quality of – the inputs, information, and services available to the country's producers of

all sizes. Improving plantation productivity and the quality of the raw material will be crucial for the sector's transformation: this will drive the competitiveness of commercial forestry in Tanzania, ensuring trees are produced cost effectively and yield wood which can be used as part of higher value products.

As the team waits for the newly planted raw material to come "on stream", we are successfully laying the groundwork on the processing side. Indeed, while the processing infrastructure in Tanzania remains basic and there is limited value-addition beyond primary processing, FDT has played a critical role in unlocking finance for ground-breaking investments. To elicit the support of banks and ensure they lend to processors, the team has helped secure multi-year raw material allocations for operators and facilitated the market entry of equipment suppliers. Last year, the total credit extended to the sector exceeded $700,000 and sawmillers were able to purchase 13 new bandsaw machines, which are helping to drive significant improvements in recovery rates. As well as catalysing investment, the team has partnered with the Forest Industries Training Institute to help build the skilled labour force required for wood processing.

Moreover, there has been a growth of investment in engineered wood product (EWP) value chains in recent years, with the team playing a significant role in supporting interested firms and financial institutions. While Chinese firms have led in this area to date, Tanzanian investors are starting to recognise the commercial opportunity and follow in the footsteps of the pioneers. A total of six EWP businesses have been engaged in an incubation programme set up by the team, which aims to help these firms improve the quality of their wood, increase their production volumes, and enhance their market access. While the technical assistance is ongoing, two of the firms have increased their productivity by 21% so far. In a show of support for the progress in this area, the President has recently endorsed a national framework for EWP, which the team played a central role in designing and advocating for alongside the Tanzania National Business Council or TNBC (*see "Highlights in FY21-22" for more info*).

The programme's progress on production and processing is illuminating the sector's potential and – consequently – commercial forestry is becoming more of a focus for the government, evidenced by its establishment of a Forestry Working Group within TNBC; its willingness to offer incentives to - and remove barriers for - the private sector; its creation of a new technical order which will drive improvements in plantation quality; and its publication of the revised regulation "Government Notice 59" in January 2022 which will reduce royalty charges and remove license charges for logging, miscellaneous deposit accounts and export permits. In a significant step forward, the government also co-hosted the inaugural Iringa Forestry Investment Forum in 2021. Supported by the team, this forum brought together current and prospective stakeholders from the public and private sector and helped to showcase the breadth of available investment opportunities. Livestreamed by the Tanzania Broadcasting Corporation, the event was attended by 1,200 participants over 3 days; stimulated significant and tangible interest in investing; and provided an effective platform for B2B interactions for service providers. Indeed, events such as these and the general strengthening of platforms for public-private dialogue is helping to improve the enabling environment for commercial forestry and enable issues to be swiftly resolved, such as the recent wood product export ban (*see "Highlights in FY21-22" for more info*).

In promising news, there has been progress in unlocking land for commercial forestry via public-private partnerships (PPPs), which form an important part of the team's long-term vision for the sector. The government is showing interest in the concept and a district-level pilot in Madaba has been approved (*see "Highlights in FY21-22" for more info*). Such public-private partnerships could play a pivotal role in the transformation of commercial forestry in Tanzania, as they would help geographically concentrate production and ensure quality conditions are met – thereby supporting the growth of high-quality raw material and the development of primary and secondary processing markets.

HIGHLIGHTS IN FY21-22 FOR TANZANIA

DELIVERING HIGH-PERFORMING CLONAL HYBRIDS

The Tree Improvement Research Working Group – led by TAFORI – recently received five-year trial results, which revealed a range of promising species, some of which boosted productivity by more than 50%. As well as the five best-performing species featuring in the government's recent technical order for commercial planting, private sector players have acquired the intellectual property rights for the most productive clonal hybrids. Indeed, on the back of the programme's research, stakeholders are now intent on sourcing quality varieties which suit their context: some 18kg of improved seed has been sourced by commercial distributors for the upcoming planting season, including two high-performing species from the team's trials (Eucalyptus dunii and E. nitens). The quality of the seed and the matching of species to sites will help inspire a step change in productivity and tree value.

SECURING COMMITMENT FOR FORESTRY CONCESSION PILOT IN MADABA

FDT has brokered a pioneering partnership with Madaba district council to pilot concessions on 39,000 Ha of land. Indeed, every village committee in the district has approved the land use plans and endorsed the gazettement process for the concession of land and the planting of species identified by the SSMT. Following legal amendments, planting is expected to start soon and result in substantial increases in investment and improvements in service provision. The team hopes the pilot will serve as a test case, inspiring the development of a national framework and the formation of PPPs across the county.

RESOLVING THE WOOD PRODUCT EXPORT BAN

After an unexpected announcement from the Ministry of Natural Resources & Tourism regarding an export ban on semi-processed wood products, the team successfully mobilised a sector-wide response and helped facilitate a constructive public-private dialogue on the policy. FDT brought forward evidence to outline how the export ban would be counterproductive, deterring investment and derailing the country's progress towards greater value addition. The consequent rescinding of the ban has allowed the veneer value chain - which is growing and especially important for smallholders - to operate sustainably and create value for the sector.

DEVELOPING A NATIONAL FRAMEWORK FOR ENGINEERED WOOD PRODUCTS (EWP)

Representing a major milestone for the team, TNBC endorsed the EWP Sector Development Framework and agreed to establish a steering committee to oversee its implementation. Following multiple meetings with the President and Cabinet, the team effectively helped TNBC secure the government's commitment to driving EWP development and delivering other sector transformation objectives. Indeed, the framework and its associated action plan contain provisions for fiscal reforms (such as the removal of VAT on standing trees), the reduction of cess, tax exemption on imported EWP technologies, and an array of non-financial incentives (e.g. the promotion of extension services, R&D and PPPs). Over the years, TNBC and its Forestry Working Group have been critical forums for the team and sector, helping stakeholders coordinate their actions and develop a shared vision for commercial forestry

WHERE NEXT?

