Investing for Impact

A Strategy of Choice for African Policymakers
Executive summary

Over the last decade, the main driver of economic progress across the African continent has arguably not been Official Development Assistance but growth, underpinned by private sector activity. This trend is set to continue, with private capital forecast to be the most important source of long-term finance. At the same time, an increase in the levels of social inequality and environmental degradation in many African countries has underscored the importance of a more inclusive model of progress.

Impact investment is a strategy to align the power of private markets to the social and environmental development needs of society-at-large. From 2012-13, the Rockefeller Foundation, through its Impact Investing initiative, funded research in five Sub-Saharan African countries' with the aim of understanding the barriers for impact investing across Africa, as well as recommending national policies to encourage the growth of the industry. This report synthesises the findings of that work, examining the potential of impact investing as a 'strategy of choice' for African policymakers.

Three frameworks are presented to help policymakers understand and maximise the potential of impact investment:

First, an impact investing value chain, which illustrates how asset owners, often through financial intermediaries such as fund managers, invest in enterprises, which are delivering both a solution (to a social or environmental challenge) and a financial return.

Second, a 'Matrix of Motivation', which frames where in the value chain the intention to create societal impact can originate (at the level of the enterprise or investor or policymaker, or combinations thereof) and the wide variety of ways in which an intention to generate societal value can align with an intention to generate financial value. The resulting Matrix encourages policymakers to view the impact investment landscape in its broadest sense, in order to stimulate as many market-based mechanisms as possible to support their development agenda.

Third, a framework for policy design and analysis is presented, which demonstrates the types of policy actions that can enable impact investments and brings these to life with examples of policies already at-work in different African countries.

Finally, we draw these frameworks together through a ‘deep dive’ into the pressing issue of food security, exploring how policy can stimulate a very wide variety of enterprise activity and investment flows to address a critical issue for many African regions.

It is hoped that the numerous case studies in the report, all of which are drawn from African countries, will show impact investing as a powerful tool for tackling societal challenges and as a complement to the more traditional tools of public funding and philanthropy. Ultimately, we hope that the actionable recommendations presented here will help African policymakers to maximise the societal potential of investment in their respective countries.

A note on the approach taken
This report draws primarily upon the findings of five country-level studies. It also presents ideas raised in associated global research and key insights from a series of interviews conducted with stakeholders from across the impact investing ecosystem in Africa. We acknowledge that Africa has over 50 distinct countries, each with their own cultures, history and politics. The intention of this report is not to generalise but rather to highlight common themes that are relevant across the continent. Indeed, it is a characteristic of the impact investing industry globally that countries - and policymakers - are learning from each other. Finally, while the research examines issues affecting the broad investment environment (e.g. factors such as ease of doing business) our focus is on highlighting areas where policy can improve the specific environment for impact investing.

About the authors
Bridges IMPACT+ is the advisory arm of Bridges Ventures LLP, a specialist fund manager dedicated exclusively to using an impact-driven investment approach to create superior returns for both investors and society at large.

AVCA aims to promote and catalyse the private equity and venture capital industry in Africa. Memberships span private equity and venture capital firms, institutional investors, foundations and endowments, international development institutions, professional service firms and academia – all united by a common purpose: to be part of the African growth story.

The case team for this work were Clara Barby, David Barley, Nishita Dewan and Ponmile Osibo. Please direct any feedback or further enquiries about this report to info@bridgesventures.com

1 Research was carried out by five grantees: Strathmore Business School (Kenya), Lagos Business School (Nigeria), Dalberg Global Development Advisors working in collaboration with APX (Investment Promotion and Major Projects Agency) (Senegal), the Government of Ghana’s Venture Capital Trust Fund (VCTF) and Greater Capital (South Africa). The Senegal country report: Assessment of Impact Investing Policy in Senegal is available at http://dalberg.com/documents/Impact_Investing_Senegal_Slug.pdf


3 Interviews were conducted with the majority of investors (fund manager intermediaries) for the impact investing case studies presented through this report. As well as discussing the individual cases, questions focused on the perceived barriers and enablers to impact investing generally.
Introduction: the relevance of impact investing in Africa

The African development agenda
In the coming years, African policymakers face a unique challenge and opportunity: impressive economic performance, manifested as strong growth rates in several African countries over the last decade, has bolstered expectations that the continent will be an important and equal player in the global economy. Yet, for most African governments, despite this growth and substantial progress towards meeting some of the Millennium Development Goals (MDGs), the increasing trends of population growth, environmental change, resource scarcity and civil unrest may actually make social-economic development goals harder to achieve going forwards.

The need for more and better investment
Recent estimates place the total global post-2015 development financing gap at between US$3180 and US$500 billion annually (by comparison, total net official development assistance by DAC donors was US$126 billion in 2012), of which well over 50% will be required in Africa and South Asia alone. For Africa, the region currently most dependent on external resources, and in particular Official Development Assistance (ODA), the main part of these resources will not be aid from developed countries, nor from public expenditure. Even over the last decade, the main driver of progress was not Official Development Assistance flows but growth, underpinned by private sector activity. Looking forward, the most important source of long-term finance will be private capital, such as foreign direct investment and portfolio investment from pension funds, as well as investment from sovereign wealth funds and development banks. Africa doesn’t just need more investment though, the nature of investment must improve too. While globalisation and economic liberalisation has hugely increased both prosperity and economic efficiency, increases in the levels of social inequality and environmental degradation have underlined that it has also come at a high cost to society. Investment is required that generates, rather than undermines, social and environmental goods. Without it, there is a very real danger that the benefits that do accrue through economic growth could do so without a net positive social gain.

Governments have an incredibly important role to play in guiding investment. Whether this is through incentivising investment to address social and environmental challenges, stepping in with catalytic investment in markets where the business case may not stack up, ensuring that investment prices ‘tell the truth’ about environmental costs, or ensuring that the long view is not lost amid the search for returns on capital in the next financial quarter, their role is paramount. Any investments that effectively and efficiently deliver societal benefit evoke a strong case for government support.

How is impact investing relevant?
The diagram below shows a simplified version of the traditional investment value chain. This same value chain occurs in impact investment with one distinct difference: in impact investment, investments are made with the intention to generate positive social and environmental impact alongside a financial return. In other words, while all investments create various impacts (which can be positive or negative), impact investments are distinguished by their deliberate intention to generate specific positive impacts, which includes an articulation of the societal challenge they are seeking to address, as well as measurement of progress against such social or environmental goals.

For Africa, many of the issues relevant to public funders and charities are also the domain of impact investing: inadequate health, housing, and malnutrition, low educational levels, limited access to clean water, sanitation and hygiene, employment challenges, social protection measures, low levels of agricultural productivity, infrastructure, limited financial and professional services availability and low levels of productivity in the economy.

Why is this relevant to policymakers? The explicit distinction of impact investments from other forms of investment (which unintentionally generate positive and negative externalities) is useful for anyone wanting to create and measure positive social change because it expands the toolbox of strategies at their disposal. Just as the traditional tools of public funding and aid are used to address societal challenges (and measured in their success at doing so), so too can an array of private investors and enterprises be enabled to deliver significant impact, with the results measured. This is particularly relevant for African policymakers looking to grow their capacity to drive development agendas.

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4 According to the 2013 MDG Report published by the UN Economic Commission for Africa, the African Union, the African Development Bank and the UN Development Programmes, at the regional level Africa as a whole is 25% short of meeting MDGs 2, 3 and 6 (universal primary education; gender equality and women’s empowerment; combating key communicable and non-communicable diseases). See www.un.org/ development/ngos/undp/mdg-reports/africa-collection/
7 http://www.theinstitute.org/impact/content/Internal_104.html
The landscape of impact investment

The diversity of investors and enterprises that the policymaker can support to address their development agenda is a key merit of impact investment. It is also a major challenge: even within the group of actors demonstrating intent and measurement, there are a multitude of approaches. For policymakers wishing to maximise the potential of all these approaches, a clear understanding of the relevant landscape is critical. Rather than scrutinise precise definitions, we have taken an empirical view of how the impact investment market is evolving in each of the five case study countries, in the hope that the resulting framework is also relevant for policymakers in other African countries too.