Over the course of the year, the commercial forestry teams in Kenya and Tanzania are focused on...

- **Exploring mutually beneficial regional trading opportunities between Kenya, Tanzania, and Uganda**

  The team is aiming to ensure significant amounts of high-quality sawn timber from Uganda reaches furniture, joinery, and structural timber markets across East Africa – and promote the adoption of innovations in wood product design to strengthen secondary processing.

- **Building on many years of tree improvement work in Kenya, Tanzania, and Uganda, by improving access to quality genetics (e.g. improved seed) suited to sites and markets**

  The team is aiming to continue disseminating its trial data and scale the commercially successful seed production models which they have recently piloted – as well as further integrate good silvicultural practices and geospatial services into industry planning and operating systems across the region.

- **Catalysing investment in processing technologies which will enable a transition into higher-value wood products and benefit growers of all sizes through backward linkages**

  The team is aiming to attract significant developmental and commercial capital into primary and secondary processing across East Africa, helping to link international and domestic investors with pioneering local firms and build up the industry's skills base.

- **Supporting the governments in Kenya and Tanzania as they seek to explore PPP models for the sustainable management of plantation forestry**

  The team is aiming to help public sector counterparts design and implement PPP pilots – with a view to generating the evidence base required for a nation-wide roll out in future.

LIVESTOCK

Although Kenya is home to one of Africa's largest livestock herds, the country remains a net importer of beef, and its beef trade deficit is growing.

Livestock production accounts for 12% of GDP in Kenya. Over ten million pastoralists and smallholders in the arid and semi-arid lands (ASALs) of Kenya depend on livestock as their main source of livelihood. The sector therefore has an important role to play in delivering an inclusive and prosperous future for millions of vulnerable people in Kenya.

Kenya has an opportunity to build a competitive and climate-resilient sector and be ahead of the climate agenda of other meat producing and exporting countries regionally and globally.

THE OPPORTUNITY

To date, pastoralists have struggled to effectively engage in commercial value chains and their participation has been marred by their limited access to inputs and their exposure to climate-related risks.

However, there is an increasing demand for meat in urban centres and a growing middle-class is increasingly concerned with food safety and interested in higher-value products. There is also a small but growing export opportunity, especially for sheep and goats. By 2050, the global demand for livestock products is expected to increase by 70% and domestic demand in Kenya is expected to double.

The key question for Kenya is whether it is possible to modernise and improve productivity in the livestock sector in a way that enables as many of the ten million pastoralists to participate in and benefit from the sector.

There are good reasons to believe the sector can modernise. Kenya is investing significantly in infrastructure in the North including ports, roads, and airports. The decentralisation of authority to county level has resulted in an increased focus on the North and the development of local government capacity. This could get things moving.

The cultural way of life for pastoralists is already starting to change – and as a result, there is a growing opportunity for pastoralists to engage in the livestock industry on a more commercial basis. The key question will be how quickly the sector in Kenya can modernise, and how many pastoralists will be able to respond to the opportunity.

POTENTIAL IMPACT

By 2030 – if Kenya makes its livestock sector more efficient by modernising the value chain and catalysing investment – the country could:

- Shift from being a net importer of beef by increasing production 1.5 times (to 930K tonnes per year) and growing exports of goat and sheep by 30%
- Increase the sector's contribution to national GDP by 5%
- Increase household income from the sale of livestock from $3,000 to $5,400
- Catalyse the creation of 16,000 direct and indirect jobs in the value chain
- Set the livestock sector on a low carbon trajectory (by introducing climate-smart production and aggregation models)
- Maximise the number of pastoralists able to engage commercially in the industry and benefit from its modernisation

THE JOURNEY SO FAR

We have supported the livestock sector since 2014. Recognising the sector is low-input, low-output and largely based on subsistence, the team has adopted a comprehensive approach, seeking to address challenges and harness opportunities across the value chain and in the wider business environment.

Over the course of its engagement with the sector, the team has sought to:

- Catalyse innovations in production (e.g. agro-vet models which reduce mortality by increasing access to animal health drugs and services; sustainable rangeland management approaches which build environmental resilience; livestock insurance against drought)
- Open new routes to market (e.g. aggregator models such as ranches and feedlots which integrate pastoralists into the value chain; finishing and fattening services that deliver more value for pastoralists; traceability technologies which enhance transparency and quality)
- Reform the end market (e.g. consumer awareness campaigns which increase demand for quality and safe meat; international meat safety standards for processors and retailers; raising awareness of export opportunities and the standards required to capitalise on them)
- Enable greater coordination across the sector and on policy (e.g. development of the National Livestock Policy and Livestock Masterplan; establishment and capacity building of Kenya Meat and Livestock Exporters Industry Council or KEMLEIC).

Several significant developments have taken place in the livestock sector as a result of the team's endeavours

The team has effectively influenced retail strategies and made significant progress on the issues of safety standards and traceability. For example, as part of a coordinated campaign to catalyse investment in cold chain technology, the team has worked closely with the State Department of Livestock, sector institutions (e.g. KEMLEIC and the Retail Association of Kenya) and the media (e.g. Nation Media Group) to highlight how the refrigeration of meat is critical in managing health risks and minimising production losses. The impactful campaign

built on the team's long-standing advisory work with retailers and processors, which has led to firms like Tuskys – one of Kenya's largest supermarket chains – recognising the business case and developing its cold chain; rolling out international-grade certification across its outlets; and actively engaging with consumers on the issue of meat safety.