Impact investment approaches vary not only in terms of the enterprise model they use to generate societal change but also in terms of their financial motivation, which can also differ at both the level of the enterprise and the investor. We have developed the following ‘spectrums’ to help clarify the various approaches of investors and enterprises that make up the impact investing eco-system. In doing so, we aim to clarify the wide variety of agents that policymakers can enable. Importantly, we use only dotted lines to distinguish between types, as we do not want to over-simplify the picture and recognise that some enterprises and investors may consider themselves as between or across categories.

The 3 Ps: Product, Practices, Place

An impact investing approach creates positive impact by providing capital to an enterprise that addresses a societal challenge. The models that enterprises use to address these challenges vary widely but can be grouped into three broad approaches:

Product: An enterprise can deliver a socially-beneficial product (or service) to underserved customers. This can mean creating access for previously excluded customers, or improving quality. In Kenya, Bridge International Academies are providing affordable primary schooling to low-income families across urban communities. Their product is a ‘school in a box’ concept that can be set up, operated and scaled at a low marginal cost but with a focus on quality. As a result, hundreds of school children from across Kenya’s poorest communities have received a basic primary education and attained essential life-skills.

Practices: An enterprise can adapt its business model to increase the participation of disadvantaged populations. In Burkina Faso, Fruiteq is a privately held food and agricultural export company, which has developed its practices to buy mangoes from more than 500 small-scale producers to whom they provide technical training and financial support. Fruiteq can sell their products for a ‘fair-trade’ premium, allowing Fruiteq to pay small-scale farmers three to five times the price they would receive selling mangoes on the local market.

Place: An enterprise can locate its operations in an underserved community, generating economic benefits, such as significant job creation, increased tax revenues or enhanced infrastructure. For example, Athi River Steel have set up in peripheral areas of Kenya, and created a significant number of high-quality jobs in areas with few formal employment opportunities.

Left and top: Sekaf, organic shea warehouse, Ghana.
Above: Sekaf, shea butter, finished product.
The New Paradigm

### The Enterprise Spectrum

There are many organisations whose ability to address a social challenge requires grant funding, with no capital repayment. We call the motivation of these models **Impact-only**. At the same time, the evolution of social enterprises has shown that there are also situations where a social or environmental need requires only some financial trade-off, rather than complete financial loss. In cases where this is possible, the result can be a more sustainable, scalable solution than charity. We call these models **Impact-first**.

Taking this further, there are also enterprises which recognise that some social or environmental issues can create highly commercial growth opportunities, with the potential for an enterprise to deliver targeted societal impact alongside market, or even above market, risk-adjusted financial returns. We call enterprises adopting this approach **Lock-step** enterprises because the societal impact is inextricably linked to the enterprise’s ability to deliver strong financial returns and vice versa (in other words, impact and investor returns move in ‘lock-step’).

There are also enterprise models which, while not geared to address a specific societal challenge, choose to manage the environmental, social and governance (ESG) impacts of their day-to-day business operations in order not only to minimise any negative impacts but also to increase positive impacts, contributing to best practice standards for their industry. We call these **Responsible** enterprises. Those enterprises that have limited or no regard for their environmental, social or governance practices we call **Commercial-only**.

### The Investor Spectrum

The focus of investors can be mapped along the same spectrum. While grant funders, with an **Impact-only** motivation, continue to play a critical role in capital provision, the **Impact-first** investor has also emerged – an investor who is willing to back sustainable, often profitable, business models that cannot generate market-rate risk-adjusted returns due to the nature of the impact being created. The **Lock-step** investor focuses on one or a cluster of social or environmental solutions that can generate market-rate or market-beating financial returns, while the **Responsible** investor seeks to optimise the environmental, social and governance practices of its investee enterprises (as opposed to seeking out enterprise models that address a specific social or environmental challenge).

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**KEY**

- **Focus**: Models whose ability to address a societal issue cannot generate a financial return to investors
- **Examples**: More detail on these examples can be found in the Appendix

**The Enterprise Spectrum**

<table>
<thead>
<tr>
<th>Focus</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact-only</td>
<td>Proplast, Waste management Senegal, 2010</td>
</tr>
<tr>
<td>Impact-first</td>
<td>Takamoto Biogas, Offgrid energy access Kenya, 2011</td>
</tr>
<tr>
<td>Lock-step</td>
<td>Nest for All, Access to healthcare Senegal, 2012</td>
</tr>
<tr>
<td>Responsible</td>
<td>Pwani Feeds, Animal feed manufacturing company Kenya, 1998</td>
</tr>
<tr>
<td>Commercial-only</td>
<td>SOCOCIM/Vicat, Cement manufacturing Senegal, 1999</td>
</tr>
</tbody>
</table>

**The Investor Spectrum**

<table>
<thead>
<tr>
<th>Focus</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact-only</td>
<td>DFID, DFID-CDC Impact Fund Sub-Saharan Africa and South Asia $125m, 2012</td>
</tr>
<tr>
<td>Impact-first</td>
<td>Investisseurs &amp; Partenaires PDEV Fund PanAfrica $42mn, 2002</td>
</tr>
<tr>
<td>Lock-step</td>
<td>Jacana Partners Jackson SME Fund Sub-Saharan Africa $75mn, 2013</td>
</tr>
<tr>
<td>Responsible</td>
<td>Self-owned (pensioner members) Government Employees Pension Fund South Africa, $128bn, 1996</td>
</tr>
<tr>
<td>Commercial-only</td>
<td>CDC, Norfund, EIB for Africa Investment Fund Abraaj Capital Africa Fund, Pan-Africa, $381m, 2008,</td>
</tr>
</tbody>
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**KEY**

- **Focus**: Focus on solutions to social issues that require 100% financial trade-off
- **Examples**: More detail on these examples can be found in the Appendix
The Motivation Matrix

Recalling the Impact Investing Value Chain (page 5), the impact investment ecosystem comprises an enterprise delivering societal impact and an investor providing capital for it to do so. Both the enterprise and the investor are also driven by the surrounding policy and market environment. In many cases, the intention to generate positive impact is shared across the value chain. For example, an impact-first housing developer may raise capital from an impact-first investor and there may also be favourable government policies in place to support their endeavours, such as tax breaks.

However, the reason why we have laid out the Enterprise Spectrum and the Investor Spectrum separately is because an impact investment mechanism can occur even when the intention to create impact (and measurement of it) is not shared by all members of the value chain. In fact, there are many impact investment mechanisms at work in Africa where it is not. For example, a Lock-step healthcare enterprise may be set up with the deliberate intention to create access to affordable maternity care for lower-income populations; yet one of its sources of capital as it grows may be a Commercial-only bank, which is attracted to the enterprise as a creditworthy commercial investment, rather than for its impact intention.

Alternatively, a Responsible enterprise may not have an explicit intention to address a societal issue but, due to its location in an underserved community, a Lock-step investor may invest in the enterprise as a solution to the pressing issue of local unemployment. Here, the intent lies primarily at the level of the investor, who also tends to drive the measurement of social outcomes that result. This model has historically been used significantly by the Development Finance Institutions seeking to generate job creation, tax revenue and economic growth in underserved regions.

Even where both the investor and enterprise share the intention to address societal challenges, they may differ in their financial motivations. For example, we frequently see Impact-only capital (grants or public funding) being used strategically to support the initial growth of models that ultimately aim to become Impact-first, or even Lock-step enterprises, which cannot support capital from financially-motivated investors in the early stages. This form of finance is increasingly known as ‘enterprise philanthropy’.

We also see the use of ‘layered structures’ in Africa, where Impact-first enterprises can be supported by Lock-step or Responsible investors because an Impact-first investor is willing to ‘flex’ the risk-reward profile of their own investment (for example, by providing a first loss position or guarantee) just enough to create a market-rate risk-adjusted return proposition, attracting investors who could not otherwise participate. Through these layered structures, the Impact-first investor can channel more capital to Impact-first enterprises, significantly furthering their impact.

The Matrix below represents the wide range of enterprise-investor combinations that are generating positive societal impact in Africa. The global definition of impact investment has largely centred on those value chains where both investor and enterprise are either impact-first or lock-step and demonstrate alignment of their social and financial goals. However, the matrix encourages policymakers to view the impact investment landscape in its broadest sense, in order to stimulate as many investment mechanisms as possible to support their development agenda.

<table>
<thead>
<tr>
<th>Enterprise motivation</th>
<th>Enterprise</th>
<th>Investor motivation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact-only</td>
<td>DFID, AusAid, MF, IFAD &amp; others</td>
<td>Mulago, Jasmine</td>
</tr>
<tr>
<td>Impact-first</td>
<td>African Enterprise Challenge Fund Tanga Fresh Tanzania</td>
<td>Social Investments, Peery</td>
</tr>
<tr>
<td>Lock-step</td>
<td>Various</td>
<td>Root Capital/ Durabilis</td>
</tr>
<tr>
<td>Responsible</td>
<td>Ecotact Kenya</td>
<td>Foundation Terral Senegal</td>
</tr>
<tr>
<td>Commercial-only</td>
<td>Acumen</td>
<td>IFC</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Example Asset owner</th>
<th>Name of intermediary (fund)</th>
<th>Name of enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bridges IMPACT+</td>
<td>AVCA Investing for Impact</td>
<td>A Strategy of Choice for African Policymakers</td>
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</table>

More detail on these examples can be found in the Appendix.
Case studies of impact investing in Africa

**SENEGAL**

**Sector:** Clean energy

**Enterprise:** SPEC

**Model:** Product – providing off-grid access to solar energy

**Example asset owner:** Agenor Francais de Development

**Intermediary:** PROFARCO, CAIAC and BICIS

**Motivation:** Lock-step

**Challenge:** Senegal relies on oil imports to meet its energy needs and suffers from recurrent blackouts due to energy demand outstripping supply. As 65% of the population is off-grid, solar can provide a cheap and practical source of energy. However, the high cost of purchasing and installing PV systems has prevented their large-scale rollout.

**Enterprise solution:** SPEC is a private company founded by a group of Senegalese engineers to promote the solar panel industry in Senegal by the transfer of technology and the establishment of local production, to ultimately substitute the importation of solar panels. SPEC has created a network of local service providers and incentivise small local businesses to distribute and install SPEC’s products to individuals. They also partner with commercial banks to provide end-users with finance to purchase the solar panels.

**Benefits:** The approach has led to making solar electricity immediately available to families who don’t have the resources to buy a photovoltaic kit. 80 villages in Senegal are already benefiting from the renewable energy source.

Source: More information is available in the Senegal grantee report

**GHANA**

**Sector:** Agricultural processing

**Impact enterprise:** Sekaf

**Model:** Practice – Increasing value-add for smallholder farmers

**Asset owner:** SEDF, AGRA, Landin Foundation

**Investment manager:** Ipsy

**Motivation:** Impact-first

**Challenge:** Properly processed Shea nuts are commercially profitable due to a growing demand from the international food and cosmetic industries. In Ghana it is estimated that 600,000 rural women earn income from collecting Shea nuts. However, due to the effort involved with taking nuts to market, shea can become a ‘price taker’, settling for a low price rather than carry the products back home.

**Enterprise solution:** Ipsy has invested in Sekaf, a Ghanaian social enterprise that aims to be an innovative leader in the global Shea industry by coordinating processing, packaging, quality control and logistics to deliver produce and market Shea based beauty and beauty products sourced through an environmentally friendly and ethical supply chain. Sekaf Group provides producer cooperatives with loans, credit facilities and quality control expertise and a higher price for their quality processed Shea butter. In turn this empowers local farmers to increase their income and enter the value chain of the global Shea industry.

**Benefits:** Currently Sekaf employs over 250 women and buys Shea-nuts and Shea butter from approximately 2,500 women. By helping the women with loans, training and quality control expertise, it has directly increased quality of products for which producers receive a fair price. In turn this provides employment security and economic empowerment for cooperative members.


**KENYA**

**Sector:** Manufacturing

**Impact enterprise:** Athi Steel

**Model:** Place – creating a major employment centre in an underserved area

**Example asset owner:** UK DFI – CDC Group

**Intermediary:** Abraj Group

**Motivation:** Responsible

**Challenge:** Around 45% of Kenya’s live in poverty on less than US$1 a day. Opportunities for formal employment or ‘jobs’ are few and far between, yet jobs are a vehicle out of poverty for the poorest in society.

**Enterprise solution:** Athi Steel sources local scrap metals and make it into new steel products. It now produces over 700 high-quality products including nuts and bolts, building materials and water borehole pipes. The company is East Africa’s leading steel producer with exports heading to other parts of Africa. Turnover has risen from US$188,000 in the 1990s to US$18m today, creating regular, salaried jobs that have a significant impact on individuals, their families and communities.

**Benefits:** The number of people employed has risen from 29 in the 1990s to nearly 600 full time jobs today.

Source: www.cdggroup.com/GlobaI/CaIeI%20Studies/AthI%20Steel_Final%20 AthiSteel_4pageexecudy.pdf

**SOUTH AFRICA**

**Sector:** Financial Services and Healthcare

**Enterprise:** AlIlife

**Model:** Product – providing life insurance for HIV+ and diabetics in South Africa

**Example asset owner:** Several including JP Morgan, Omidyar

**Intermediary:** Leapfrog

**Motivation:** Lock-step

**Challenge:** HIV+ and diabetic people often struggle to access life insurance, being considered ‘uninsurable’ by traditional providers. This can restrict people’s ability to insure themselves, access capital, such as home loans, and participate within the regular economy.

**Enterprise solution:** AlIlife’s product range includes life insurance for people living with HIV and/or diabetes. AlIlife’s products are affordable and simple to understand, allowing the uninsured to access life insurance.

**Benefits:** Thanks to AlIlife’s cover, people with HIV can afford to insure themselves, access capital, and participate within the economy. Access to insurance has also been shown to reduce stigma associated with HIV, and significantly improve health outcomes.


**REGIONAL**

**Sector:** Agriculture

**Enterprise:** Western Seed

**Model:** Practices and products – investing in agricultural enterprises

**Example asset owner:** USAID, Gates Foundation, GATSBY, Rockefeller Foundation, JP Morgan

**Intermediary:** Pearl Capital Partners, African Agricultural Capital Fund

**Motivation:** Various

**Challenge:** Make is Kenya’s primary food source and accounts for 14% of rural household income. Most smallholder farmers use farm-saved seed, which often leads to small and irregular yields. Hybrid seeds produce higher yields but adoption rates are low due to insufficient supply and a lack of appropriate marketing and distribution strategies.

**Enterprise solution:** Western Seed has developed a hybrid maize variety that generates a 100% increase in yield over traditional seeds. By launching a Direct Access Sales program, Western Seed can market the hybrid varieties directly to rural farmers in parts of Kenya where farm-saved seed is traditionally used.

**Benefits:** Western Seed and Naseco have helped on average 85,000 smallholder farmers annually achieve increased yields to move from subsistence farming to generating income by selling to local markets. Average income benefit per smallholder farmer is US$94, resulting in nearly US$8m0 million of additional income to smallholder farmers since 2007.

More information: http://westernseedcompany.com/
Barriers to the growth of impact investing across Africa

While there is a compelling case to support the growth of impact investment – and the many case studies here show ‘success stories’ already at work across Africa – all five country-level case studies pointed to significant untapped potential.

This section examines some of the main barriers that are impeding the uptake of impact investing as a strategy to solve social and environmental challenges across Africa. It has been compiled by synthesising local challenges identified in the individual country-level analyses, along with insights from a series of semi-structured interviews with capital providers operating across Africa.

Demand-side barriers

A lack of adequate or appropriate financing sources

“Many entrepreneurs with an impact motivation lack access to seed finance (typically c. USD$10k to $100k) to develop their business model to a stage where they are ready to take on investment and scale their operations. In several African countries, this was described as a ‘missing middle’: a gap of suitable finance for enterprises which are too large to qualify for microfinance and too small to be considered for traditional investment.

Even when an enterprise does succeed in growing beyond start-up phase, appropriate bank finance (often for working capital) can then be a challenge. This barrier is particularly acute because such small-to-medium sized enterprises (SMEs) can form the bulk of an economy. In Ghana, for example, SMEs constitute c. 90% of businesses but have difficulty in accessing credit and avoiding unfavourable terms.”