In parallel, the team has made solid progress in its efforts to develop an integrated approach to animal healthcare, with a view to increasing yield per animal, enhancing the value of meat and encouraging private ranches and commercial feedlots to invest in fattening services. The intention has been to boost the supply of quality livestock and thereby stimulate investment in processing, cold chain technology, and exportation. Following extensive research and various pilots of inclusive finishing and fattening models, the team is now seeking to demonstrate the commercial viability of feedlots (*see "Highlights in FY21-22" for more info*). Moreover – as the changing climate places increasing pressure on pastoralists and their way of life – the team has started to explore how the industry can adapt and grow in a resilient way (*see "Highlights in FY21-22" for more info*).

In a bid to accelerate the formalisation of the sector and enhance coordination among its players, the team helped establish and capacitate KEMLEIC, an industry association. This body has enabled stakeholders from across the value chain to access information and guidance on export opportunities, safety and quality standards, product innovation, value addition, and marketing. Engaging closely with the government counterparts, KEMLEIC continues to play a vital role in supporting the private sector, as firms seek to achieve scale, access high-end domestic and export markets, and benefit from a favourable investment climate.

Over the years, the team has directly engaged with the government on a range of strategic issues, and its advocacy work has yielded tangible commitment to the sector's development. Indeed, the team supported

the State Department for Livestock in the development of the National Livestock Policy and the National Livestock Bill, which were both approved by the Cabinet in March 2019. The policy aims to establish the framework and incentives for innovation across the sector, thereby accelerating progress in various areas (incl. feed, feedlots, breeding, market access and infrastructure development). Underpinning this, the "Kenya Vision 2030" includes a £2 billion commitment to infrastructure development in the ASALs, where most of the country's pastoralists are based. Developments such as these promise to strengthen the value chain in the years to come.

Moreover, the government has renewed its commitment to the livestock sector following the pandemic years. Indeed, with the outbreak of COVID-19, the sector faced several challenges, as pastoralists struggled to sell their livestock amid curfews and market closures; the limitations on hospitality and tourism crippled demand; and meat processors were unable to access export markets due to constraints on international freight. However, with the lifting of restrictions, the State Department of Livestock has formally acknowledged a need to develop the feedlot, slaughter, and processing capacity in production areas, recognising how this will help mitigate transportation risks in future.

In another positive development, the team worked closely with the Kenya Retail Association and Nation Media to deliver a nation-wide meat expo in November 2021 (*see "Highlights in FY21-22" for more info*). In addition, the team is continuing to support the State Department for Livestock with the development of a Livestock Masterplan, which will help align stakeholders on a long-term vision for the industry and build confidence among potential investors.

HIGHLIGHTS IN FY21-22

PILOTING FINISHING & FATTENING MODELS

In an effort to understand the productivity potential of finishing & fattening models in Kenya, the team has worked closely with Sadera Ranch, delivering technical assistance on feedlot siting, construction, feeding regimes, feed formulation, stock selection, identification, and herd management. As a result of the team's support, the ranch has been able to establish a facility with the capacity to finish 80 livestock in three-month cycles. Following its first cycle, the firm successfully finished and sold its livestock, recording a net profit of approximately $20,000.

PROMOTING CLIMATE-SMART PRODUCTION MODELS

The team's climate-smart production sensitisation campaign reached 1,200 livestock producers, and 32 producers were selected to participate in a breeding programme designed to synchronise calving with the periods of pasture availability. The conception rate of the 150 livestock covered by the pilot was 67%, which compares favourably against the global average of 55%. Following the success of the pilot, two agrovets have procured artificial insemination equipment, recognising the commercial strength of the model.

RAISING THE SECTOR'S PROFILE WITH KENYA'S INAUGURAL MEAT EXHIBITION

In coordination with the State Department for Livestock, the Retail Traders Association of Kenya and Nation Media (the country's largest media house), the team delivered the country's first nation-wide meat expo, which was publicly backed by the President. Attended by over 5000 visitors from across the value chain, the event served multiple purposes, stimulating the conversation regarding the industry's modernisation; providing a networking opportunity for the private sector; helping to build consumer confidence; and promoting the sector's commercial potential among interested investors. The event – which significantly raised the sector's profile in Kenya – will now be held annually and has attracted the interest of several other organisations.

WHERE NEXT?

Over the course of the year, the livestock team is focused on...

- **Improving access to and uptake of professional inputs and services among pastoralists**

  The team is aiming to help large numbers of additional pastoralists gain access to preventative and curative services via input manufacturers and agrovets – and support small-scale producers in the adoption of improved breeding synchronisation.

- **Exploring the use of inclusive feedlot and aggregation models to improve the quality and quantity of livestock traded**

  The team is aiming to pilot different aggregation models at the level of production and trade – and assess the viability of different finishing & fattening models.

- **Attracting large-scale private investment in processing capacity and cold chain to increase product value and open up more efficient routes to market**

  The team is aiming to enhance the skills, capacity, and productivity of meat processors via technical assistance - and gain an in-depth understanding of the consumer demand for differentiated meat products.

- **Supporting the finalization and implementation of the country's livestock policy and masterplan**

  The team is aiming to ensure there is a widely shared vision for the sector's growth pathway – and put in place a framework to help guide the establishment and operation of feedlots.

TEA

Tea is a key export crop in both Rwanda and Tanzania, providing incomes for 60,000+ smallholders as well as 70,000+ jobs across the two countries. In Rwanda, the sector is the country's third largest employer.

Located near the equator, Rwanda offers great conditions for tea production, with excellent soil, ample sunshine, ideal altitude, and two rainy seasons. This gives the country a reputation for producing quality green leaf and consistent volumes throughout the year, with Rwandan tea fetching a premium in the regional Mombasa auction. While export volumes are relatively small compared to Kenya, tea is one of Rwanda's largest sectors.

In Tanzania, tea production is concentrated in the Southern Highlands where the conditions are most conducive. In recent years, the sector has experienced limited growth: the quality of the green leaf produced is lower than competitor countries in the region and this is reflected in a weaker market price. While most of the country's production derives from estates, smallholders play a supplementary role.