Overarching barrier

A lack of awareness around impact investing

“There is still work to be done regarding the image of impact investment. For example, many still consider all impact investors to be charitable organisations only.”

“Fund manager interview

A common challenge, relevant to both the supply and demand sides of the impact investing market, is a lack of awareness of the concept of impact investing and little shared understanding of how it works. Enterprises that might be generating social benefits are often unaware of impact investors and the potential pool of ‘aligned’ capital. Similarly, many traditional investors lack awareness that they can invest to generate societal impact, as well as meet their financial return requirements.

There is also scepticism about the distinction between impact investing and traditional investment, since all investment into a developing country is perceived to generate some positive benefits. If the sector is going to develop, there is a need for greater recognition, across a broad range of stakeholders, of what constitutes the impact investing landscape and how it can be used to address pressing social issues.”

Due to varied socio-economic, free-market and political conditions of individual African countries, the specific set of challenges faced will, of course, be unique to each country’s situation. There will also inevitably be sectoral differences. For example, challenges in the health sector, ranging from the delivery of health services, through to the provision of infrastructure required to support a healthy population, can be quite different to those faced in the agriculture sector, where issues of property rights and the provision of training and inputs are key.

Here we have tried to capture the ‘generic’ challenges that are impeding the growth of impact investing, which are most likely to be relevant to many countries and sectors. We have summarised the main challenges identified and categorised them as either ‘demand challenges,’ which impede the development of impactful enterprises, ‘supply challenges’ which limit the supply of capital available to high-impact companies and ‘challenges to matching supply and demand’.

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Due to varied socio-economic, free-market and political conditions of individual African countries, the specific set of challenges faced will, of course, be unique to each country’s situation. There will also inevitably be sectoral differences. For example, challenges in the health sector, ranging from the delivery of health services, through to the provision of infrastructure required to support a healthy population, can be quite different to those faced in the agriculture sector, where issues of property rights and the provision of training and inputs are key.

Here we have tried to capture the ‘generic’ challenges that are impeding the growth of impact investing, which are most likely to be relevant to many countries and sectors. We have summarised the main challenges identified and categorised them as either ‘demand challenges,’ which impede the development of impactful enterprises, ‘supply challenges’ which limit the supply of capital available to high-impact companies and ‘challenges to matching supply and demand’.

Demand-side barriers

A lack of adequate or appropriate financing sources

“Many entrepreneurs with an impact motivation lack access to seed finance (typically c. USD$10k to $100k) to develop their business model to a stage where they are ready to take on investment and scale their operations. In several African countries, this was described as a ‘missing middle’: a gap of suitable finance for enterprises which are too large to qualify for microfinance and too small to be considered for traditional investment.

Even when an enterprise does succeed in growing beyond start-up phase, appropriate bank finance (often for working capital) can then be a challenge. This barrier is particularly acute because such small-to-medium sized enterprises (SMEs) can form the bulk of an economy. In Ghana, for example, SMEs constitute c. 90% of businesses but have difficulty in accessing credit and avoiding unfavourable terms.”

Overarching barrier

A lack of awareness around impact investing

“There is still work to be done regarding the image of impact investment. For example, many still consider all impact investors to be charitable organisations only.”

“Fund manager interview

A common challenge, relevant to both the supply and demand sides of the impact investing market, is a lack of awareness of the concept of impact investing and little shared understanding of how it works. Enterprises that might be generating social benefits are often unaware of impact investors and the potential pool of ‘aligned’ capital. Similarly, many traditional investors lack awareness that they can invest to generate societal impact, as well as meet their financial return requirements.

There is also scepticism about the distinction between impact investing and traditional investment, since all investment into a developing country is perceived to generate some positive benefits. If the sector is going to develop, there is a need for greater recognition, across a broad range of stakeholders, of what constitutes the impact investing landscape and how it can be used to address pressing social issues.”
Limited availability of capacity building services

Impact enterprises often lack the vast experience required to thrive in challenging markets.

Intermediary

Impact-driven enterprises often pioneer new business models that are tailored to the needs (and constraints) of underserved markets. For many this means selling to customers who are difficult to reach, have a low resource base and can be volatile in their patterns of consumption. There is seldom specific support from government to help businesses thrive in these conditions. Where there are support programmes, such as the ADEPME10 and FONDEF11, which actively try to foster entrepreneurship in Senegal, they are not often known about or viewed as prohibitively complex to utilise. Impact-driven enterprises, particularly early-stage ones, require more intensive support - from business plan development through to expert advice on operational and scaling issues - the results of which will often determine the nature (and amount) of investment that they should attract.

Lack of appropriate corporate structures

There are no legal structures that are easy to adopt and enhance our ability to deliver social impact.

Entrepreneur

For impact investing to be successful, entrepreneurs need to be educated and enabled to transform their businesses into corporate structures that are appropriate for investment. In many African countries, there is currently a lack of incentives for SMEs even to convert from informal to formal business structures. Kenya, for example, stands at 126th out of 185 economies on the ease of starting business12. The process requires 10 procedures, takes 32 days and costs 40.4% of income per capita. Although many governments do encourage informal businesses to formalise their structures, largely driven by a desire to generate tax revenues, companies need to be incentivised to do so, especially when the associated costs can be high. Even when entrepreneurs do establish formal business structures, company codes can be outdated and don’t accommodate businesses with a social mission. The Ghana Companies Code, for example, was first drafted in 1963 with no revisions to date. The corporate structure provided by the Act is currently limiting for impact-driven enterprises13.

Regulatory challenges in high impact sectors

In our experience we’ve found that government policy has had a negative impact on our investment process. Recent changes in tax policy have negatively impacted an investment’s ability to build safe and cost-effective transport routes for low-income customers.

Investment Intermediary

Impactful enterprises often work in highly-regulated sectors, due to their emphasis on delivering critical goods and services.

Supply-side barriers

Lack of appropriate investment vehicles

There is a very limited number of fund managers with a track record of investing for impact in Africa.

Asset owner

There are a limited number of fund managers with a track record of pooling private and institutional capital and investing for impact in Africa when compared to North America, Europe and Asia.

At the continental level, language also limits the scope of funds. Typically funds like to invest in a suite of countries where business is conducted in one language. Hence, Francophone or Anglophone funds are typically set up but not necessarily mixed. An additional complication is that many local African pension funds, which represent a critical potential source of finance for the impact investment industry, will not invest outside their country, which conflicts with the need for diversification (which calls for creation of regional rather than country-specific funds).

10 Agency for the Development and Support of Small and Medium Enterprises, Senegal
11 Technical Education and Professional Training Fund, Senegal
13 See: http://ghanalegal.com/?id=3&law=17&t=ghana-laws
Limited deal flow

“Limited high-quality deal flow is the most significant challenge for capital providers looking to make impact investments in Africa.”

Investment intermediary

Limited exit options for impact investors

“Over the last decade, we have not seen enough successful exits. We had one very exciting exit opportunity financially but it would have destroyed the impact, since the buyer did not want to pay the same high prices to smallholder farmers.”

Investment intermediary

Public equity markets and secondary capital markets provide a potential route for selling a company and returning capital to investors. However, in Africa, the equity capital markets are still relatively incipient and offer limited options for sale of a company. With the added consideration of impact preservation on exit, the liquidity challenge becomes even greater still.

An alternative exit is a buy-back by an enterprise’s management team (financial resources and capacity permitting). In many African countries, however, this is not yet practical and would require an adaptation of policy to suit investors’ needs.

Lack of credible and consistent reporting on impact performance

“Outputs are relatively easy to measure; outcomes very difficult; and impact almost impossible.”

Investment intermediary

Growth of the impact investing sector is hampered by a lack of transparency regarding how impact enterprises and funds define, track and report the performance of their activities. Approaches to measurement range from adopting reporting standards such as the IRIS14, to reporting against DFI-defined social, environmental and economic indicators, through to using custom-developed approaches.

A lack of consistent metrics makes it difficult for investors to compare the social outcomes generated across alternative investments and communicate positive results to key stakeholders. In turn, it is also difficult for investors and investees to communicate about performance and additional opportunities.