THE OPPORTUNITY

TThe two sectors are on different trajectories. Rwanda's agro-climatic conditions mean it can produce among the highest quality black tea in the world and its recent performance has been strong, with increased planting and investment over the last decade and a significant improvement in the made tea quality. Contrastingly, Tanzania has been struggling with erratic weather patterns, decreasing rainfall, and a lack of investment in the sector, which have impacted yields and quality and resulted in reduced returns for both factories and farmers.

Our work in tea is implemented by our partner The Wood Foundation Africa (TWFA) with a focus on the five co-investments we have made in two factories and two farmer service companies in Rwanda and one farmer service company in Tanzania. These investments aim to drive an increase in planting, yield, quality and efficiency across field and factory, with a goal of boosting returns and incomes for smallholders. While we are seeking a direct impact from our investments, we hope the success of our pioneering models, which include farmer ownership, will inspire others, and ultimately catalyse the transformation of the tea sector in Rwanda and Tanzania.

POTENTIAL IMPACT

Successfully delivering our investments should:

- Lead to 30,000 farmers across Rwanda and Tanzania directly benefiting by 2030 (up from 15,000 in 2021)
- Leverage over $100 million of foreign direct investment into the tea sector in Tanzania and Rwanda through the three greenfield projects, with our partners TWFA, the Foreign, Commonwealth & Development Office (FCDO), Unilever and Luxmi
- Support the Government of Rwanda achieve its long-term goal of 50,000 Ha of planted tea (from the current base of 27,000 Ha). Our direct contribution is expected to be c. 8,000 Ha.
- Support Rwanda to increase its tea export revenues from $90 million (20/21) to $209 million by 2024
- Demonstrate the viability and substantial impact of i) a model for financing farmer ownership of factories and ii) a model for developing greenfield production using farmer service companies. We expect a successful demonstration of these models will lead to replication in other sectors and countries.
- Maximise the proportion of the made tea price shared with farmers -
  - In Rwanda, we expect all tea farmers to receive 50% of the made tea price, up from 25% in 2011. In addition, while our farmers at Mulindi and Shagasha take a share of factory profits today, once the factories are transferred to full farmer ownership all profits will be shared. This will raise the total income of farmers to more than 60% of the made tea price, depending on factory performance.
  - In Tanzania, we expect NOSC farmers to receive 47% of the made tea price, due to a quality premium agreed with Unilever. This compares favourably with the 37% received by farmers in the wider sector. In addition, the higher quality of the tea should increase the made tea price for the participating farmers.

THE JOURNEY SO FAR

For more than a decade, our work in tea in Tanzania and Rwanda has been focused on the investments we hold.

In Tanzania, we have sought to showcase a high-quality business model for smallholder tea, in the hope this inspires change across the country's sector. In 2014, we set up the Njombe Outgrowers Service Company (NOSC), which has recruited more than 1,900 farmers from 33 villages and facilitated the planting of over 1,800 Ha of tea. The service company provides patient capital to smallholders and delivers services that help maximise yield and quality. In a positive development, Unilever opened a new factory in 2018 to process the green-leaf cultivated by NOSC-affiliated farmers. While this sparked interest in the service company model, the wider challenges in Tanzania's tea sector are impacting NOSC's performance.

The situation in Tanzania is extremely challenging: decreasing rainfall in key tea growing areas and an oversupply of tea in the global market are creating a perfect storm, eroding prices and impacting production across the country. This is placing pressure on the finances of smallholders, the service company, and the factory. However - despite significant headwinds - farmer interest in the programme remains strong and NOSC is on track with its ambitious planting targets.

Our work in Rwanda dates to 2012, when we co-invested in two factories – Mulindi and Shagasha - which were being privatised by the government. The ambition was to turn around their operational performance, recoup our investment, and then transfer ownership to the smallholder suppliers. Now, both factories generate substantial profits of over $1 million per year, having been loss-making before privatisation, and participating farmers receive a significant annual bonus.

One factory – Mulindi – has now made its final loan repayment and transitioned to farmer ownership (*see "Highlights in FY21-22" for more info*).

Established in 2016 and 2017 respectively, our two service companies in Rwanda, Services Company Nyaruguru (SCON) and Rugabano Outgrowers Services (ROS), are playing an important part in the country's ambitious plans to expand its tea industry (*see "Highlights in FY21-22" for more info*). The service companies are committed to establishing and managing smallholder greenfield tea - on the proviso established factory operators guarantee offtake. While the service companies are at an early stage in their development, they have demonstrated they can attract significant foreign direct investment from factory operators, who had previously cited concern about the unreliability of supply. The companies are effectively removing uncertainty by financing planting and delivering a suite of extension services and logistics support.

With the service companies planting a combined 575 Ha last year, the outlook is strong for operators like Luxmi, who having already opened their factory in Rugabano and are now fetching some of the highest prices in the country for the quality of its made tea. In a further validation of the model, TWFA is implementing an additional greenfield development project in Rwanda, partnering with Unilever and the government to develop a further 3,000 Ha of tea and build another factory. This development is particularly encouraging as the government is investing its own resources into the project.

HIGHLIGHTS IN FY21-22

INITIATING THE TRANSFER OF MULINDI FACTORY TO FARMER OWNERSHIP

In a major milestone for the project, Mulindi factory in Rwanda paid its final loan instalment and was transferred to full farmer ownership. The factory is now entering a 6-year transition period where TWFA will continue to provide management services and have representation on the board. The success of the firm serves as a demonstration of how smallholder ownership can deliver sustained high returns for tea farmers in the country. With a view to gradually phasing out our engagement, the fundamental aim of the transition phase is to empower the farmers as factory owners and ensure the new ownership continues to drive the factory's high performance and commercial sustainability.