Regulation of institutional investors

“Some of the domestic pension funds we have approached cannot invest in private equity at all, let alone impact-oriented private equity.”

Investment intermediary

Some countries in Africa place significant restrictions on domestic institutional investors. This can range from governments placing stringent rules on insurance companies and pension funds, so that they are not permitted to make private equity investments at all, through to the use of specific fiduciary duties, limiting their ability to make higher-risk impact investments. In West African Economic and Monetary Union (also known by its French acronym, UEMOA) countries, for example, the Insurance Regulatory Body (CIMA) does not allow its member insurance companies to invest in private equity funds15. In Nigeria, pension funds are not permitted to make private equity investments. These restrictions limit the growth of the impact investing industry, which is currently dominated by private equity funds, as much-needed domestic capital is prevented from flowing into impact investing vehicles.

14 Impact Reporting and Investment Standards. More information can be found at: http://iris.thegiin.org/
15 See Impact Investing in West Africa www.rockefellerfoundation.org/blog/impact-investing-west-africa
For governments that are serious about creating an enabling environment for impact investing, it is important that they ensure that domestic policies don’t conflict with one another. For example, tax incentives for oil production can effectively draw capital away from investment in renewable energy.\(^{16}\)

Short term fiscal measures can have negative consequences for impact enterprises in the longer term if they are not fully considered. In Senegal, for example, agriculture is a priority sector for the government. However, food security is also a major social challenge that the government needs to meet. Due to the global price rise of staple foods in 2008 and again in 2010/2011, the Senegalese government suspended customs duty and surcharges on selected imported food products. Whilst this was good for short-term food security, it acted to suppress local prices and was detrimental to the domestic agricultural sector and arguably, long-term food security.

The Kenyan government recently changed the tax policy relating to VAT in Q3 2013, which means that, on top of the increased risk we are taking by investing in a highly regulated sector, our investment is now subject to additional 20% tax.\(^{20}\)

For governments that are serious about creating an enabling environment for impact investing, it is important that they ensure that domestic policies don’t conflict with one another. For example, tax incentives for oil production can effectively draw capital away from investment in renewable energy.\(^{16}\)

While this may be a daunting list of challenges, governments have a wide variety of tools that can reduce these barriers and enable impact investing to meet their development priorities. Indeed, our examples shows that, across Africa, a variety of policymakers are already doing so.

The Global Impact Investing Policy Project has developed a useful framework for policy analysis, which groups impact investing policies into three categories, linked to the way they intervene in capital markets:

- increasing the supply of capital from investors, including governments, individuals, foundations, banks, and investment and retirement funds;
- increasing demand from the companies, cooperatives, projects, and other vehicles in need of capital (impactful enterprises); and
- directing capital toward impact investments at the point of exchange, where rules govern the terms of trade and buyers and sellers set prices.

The role a government chooses to play in a policy intervention may be as a direct participant in the market, contributing resources like any other investor or consumer, or as an outside influence, through regulation or by building the infrastructure necessary for impact investments and markets to grow.

Using this policy framework, we have identified 10 key policies that governments can take to help grow the impact investing eco-system in Africa. These actions reflect the findings of the five country-level reports, as well as interviews with a range of impact investing stakeholders from across Africa.\(^{18}\) The recommendations made are intended to be generic and are addressed at the centre of government (presidents’ and prime ministers’ offices, as well as ministries of finance and planning) at the national level.

10 policy recommendations to grow the impact investing ecosystem in Africa

<table>
<thead>
<tr>
<th>Supply development</th>
<th>Directing capital</th>
<th>Demand development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment rules and requirements</td>
<td>Taxes, subsidies, reporting requirements and intermediation</td>
<td>Enabling ‘corporate’ structures</td>
</tr>
<tr>
<td>Co-investment</td>
<td>Procurement</td>
<td>Capacity building</td>
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</table>


17 This framework is drawn from The Global Impact Investing Policy Project: a collaboration between InSight and the Initiative for Responsible Investment at Harvard University, funded by The Rockefeller Foundation, exploring the role of public policy in impact investing.

18 Specific survey and interviews conducted.
## Policy recommendations

### Key Barrier

<table>
<thead>
<tr>
<th>Supply-side barriers</th>
<th>Demand-side barriers</th>
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<tbody>
<tr>
<td>Lack of awareness of the concept of impact investing</td>
<td>Lack of finance sources to grow business</td>
</tr>
<tr>
<td>Lack of investment vehicles</td>
<td>Limited capacity building services</td>
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<tr>
<td>Limited high quality deal flow</td>
<td>Limited exit options</td>
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<td>Limited exit options</td>
<td>Lack of appropriate corporate structures</td>
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<tr>
<td>Lack of credible reporting on impact</td>
<td>Regulatory challenges within high-impact sectors</td>
</tr>
<tr>
<td>Regulation of institutional investors</td>
<td><strong>Do or Explain</strong>: Government to expect institutional investors (including banks) to articulate social and environmental impacts</td>
</tr>
<tr>
<td>‘Directing’ barriers</td>
<td><strong>Priority Procurement</strong>: Create a competitive advantage for impact-driven enterprises</td>
</tr>
<tr>
<td>Poor policy coherence and competing incentives</td>
<td><strong>Guarantee Programme</strong>: Enable impactful enterprises to demonstrate their creditworthiness</td>
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### Government influence

<table>
<thead>
<tr>
<th>Investment rules &amp; requirements</th>
<th>Taxes, subsidies, reporting requirements and intermediation</th>
<th>Enabling corporate structures</th>
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</table>

**Task Force**: Government to establish an impact investing taskforce to:
1. Explore the country-specific potential of impact investing,
2. Promote a country-relevant definition and
3. Communicate the impact investing concept to all requisite stakeholders.

### Government participation

<table>
<thead>
<tr>
<th>Co-investment</th>
<th>Procurement</th>
<th>Capacity building</th>
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</table>

**Catalytic Capital**: Government investment to stimulate the growth of domestic impact investment funds.

**Investment Readiness Funding**: (see below)

**Regional SME Exchange**: Develop a regional SME exchange to provide liquidity for exit.

**Priority Procurement**: Create a competitive advantage for impact-driven enterprises.

**Guarantee Programme**: Enable impactful enterprises to demonstrate their creditworthiness.

**Investment Readiness Funding**: Provide government funding for investment-readiness (includes incubators, business plan competitions, etc.).
### Overall action

#### Key barrier

- **A lack of awareness of the concept of impact investing**

  **Key recommendations**

  - **TASK FORCE**
    - Governments can establish impact investing task forces to:
      - Explore the country-specific potential of impact investing
      - Promote a country-relevant definition of impact investing
      - Communicate the impact investing concept to all stakeholders

  **Example**
  - The Ghana Institute of Management and Public Administrations (GIMPA), together with the Venture Capital Trust Fund (VCTF), have launched the Centre for Impact Investing as a partnership to engage in advocacy activities to promote impact investing across the country.

#### Recommendations to build supply

<table>
<thead>
<tr>
<th>Key barrier</th>
<th>Key recommendations</th>
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<tbody>
<tr>
<td><strong>Lack of investment vehicles</strong></td>
<td><strong>CATALYTIC CAPITAL</strong></td>
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<td>Governments can invest directly</td>
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<td>into new impact investment</td>
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<td>intermediaries in order to stimulate</td>
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<td>the growth of funds that generate</td>
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<td>both impact and a financial return.</td>
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<td>Such government funding may be</td>
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<td>pari passu with other investors or</td>
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<td>subordinated (in order to further</td>
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<td>incentivise investors) and can also</td>
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<td>work alongside favourable tax</td>
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<td>breaks.</td>
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**Example**
- The Ghanaian Venture Capital Trust Fund (VCTF), for example, is a quasi-Public Fund of Funds which creates a platform for the pooling of counterpart private sector funding to match resources of the government. VCTF’s funds are invested through special purpose entities established with the sole objective of providing financing to the SME sector, mainly in the form of equity and quasi-equity instruments. Investors are offered incentives in the form of tax deductible drawdowns, tax free incomes, and capital gains on venture capital investments. Since inception, the VCTF has deployed $17 million, financing 48 SMEs through five intermediary funds, in addition to providing technical assistance to investors and entrepreneurs. Similar schemes could be adapted to focus on impact across the continent.

### Overall action

#### Key barrier

- **A lack of credible reporting on impact**

  **Key recommendations**

  - **DO OR EXPLAIN**
    - If capital providers are required to either report, or explain why they are not reporting, the social and environmental impacts of their investments, it would encourage the market to agree on conventional frameworks for reporting and could even shift investors’ capital allocation strategies, increasing the overall supply of money for impact investing.

**Example**
- In South Africa, Regulation 28 of the Pension Funds Act promotes the sound management of pension fund assets and includes three key provisions that channel increased capital from pension funds into responsible investment. These include: a requirement that pension funds take into account ESG factors in their investment decision-making process; revised asset allocation guidelines that allow for investment in alternative assets such as private equity; and acknowledgement for investment to meet the needs of beneficiaries while contributing to South Africa’s development goals. Estimates suggest that Regulation 28 applies to $121 million in private pension funds and an additional $110 million in assets held in the Government Employee Pension Fund. Although it is difficult to determine what the exact result of regulation 28 has been, the revised regulation has opened up new possibilities for social innovation and impact investing from the institutional investment community.

#### Regulation of institutional investors

**Key recommendations**

- **FLEXIBLE REGULATION**
  - Governments should review investor regulation to ensure that it is robust but that it also offers the flexibility to participate in and potentially benefit from contemporary capital markets in a responsible way.
  - Effectively targeted regulation can help to unlock capital that would otherwise pass over impact investing opportunities.

**Example**
- The government of Ghana has liberalised its pension fund sector as a result, the Social Security and National Insurance Trust (SSNIT) invests 3% of its portfolio through private equity vehicles.

### Recommendations to match supply and demand

<table>
<thead>
<tr>
<th>Key barrier</th>
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<tbody>
<tr>
<td><strong>Unclear fiscal frameworks</strong></td>
<td><strong>SCRUTINISE FISCAL FRAMEWORKS AND INCENTIVE STRUCTURES</strong></td>
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<td></td>
<td>Governments should undertake detailed analysis of fiscal frameworks to identify the implications of specific policy and fiscal regulations that are hampering the activities of investors and entrepreneurs.</td>
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<td>In order to direct capital to key sectors that would otherwise fail to attract capital, governments should offer tax incentives to reduce investors’ tax liabilities and reporting requirements to ensure that companies act more responsibly.</td>
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</table>

**Example**
- In South Africa, government scrutiny of the fiscal framework resulted in the formulation of the Financial Sector Charter Code, the first voluntary Black Economic Empowerment Charter that represented commitment from an entire sector of the economy to transform the financial services industry in line with the Broad-based Black Economic Empowerment Act to reduce inequality. The Charter sets specific transformation goals and defines key commitments that enable institutions to maximise their contribution toward economic growth and sector transformation.
Recommendations to match supply and demand

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<tr>
<td><strong>Poor policy coherence and competing incentives</strong></td>
<td><strong>PRIORITY PROCUREMENT</strong> Governments should introduce pro-impact procurement policies to incentivize investors to back impact businesses. Such moves have the effect of attracting private investment to impact sectors as they are viewed as having preferential access to markets, thereby creating jobs and providing an enabling environment for local businesses. Example: In Kenya, the Kenyan government agreed to allocate 25% of procurement spend to SMEs. This is intended to drive impact investing in Kenya as the majority of impact-investing enterprises are SMEs, which stand a higher chance of securing government contracts, enabling them to deliver greater impact. However, although this policy had been in place, it had not been put into practice since there are insufficient legal structures to ensure its implementation. In June 2013, the National Treasury enacted the Public Procurement Preference and Reservations (Amendment) Regulations, 2013 that set the stage for the preferential treatment of SMEs in government procurement. At the moment, the government has invited SMEs to submit their registration details in the regions where they operate with a view to creating a database that will be used to assist these enterprises secure tenders.</td>
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Recommendations to develop demand

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<td><strong>GUARANTEE PROGRAMME</strong> Government guarantee programmes, often in the form of public-private partnerships, can enable previously unbankable entrepreneurs or enterprises to demonstrate their creditworthiness and access vital working capital. Example: In Kenya, Kilimo Biasha is a partnership between the Ministry of Agriculture, Equity Bank, the Alliance for a Green Revolution in Africa (Agra) and the International Fund for Agricultural Development (IFAD), in which each partner provides $2.5 million to a loan guarantee fund. Through Kilimo Biasha, smallholder farmers have access to low-interest loans and can procure the necessary inputs to improve productivity. Through the Equity Bank, the government has given out loans of KSHS 2.7 billion (USD 31.8 million equivalent) to 53,266 direct clients. The farmers have been able to produce food crops for domestic use and sell the excess to the market thus increasing their household incomes. Some farmers have diversified their sources of incomes by establishing agency banking outlets where fellow community members can access financial services. Farmers also receive training on improved farming techniques and business management in addition to government vouchers that enable them to purchase new farming inputs.</td>
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<td><strong>NEW CORPORATE LEGAL FORMS</strong> New corporate structures can enable the effective channelling of capital by resolving the limitations of the limited liability or not-for-profit corporate forms. Governments should explore introducing new corporate forms that are more suitable for impact enterprises that are seeking to create social returns alongside financial returns. Example: Across much of central and western Africa, countries are members of the Organisation for the Harmonization of Business Law in Africa (OHADA). They share the same business laws (company law, secured transaction law, insolvency law, and commercial law), and have undertaken an effort to harmonize these laws and regulations since the early 1990s. OHADA members adopted a revised Commercial Law in December 2010, which came into force on May 2011. Among other provisions, the new Company Law introduced the legal framework for the ‘Entrepreneur status,’ a simplified legal status specifically designed for small entrepreneurs with the objective of making them easier to become formal. The result is that individual countries, such as Senegal, have included the application of the new status of ‘entrepreneur’ adopted by OHADA, among their proposed regulatory reforms. Similar laws could be adopted for impact enterprises.</td>
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Policy context

2014 is the African Union’s ‘Year of Agriculture and Food Security.’ Despite several individual success stories in recent years: it is estimated that more than one out of every five people are still denied the right to food.19 The hope now is that African governments can build upon the foundation of the Maputo Declaration of 2003, where CAADP (the Comprehensive African Agricultural Development Programme), was adopted by most governments as the framework for addressing agricultural development and food challenges.

Meeting the food security challenge will require change across all parts of the food system and collaboration between governments, farmers, investors and citizens. Actions will be required that boost smallholder food production in poor countries; put sustainable resource use and ecology at the centre of farming; make financial markets work to address challenges to food security, such as waste all along the supply-chain and food price speculation; and pave the way to cope with higher and more volatile food prices. Although the specific ‘blend’ of the future food system is widely debated, it does seem that there will be roles for both large-scale agricultural producers and smallholders alike. For policymakers, the question is how to create the conditions that will enable both to thrive. For example, while smallholders can benefit from being included in formal value chains, additional support systems such as working capital, training, access to inputs, etc. are often necessary for these benefits to be realised. Further, other dimensions related to nutrition, resource scarcity, natural capital degradation, gender, nutrition, and postharvest waste and losses need to be addressed.

Finally, the attention being given by policymakers to increasing the supply and distribution of food should be complemented by efforts to reduce demand, which would also reduce the pressure on scarce natural resources such as land and water. Public and private sector investment is needed in the ‘post-harvest’ part of the supply chain to reduce food waste, through for example improving rural infrastructure and modernising processing and storage facilities. Action could also be taken to change consumer preferences, to reflect better the social and environmental costs of different foods, and to reduce post market waste.20

An important caveat is that government has a responsibility beyond enabling market-based approaches to food security. There are some things that the market cannot provide. For example, social protection measures such as cash and in-kind transfers, employment guarantee schemes and health and nutrition schemes enable people to deal more effectively with risk and vulnerability in times of crisis or change. They have achieved significant reductions in hunger in some of the world’s largest emerging economies such as Mexico, China, Brazil and India and similar results could be achieved in Africa. ‘Freeing up’ precious government budgets for these should be a priority.