DRIVING NEW PLANTING IN RWANDA AND CREATING LONG-TERM ASSETS FOR FARMERS

The two service companies in Rwanda are going from strength to strength and performed exceptionally well last year:

- SCON exceeded annual planting targets, and smallholder production was 45% ahead of budget. This is due to a combination of factors, including the operational capability of the service company, rapid uptake of good practices among farmers, and conducive agronomic conditions. SCON's performance has resulted in Unilever bringing forward its factory build, participating farmers enjoying higher returns and large numbers of additional farmers registering their interest in joining the project.
- At ROS, the quality of the green leaf grown by smallholders and the quality of the made tea produced by the factory has the potential to be the highest in Africa. Once the factory began sorting its tea into different grades at the end of last year, the direct sales price reached $3.73 per kg (the Rwandan average is $2.75).

WHERE NEXT?

Over the course of the year, the tea team is focused on...

- **Supporting the operations of the two factories in Rwanda, ensuring continued high performance and sustained high returns for the supplying smallholders**

  The team is aiming to preside over a smooth transition of ownership at Mulindi factory and help both factories manage risks and reach their productivity potential.

- **Ensuring greenfield smallholder tea is planted well and effectively managed by the two service companies in Rwanda**

  The team is aiming to support the planting of another 600 Ha of tea and strengthen the logistics network as production continues to increase.

- **Ensuring greenfield smallholder tea is planted well and effectively managed by the service company in Tanzania**

  The team is aiming to support NOSC in its efforts to boost production and increase the quality of tea produced.

TEXTILES & APPAREL

Around the world, the textiles & apparel sector has played a critical role in lifting countries out of poverty. It is one of the few sectors which can generate millions of jobs in urban areas, including significant employment opportunities for women.

The sector has also proven to be a reliable foothold on the industrial ladder for many countries, enabling them to move into higher-value sectors with greater skills and technological demands.

THE OPPORTUNITY

While the textiles & apparel sector accounts for approximately 10% of all exports for countries like Kenya, the sector has not made significant progress in the rest of East Africa in recent decades. However, there are good reasons to believe a window of opportunity is opening for the region.

Some of the largest buyers in the world are showing an interest in East Africa, as they seek to diversify from China and the Indian sub-continent where wages are on the rise and the sector has faced reputational risks related to social and environmental issues. With the industry seeking to migrate to lower cost and untapped regions like Africa, East Africa has an opportunity to be an environmentally and socially responsible destination for garment production.

The early signs are positive: the region's factories are starting to perform well and receive high order volumes. Investors are now looking at East Africa more seriously.

The commitment of governments in East Africa to the sector is growing, with textiles & apparel forming an increasingly important part of their strategies and plans.

In the short term, it will be critical to secure some initial investments and ensure these are successful. This will help strengthen the belief of governments in the sector's potential, which may in turn ensure the release of the resources required to translate strategies into results.

POTENTIAL IMPACT

By 2030 - with the right business environment and government commitment to textiles & apparel across East Africa – the team estimates the region can:

- Attract \$1.2 billion in investment, which would result in \$2.7 billion of additional export value (c. 3% of the East African Community's GDP)
- Stimulate the creation of 150,000 direct and indirect jobs
- Reduce the sector's carbon footprint by 30%
- Ensure 90% of operators adopt good labour practices and promote gender equality, achieving 50:50 representation at management level

THE JOURNEY SO FAR

We launched the textiles & apparel programme in 2019. During the strategy development phase, the team identified how sector transformation will depend on the willingness and capacity of the major stakeholder groups to coordinate their actions more effectively. Consequently, we have focused on mapping out plausible transformation pathways and encouraging the adoption of a shared vision among the many interested brands, investors, ministerial departments, and development partners in East Africa.

As part of this, the team has collaborated closely with governments across the region, strengthening their ability to coordinate the industry, promote investment and respond to the demands of buyers and manufacturers. In particular, we have built strong relationships with the governments in Kenya, Uganda, and Tanzania, supporting the development of their country-level sector strategies.

In consultation with the Ministry of Industry, Trade, and Enterprise Development in Kenya, the team has sought to improve how the "Cotton, Textiles and Apparel" (CTA) desk works, with the aim of ensuring the function is able to deliver on the government's strategy for the sector. Following a comprehensive assessment of the function, the team shared a set of recommendations with their public sector counterparts. In addition, the programme has actively supported the country's investment promotion agency, ensuring its materials and investor visits effectively showcase the industry's potential and the region's advantages. In parallel, the team has played an instrumental role in supporting the government in its free trade negotiations with the United States.

In Uganda, the team has helped to develop a national CTA strategy and materials which promote the country's investment opportunities, establishing strong relationships with the National Planning Authority, The Ministry of Trade, Industry & Cooperatives, and the Ugandan Investment Authority (see "Highlights in FY21-22" for more info). Moreover, the team continues to engage closely with Tanzanian counterparts, and recently participated in stakeholder workshops

relating to the government's "Cotton-2-Clothing" strategic review. Across the region, the team's discussions with governments on the industry's environmental sustainability and social responsibility are ongoing, and there have been positive developments: there are now three responsible manufacturing business parks under development in Kenya and the government in Uganda has adopted a roadmap for establishing the country as a green manufacturing destination for investors.

As well as extensively supporting governments, the team has engaged with brands which want to build and expand their manufacturing bases in East Africa (see "Highlights in FY21-22" for more info). These leading brands will play a pivotal role in enabling the region to benefit from the industry's migration away from the Far East. They exert a strong influence on the issue of environmental sustainability and compliance frameworks and are pivotal in holding manufacturers accountable to adopt these improved practices. To ensure the brands are aligned with the government in terms of priorities and focus areas, the programme has helped facilitate an ongoing public-private dialogue. In addition, the programme has supplemented its work with established brands by actively seeking to attract new brands to East Africa. This has included direct and targeted engagements and general campaigns which showcase the region as a desirable and responsible location for both sourcing and production.

To effectively engage with governments and brands, the programme has drawn upon industry data and insights which have been generated by the team's independent research and interactions with its network. Increasingly, the team is being recognised as a source of comprehensive and reliable information on the sector and this is strengthening our convening power (see "Highlights in FY21-22" for more info).