This section illustrates how the various frameworks presented in the report can be used to understand and address a thematic issue which is high on the political agenda for most African governments: food security.
<table>
<thead>
<tr>
<th>Activity</th>
<th>Output</th>
<th>Short-term outcome</th>
<th>Long-term outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geography: Senegal</td>
<td>Asset owner: Various</td>
<td>Intermediary: Duralibas, Root Capital (Impact-first)</td>
<td>Enterprise: Terma (Lock-step)</td>
</tr>
<tr>
<td>Geography: Kenya</td>
<td>Asset owner: DFID – Propcom Mai-karfi</td>
<td>Intermediary: Grundaeo Business Fund (Lock-step)</td>
<td>Enterprise: Puwri Feeds (Responsible)</td>
</tr>
<tr>
<td>Geography: Burkina Faso</td>
<td>Asset owner: SEDF, AGRA, Lundin Foundation</td>
<td>Intermediary: Nafaso (Lock-step)</td>
<td>Enterprise: Nafaso (Lock-step)</td>
</tr>
<tr>
<td>Geography: Nigeria</td>
<td>Asset owner: Olam International (Responsible)</td>
<td>Intermediary: NA – Olam International</td>
<td>Enterprise: Olam International Limited (Responsible)</td>
</tr>
<tr>
<td>Geography: Ghana</td>
<td>Asset owner: Ghana Ministry of Food and Agriculture (MOFA)</td>
<td>Intermediary: AgDevCo (Lock-step)</td>
<td>Enterprise: Bamboo commercial farming block (Commercial-only)</td>
</tr>
<tr>
<td>Geography: Nigeria</td>
<td>Asset owner: DFID – Propcom Mai-karfi (Impact-first)</td>
<td>Intermediary: Doreo Partners (Impact-first)</td>
<td>Enterprise: Babban Gona Farmer Services Limited (Impact-first)</td>
</tr>
</tbody>
</table>

Different motivations in each approach

The above examples illustrate the diversity of actors involved in impact investing approaches that can enhance food security. However, enhancing food security is not necessarily the primary motive for every stakeholder profiled. Strategic and commercial reasons are important too. Here we have mapped the above cases onto the Matrix of Motivation. The below mapping shows that the intent to create positive societal impact can be at any level – either at the level of the enterprise, at the level of the investor, or at the level of the policymaker (or across all three). Developing an understanding of where this intent lies is important for policymakers because it can help them to identify where there is already a concentration of beneficial activity from certain stakeholder groups, as well as where there are gaps, with unfulfilled potential. In both cases, favourable government policies can shape and expand the market.

<table>
<thead>
<tr>
<th>Impact-only</th>
<th>Impact-first</th>
<th>Lock-step</th>
<th>Responsible</th>
<th>Commercial-only</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable Livelihoods and enhanced food security for low-income smallholder farmers</td>
<td>Olam International (Responsible)</td>
<td>Doreo Partners</td>
<td>Various</td>
<td>Various</td>
</tr>
<tr>
<td>Route to market for produce</td>
<td>bamboo commercial farming block</td>
<td>Root Capital / Durabilis</td>
<td>SEDF, AGRA, Lundin Foundation</td>
<td>MOFA</td>
</tr>
<tr>
<td>Improved agricultural yields for ~ 14,000 farmers within the Sahel region</td>
<td>Nafaso (Lock-step)</td>
<td>Injaro Capital Holdings</td>
<td>Various</td>
<td>AgDevCo</td>
</tr>
<tr>
<td>Small farmers increase incomes as food prices rise worldwide</td>
<td>Nucleus farm employees are well paid. Family members are able to start small businesses such as food stalls and shops</td>
<td>Nucleus services increase incomes and skills levels amongst smallholder producers</td>
<td>Various</td>
<td>Olam International (Responsible)</td>
</tr>
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<td>Various</td>
<td>Olam International (Responsible)</td>
</tr>
<tr>
<td>Olam rice nucleus</td>
<td>Olam rice nucleus</td>
<td>Olam rice nucleus</td>
<td>Various</td>
<td>Olam International (Responsible)</td>
</tr>
</tbody>
</table>
Applying the policy model of intervention

Here, we provide examples of how policy has been utilized to support the development of market-based approaches to food security.

Supply development

Examples of policies that are building the supply of capital for market-based approaches to address food security include:

• The National Financial Inclusion Framework, Tanzania aims to ensure that small-scale farmers and farming businesses have access to credit and other services that they require to commercialise. The programme focuses on priorities such as payment platforms, infrastructure and consumer protection, with an overall goal of giving 50% of the country’s population access to formal financial services by 2016, up from 22% today.21 The framework was launched in late 2013 so it is still too early to determine whether or not it has or will be effective.

• The Kilimo Biashara Partnership, Kenya aims to help subsistence farmers make the transition to commercial agriculture through improved access to credit, the purchase of farm inputs and equipment, and a low interest loan facility. Through the partnership, subsistence farmers have now embraced commercial farming and have been able to produce food crops for domestic use and sell the excess to the market thus increasing their household incomes. Some farmers have diversified their sources of incomes by establishing agency banking outlets where fellow community members can access financial services. Currently, the farmers have been contracted to do seed multiplication for seed companies, a move which supports transformation of agriculture from subsistence focus to commercialisation/agribusiness.

Directing capital

Examples of policies that are directing capital for market-based approaches to address food security include:

• The New Alliance for Food Security, Cote d’Ivoire. The Government of Côte d’Ivoire and the G8 members are working together to generate greater private investment in agricultural development, scale innovation, achieve sustainable food security outcomes, reduce poverty and end hunger. Specifically, the government of Cote d’Ivoire intends to improve incentives for private sector investment in agriculture, in particular, taking actions to facilitate inclusive access to and productive use of land, developing and implementing domestic seed laws that encourage increased private sector involvement in this area, and supporting transparent, inclusive, evidence-based policy formulation. It must be noted, however, that the new alliance cooperation frameworks have been met with high levels of criticism from NGOs worldwide, with some commentators calling their design a new wave of colonialism.

• The Home Grown School Feeding Programme, Ghana. Under this programme, children in schools in the poorest parts of the country are provided with one hot meal per day, using locally grown food. The long-term goal is to support food security in three main ways: 1. to provide a ready market for farm output, leading to wealth creation at the rural household and community level; 2. in turn, to help communities to generate wealth through improved incomes and 3. with improved incomes, poor household can afford additional food intake needed to ensure the full complement of nutritional needs that address short-term hunger, under-five and maternal malnutrition. Importantly 80% of supply-chain spend is in the local vicinity of schools, creating immediate local benefits and sustaining school enrolment rates.

Demand development

Examples of policies that build demand for impact investments that address food security across Africa include:

• 2009 Legal reform in Mozambique. 50% of agricultural produce is marketed via cooperatives globally, however cooperatives are often subject to more burdensome regulations than other private sector players with high cost and time burdens associated with setting up a co-operative. They can also be subject to state control and used as vehicles for political patronage. The success of the co-operative sector depends on their operating without government favour or interference. In 2009, the Mozambique government passed a new law to support cooperatives. Under the new law, no minimum initial investment is required to form a cooperative, thus eliminating a key barrier for rural farmers; the autonomy of cooperatives from government intervention is guaranteed, and the delivery of goods or services to a cooperative are not subject to taxation.

22 Source: http://www.theguardian.com/global-development/2014/feb/18/g8-new-alliance-condemned-new-colonialism
24 Source and more information: http://www.cdb.org/
Six criteria to design and assess potential policy

1. Targeting
   The focus of a policy must be carefully matched to its objectives. The more narrowly a policy is targeted, the more likely it is to catalyze a discrete social or environmental outcome. A broadly targeted policy may create an environment in which impact investing more readily occurs, on a larger scale, but will likely lead to some ‘mission drift’ as investors search out the most profitable opportunities from a greater universe of options.

2. Transparency
   Transparency in the substance and mechanism of policy is important for investors, and is likely to be an important factor in determining market participation. In particular cases where information disclosure is the mechanism of policy, the closeness of fit between disclosed information and investment decision also has a direct bearing on investor behaviour.