COVID-19 sent a shockwave through the global textiles & apparel sector, exposing the extent to which brands depend on supply chains

emanating from the Far East. Amid the crisis, the team's data and technical input played an important role in shaping the response of governments, development partners and the private sector, as well as informing strategies related to the manufacturing and sourcing of personal protective equipment. As the sector recovered from the immediate shock, the team recognised the strategic opportunity, engaging directly with the global and regional brands and investors newly interested in diversifying their portfolios and accelerating vertical integration in East Africa. As the region boasts a competitive speed-to-market and relatively low production costs, the team has made promising in-roads with potential new entrants as well as firms seeking to expand their footprint in the region beyond Ethiopia. Given East Africa meets most of the investment requirements set by brands, the team is focused on fostering greater collaboration between the region's governments and the private sector and effectively capitalising on this post-pandemic industry shift. One specific area which East Africa needs to focus on is the availability of built industrial space that can accommodate incoming investors – as such, the team is focussing on this issue over the next year.

The team's work is gaining momentum and engagements with governments and brands are resulting in higher levels of commitment to the sector's transformation. The team aims to continue playing the role of an honest broker, facilitating connections between brands, manufacturers, development agencies and governments to catalyse investment in the sector. For the industry to deliver game-changing revenues, profits, jobs, and innovations, it is critical stakeholders develop and maintain a commercially strong and responsible set of value chains within the region. Indeed, greater verticality within East Africa will lower the cost of production, increase the speed to market and make the industry more resilient against shocks.

HIGHLIGHTS IN FY21-22

ASSISTING THE GOVERNMENT IN UGANDA WITH STRATEGY DEVELOPMENT AND INVESTMENT PROMOTION

In recent years, the team has played a critical role in shaping how the government in Uganda intends to accelerate the industry's growth trajectory. In May 2021, the government launched its Industrialisation Policy and Strategy, with the Minister of Investments recognising the team as a partner working with the state to advance specific industries. In addition, the team supported the finalisation of the country's CTA strategy, working closely with various government counterparts (including the National Planning Authority, the Ministry of Trade, Industrialization & Cooperatives, and the Ugandan Investment Authority). More recently, the team has been working with the government to define a roadmap for the strategy's implementation, with a particular focus on investing in factory space and spinning capacity.

HELPING LOCAL MANUFACTURERS CAPITALISE ON EXPORT OPPORTUNITIES

International brands appear increasingly interested in reducing their reliance on the long-haul transportation of materials and establishing a production network which consists of vertically integrated regional hubs. To achieve this, brands are keen to establish business-to-business connections within East Africa. Over the last year, the team has identified textiles mills and garment manufacturers that could be competitively integrated into the supply chains of brands. The team is set to work with these firms to help them pass the brand compliance audits and receive accreditation. These audits are a critical step as factories in the region seek to supply international brands.

ESTABLISHING THE TEAM AS A SOURCE OF RELIABLE INDUSTRY DATA AND AN INFLUENTIAL CONVENOR OF INDUSTRY STAKEHOLDERS

The team has focused on building its understanding of the industry's dynamics and potential in East Africa and maintaining its position as the cutting-edge of industry research. Conducting regular surveys and industry-related studies and leveraging an extensive network of operators and experts, the team has amassed a vast dataset and a wealth of insights which the private sector, governments and development partners are using to enrich their discussions, strategies, and operations. Indeed, the team's data and insights have helped ensure the reality on the ground is at the core of industry discussions and – over time – the team has helped inspire a degree of alignment on immediate priorities and a long-term vision for textiles & apparel in East Africa.

WHERE NEXT?

Over the course of the year, the textiles & apparel team is focused on...

- **Supporting existing mills in East Africa as they supply international buyers and build momentum**

  The team is aiming to continue fostering relationships and linkages between international buyers and local manufacturers and technically assisting factories in East Africa as they endeavour to meet compliance and accreditation requirements. In addition, the team will also work with service providers such as industrial audit firms and financial institutions to better tailor products in support of the industry's future growth.

- **Engaging with infrastructure providers and stakeholders in the water, environmental and waste management clusters to develop adequate industrial space.**

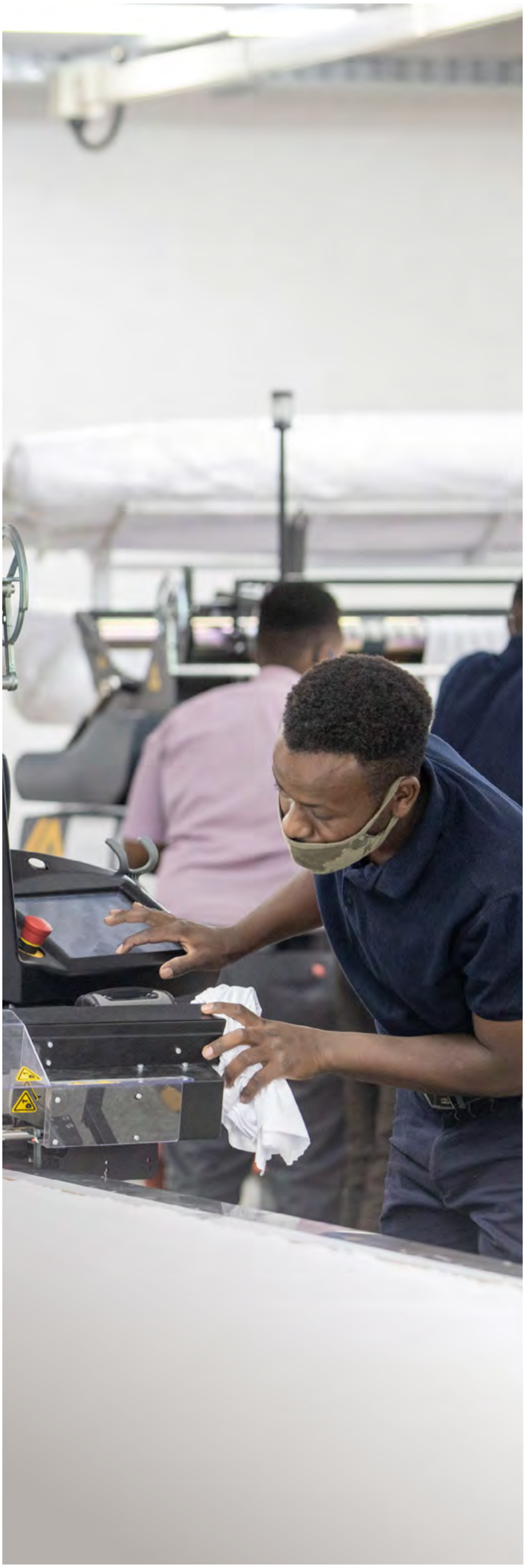
  The team is aiming to work with private developers and other donor agencies to expand the availability of "fit-for-purpose" industrial sheds across the region. This work is critical to ensuring incoming investors can be housed in suitable factory space.

- **Engaging governments in East Africa to ensure they recognise the sector's potential and have the right strategies, plans and capacity in place to unlock this**

  The team is aiming to support governments across the region as they design and implement co-ordination frameworks and trade facilitation plans; expand their manufacturing capacity (in terms of land and technology); target private investment; and adjust the structure of their ministerial departments to best serve the industry's needs.

- **Aligning the initiatives of donors and other players to ensure they productively contribute to the sector's rapid development**

  The team is aiming to continue building and sharing its wealth of industry data and learnings to inform the approach of all parties interested in transforming East Africa's textiles & apparel sector.



WATER

Water is a vital strategic asset for any country and plays a significant role in economic development, serving as a critical resource for agriculture, industry, and domestic consumption. The future of Kenya's economy will in part be determined by its strategic choices around water.

As things stand, Kenya loses $1.5 billion every year due to inadequate water supply, and the country has one of the world's lowest renewable water resource rates. With a growing demand-supply gap, Kenya has the ambition to achieve universal access by 2030 (SDG 6).

Furthermore, changes in weather and climate patterns are set to create additional challenges: by 2030, it is estimated that the demand for water in Kenya will exceed resource availability by 30%.

THE OPPORTUNITY

In Kenya, the government has started to reform the water sector in recent years – and the devolution of authority to country governments has yielded positive change. Moreover, the government has started to reflect on water as a long-term strategic asset for the country – with the relevant ministries taking a keen interest in how other countries have set up their water sectors for success.

While not every part of the institutional arrangement is functioning well – some aspects are working and can serve as a platform moving forward. There is a willingness among stakeholders to learn and an opportunity to continue making progress on areas such as governance and investment promotion.

This commitment to learning and tracking performance is being driven by the growth of relevant data and the increasing level of transparency in the sector. Stakeholders have an opportunity to reflect on what is happening and ensure the right issues are prioritised.

Donors have continued to support the sector and remain committed to its development. However, the issue of sector coordination - both vertical and horizontal – is an outstanding challenge. The rural water sub-sector serves over 70% of the Kenyan population, yet it remains fragmented and lacks effective service delivery models. If appropriate service delivery models can be established, then the finance required for scale should be readily available.

POTENTIAL IMPACT

By 2030 – if Kenya transforms the way water is managed and delivered as a resource – the country could:

- Enable 4.5 million additional people to benefit from increased water access
- Reduce non-revenue water losses by 27%
- Increase the number of commercially viable service providers by 50%
- Leverage $10 million in private finance to support with the strategic management of the resource
- Establish an inter-governmental framework – this could facilitate joint planning and decision-making between the authorities responsible for resource management and water services
- Ensure stakeholders protect catchments and conserve the resource
- Make informed strategic choices around water, ensuring the benefits for agriculture, industry, and human consumption can be sustained into the future

THE JOURNEY SO FAR

Since 2013, the team has worked with the Water Services Regulatory Board (WASREB), Water Sector Trust Fund (WSTF), county governments, private firms, and industry associations to deliver operational efficiencies; strengthen sector governance; develop service delivery models for rural water; stem water wastage; and facilitate greater access to safe drinking water.

Over the course of its long-standing engagement with the water sector in Kenya, the team has sought to:

- Strengthen the regulation of water provision in rural areas
- Enhance the management and delivery of water in urban areas
- Promote the adoption of innovative technologies which reduce the loss of non-revenue water
- Support the development of alternative financing instruments
- Influence advances in policy and governance

The team's work has inspired several major developments in Kenya's water sector.

To reduce operational inefficiency and boost revenues, the team has worked with water utilities to introduce a range of innovations, including GIS mapping tools, automated billing technology, and data management systems. These advances have enabled participating water utilities to enhance how they track their performance, and this has resulted in a 60% reduction of non-revenue losses in some instances (*see "Highlights in FY21-22" for more info*). Indeed, our work with water service providers has benefitted the firms and their customers, who now enjoy more competitive tariffs and enhanced water access. Moreover, the team has extracted learning from its efforts to influence the regulator and inform national guidance materials. Supported by strong technical advice, the urban service delivery sub-sector has developed apace in recent years.

To increase water coverage in rural areas and respond to the high demand for better services, the team has piloted several innovative

delivery models. These models have been rooted in a "blended approach", which seeks to combine community ownership and private sector participation with regulatory change, appropriate financing, and government support. For some participating rural utilities, the pilots have resulted in revenues growing by 130%, with the supply of water increasing from 3 to 18 hours per day. Inspired by the results of these pilots, WASREB collaborated with the team to develop guidelines on how to optimally manage and deliver water in rural areas and agreed to actively monitor the associated key performance indicators (KPIs). The team is now involved in rolling out these approved guidelines across the country, delivering workshops with representatives from several counties.

Given the lack of commercial financing in the sector, the team has extensively tested alternative solutions, exploring the potential of business-to-business linkages, bond markets, and blended finance. For example, in Western Kenya the team designed and implemented a pilot for an equipment leasing model, involving the Kenya Commercial Bank Foundation and rural utilities. In addition, the team has supported WSTF, co-developing its resource mobilisation strategy and strengthening its capacity to catalyse private investment in the sector. Currently, the team is helping WSTF develop criteria which will guide project funding in the urban and rural sub-sectors; water resource management; research and innovation; and the development of commercial financing.

The team's position in the sector was strengthened by the prominence of its role during the COVID-19 crisis. Indeed, the pandemic and its attendant economic impact represented a major threat for the water sector: the regulated utilities, which were in many cases only just covering their operational and maintenance costs, suffered a severe liquidity crunch as a result of their revenues dropping suddenly. The team acted swiftly, designing a

response plan and a medium-term recovery solution in the form of a liquidity facility and presenting this to an in-country Donor Working Group. This solution went on to inform the development of Conditional Liquidity Grant Support which was rolled-out by WASREB and WSTF. In parallel, the team worked with the regulator to collect up-to-date information on the state of the sector amid the crisis, which was used to inform the decision-making of stakeholders. Following the initial shock, the team co-hosted a sector-wide webinar alongside the regulator to enable stakeholders to debate recovery scenarios and the importance of building greater resilience in the sector. Inspired by the discussion, the Ministry of Water & Irrigation issued a summary document and presented this as a way forward for the sector. The document includes calls for greater consolidation in the sector, the improvement of sector coordination and faster adaptation in the face of climate change.

Indeed, there is a growing appetite among the sector stakeholders to address issues around governance, the performance of urban and rural utilities, and water resource management. The team has played a critical role in generating this positive momentum, delivering an impactful global water benchmarking study in partnership with the Ministry of Water & Sanitation and drafting a Water Governance Training Handbook alongside the regulator (*see "Highlights in FY21-22" for more info*).

HIGHLIGHTS IN FY21-22

CHARTING THE SECTOR'S FUTURE WITH A GLOBAL WATER BENCHMARKING STUDY

To enrich the national discussion on the future of water in the country and align stakeholders on a vision for change, the team and the Ministry of Water & Irrigation co-commissioned a global benchmarking study, with a view to capture the transformation journeys of water sectors elsewhere and identify good practices and innovations which could be feasibly applied in Kenya. After the findings were shared with industry and government stakeholders at a dedicated workshop, a technical working group was promptly set up, tasked with developing and implementing an action plan based on the major change initiatives identified in the study. Backed by the highest levels of government, the team is engaging closely with the working group to ensure the action plan results in impactful change for the sector.

MAKING HEADWAY ON THE PROBLEM OF CORPORATE GOVERNANCE

Bringing together 50+ stakeholders, the team helped the regulator organise a sector-wide dialogue which focused on the issue of poor corporate governance in utilities. Following the roundtable and the team's ongoing engagement in this area, the two levels of government and industry stakeholders acknowledged the need to address the problem. The team's development of the Water Governance Training Handbook in partnership with WASREB, its launch by high level officials from the Ministry of Water & Sanitation, and the commitment to deliver the training at the Kenya School of Government illustrate how the challenge is now being prioritised.

BOOSTING THE OPERATIONAL PERFORMANCE OF WATER UTILITIES

The cohort of water utilities supported by the team - Isiolo, Nanyuki, Malindi, Busia and Muranga South - have made tremendous improvements over the years against KPIs in a range of areas (e.g. non-revenue water, governance, consumer engagement, and commercial viability). Four of the participating utilities were ranked among the top ten and most improved in Kenya. In some cases, the firms have upgraded their operations and increased their capacity to such an extent that the regulator has allowed them to increase their water tariff, enabling a cost recovery of over 120%. Indeed, despite a national rise in non-revenue water, the utilities supported by the team registered a 3% average reduction in water losses. These firms are now actively reinvesting in further improvements and are no longer in need of technical assistance.

The implementation of performance-based contracts for the reduction of non-revenue water in Muranga South has helped increase monthly revenue by 30%. To achieve this, the private operator mobilised their own resources and worked with utility staff to stem water losses in Kandara township. The team played a pivotal role in strengthening the relationship between the two parties, and this has helped trigger ongoing investment.

As a result of co-creation and cost sharing with WASPA on the utility capacity development programme, the association registered a positive bottom-line (turning a net budget deficit of KES 5.2 million into a surplus of KES 3.8 million). WASPA's enhanced financial performance is expected to enable the organisation to cover its cost and expand its reach to non-member utilities.

WHERE NEXT?

Over the course of the year, the water team is focused on...

- **Convening the government and donors around a sector vision and learning from how other countries have transformed their water sectors**

  The team is aiming to help industry players adopt innovations identified in the global benchmarking study – and explore the appetite of stakeholders to look more strategically at water resource management.

- **Enhancing coordination mechanisms, information flows, transparency, and the sector's overall governance, to ensure there is greater accountability for delivery**

  The team is aiming to assist the industry's association (WASPA) and regulator (WASREB) in delivering peer-to-peer learning events and staff trainings on water governance and water loss management – and ensure the inter-governmental framework is adopted by the national and county governments.

- **Working with counties and utility firms to improve performance levels**

  The team is aiming to continue enhancing the operational efficiency and commercial sustainability of a significant number of utilities via technical assistance, helping firms adopt best practices, derive insights from data, and access developmental and commercial finance in order to sustain their services.

- **Stimulating innovation and trialling high-potential service delivery models in rural areas**

  The team is aiming to help several county governments implement and evaluate new service delivery models which adhere to the regulator-approved rural guidelines – and support large-scale providers in the consolidation of their services.

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