3. Coordination
   A policy is likely to be more effective if it works in coordination with existing policies and markets to leverage their effectiveness. Although government has a role to play in rapidly advancing the field, small steps forward that build on established infrastructure may be more suitable than bold but isolated innovations.

4. Engagement
   Engagement with impact investors is important for clarifying needs. Investors are less likely to support a policy, and to therefore ensure its effectiveness, if it is conceived of and created absent dialogue with current or prospective sources of capital. This may be especially true where policies impose behavioural changes, or where an otherwise welcome concept might fail in practice because of poor design or implementation.

5. Commitment
   Commitment to a policy should be consistent with the need. Different markets require different levels of real or presumed commitment to a policy from government, in duration, scale, and enforcement. Consistency of a commitment, when it is necessary, alleviates investor uncertainty. However, when government is no longer needed to sustain a market, continued intervention is likely to exacerbate inefficiencies.

6. Implementation
   An institutional context and infrastructure that supports efficient implementation and modification is critical to success. When the specific provisions of a policy hamper its delivery, the capacity of government to respond quickly to a demonstrated need for adjustment is an important determinant of effectiveness.

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Carrying good momentum forward

How can all African governments build on the many and various examples detailed in this deep dive? What else is required?

The specific combination of policies that governments can choose to enable impact investment strategies will be unique to each country’s history, culture and politics.

However, the criteria that make impact investment-specific policies successful may be widely applicable. The Global Impact Investing Policy Project, which explores the role of public policy in impact investing, recommended that governments consider six criteria to design and assess potential policy (see opposite page).

Furthermore, while each country will have its own combination of policy levers, there are certain universal principles that may apply, regardless of the context. For example, all governments should consider implementing the Principles for Responsible Agricultural Investments. In addition, since vulnerable rural low-income families constitute a significant percentage of the population in most African countries, all governments should consider coupling impact investment strategies with social protection initiatives (typically funded by public grants). Ethiopia and Malawi were the first African countries to invest in social protection and productive safety nets and are reaping the benefits.

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The Smallholder Commercialisation Programme, Sierra Leone. This programme is a Government of Sierra Leone initiative aimed at helping the rural poor to increase their food security and incomes on a sustainable basis for long-term economic development. The SCP will invest an estimated US$403m within a five year period to help over 70% of the country’s population out of poverty and in the process boost the economy to put Sierra Leone on the right path of achieving its Millennium Development Goals. The process normally starts with Farmer Field Schools (FFS) where farmers are trained in viable agricultural and soil management technologies before they are grouped into Farmer Based Organisations (FBOs) and provided with subsidised packages that give them the means to develop commercial farming practices. The hallmark of the SCP is the establishment of Agricultural Business Centres (ABCs) nationwide.

The above examples illustrate the types of intervention that government can use to shape market activity and its contribution towards food security. They should be read as indicative and not as a policy recipe. Although the model above provides an important starting point, it does not identify when, specifically, impact investing policy might be justifiable, and in what form. Governments will need to consider their own unique environment, the specific food security challenges and the investment infrastructure within their market. Determining where the market has shortcomings and identifying the appropriate forms of policy intervention are two critical steps for impact investing policy development and assessment.

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26. The Global Impact Investing Policy Project is a collaboration between InSight and the Initiative for Responsible Investment at Harvard University, funded by The Rockefeller Foundation. See: http://www.rockefellerfoundation.org/blog/impact-investing-framework-policy
Concluding remarks

We hope that the frameworks presented in this report provide a useful lens through which politicians can assess the potential for market-based approaches to support their development agendas. In particular, we hope that policymakers recognise the diverse range of enterprise-investor combinations that can generate positive societal impact in Africa, all of which can be enabled and catalysed by well-designed policies. It is already evident in a range of African countries that well-targeted policies can broaden capital flows and encourage a wide variety of market actors to behave in the interest of society at-large. Individual countries can learn from each other's successes and build on this momentum.

At the same time, we do not argue that impact investing is a panacea or should be supported at the expense of charitable approaches or other public funding initiatives. Rather, it is a complementary tool in a broader toolbox of approaches available to policymakers. As the development challenges of the 21st century unfurl globally, philanthropy and government spending will be more important than ever and the scale of the challenges ahead will also necessitate the market to be harnessed. We hope that this report demonstrates the potential of impact investing as a strategy of choice for African policymakers.

Appendix

Ecotact
Ecotact builds and operates high-quality, public pay-per-use toilet and shower facilities, with a focus on low-income communities. Customers pay five shillings ($0.06 USD) to use a facility. Through a Build-Operate-Transfer model of public-private partnership, Ecotact enters into long-term contracts with municipalities to use public land. Ecotact has 34 units operating across 12 municipalities, including two in the slums of Mathare and Kawangare. Its facilities see more than six million uses per year.
http://ecotact.org/ecoweb

Eiffage: Dakar-Diamniadio Toll Road Project
Eiffage has won the contract for construction of a toll-way connecting the Senegalese capital with its airport, and a 30-year concession for its exploitation. Toll-revenues will accrue to Eiffage only if the local population is able to afford and therefore use the toll-way. Financing for the project has been guaranteed by the State of Senegal and the French Development Agency (AFD).

Fan Milk International
Fan Milk Group provides fresh and frozen milk products and juices to seven West-African countries. It sells its products directly to consumers through a unique street vending system, involving bicycles, push carts and, following recent innovations, motorcycles and solar-powered kiosks. The creation of benefits for all of its stakeholders is firmly established in Fan Milk’s mission, as is the production and delivery of high-quality products.
http://www.fanmilk.com/

Nest for All
Nest for All is a medical network in Senegal, proposing comprehensive monitoring of woman and young children. In terms of outcomes, its focus is fourfold: improvement of the health of children and pregnant women by improved quality of service; availability of care to middle and lower income population segments; development of medical professionals; and management of medical waste.
http://www.ietp.com/nest-all

Proplast
Founded in 2010, Proplast aims to clean the streets in Senegal of plastic waste while creating stable jobs through its recycling and sale. Proplast has three missions: an environmental mission which is to collect and treat more than 150 tonnes of plastic waste treated each year and thereby remove more than 273 tonnes of CO2, a social mission which is to employ more than 600 people in the collection of waste and sale of recycled plastic, and an economic mission which is to sell more than 150 tons of goods and generate turnover of FCFA 40 million (about US$ 80,000).
www.proplast-sarl.com

Small Enterprise Foundation
Started in 1992, the Small Enterprise Foundation (SEF) is a not-for-profit, pro-poor microfinance institution operating in South Africa. Its aim is the alleviation of poverty in a sustainable manner through job creation, by enabling the poor to increase their income through microcredit and by assisting them in the accumulation of savings. SEF’s operations utilise a methodology adapted from the Grameen Bank of Bangladesh. Lending is provided to micro-entrepreneurs on the basis of uncollateralised group guarantees.
http://www.xef.co.za
Société d’Articles Hygiéniques

Founded in the mid 1990s, Société d’Articles Hygiéniques (SAH) is Tunisia’s market leader in women and baby hygiene products, primarily through its ‘Lilas’ brand. In early 2014, SAH became successfully listed on the Tunis stock market through an IPO, making it the largest listing on that exchange as well as the exchange’s first private-equity led exit.


SOCOCIM/Vicat

In 1999, Sococim, a major supplier of cement in Senegal and its neighbouring countries, became a wholly-owned subsidiary of the French Vicat Group. Meanwhile, Sococim, mainly through its Foundation, has engaged in several ESG initiatives, including relating to the creation of women empowerment groups among its employees, the promotion of cultural initiatives and education for mentally impaired children.


Sustainable Power Electric Company

Sustainable Power Electric Company (SPEC) is a solar panel developer in Senegal, a country plagued by frequent power cuts. SPEC is playing a key role in providing electricity to light local homes and schools, power fridges, improve security and support small collective enterprises. The government of Senegal actively supports this initiative by subsidising the purchase and installation of solar panels for many rural villages.

http://www.africanexecutive.com/modules/magazine/articles.php?article=7228

Takamoto Biogas

Schutter Energy Ltd. began operations as Takamoto Biogas in 2011 and, by the end of 2012, had installed 34 traditional masonry biogas systems in Central Kenya. As traditional biogas systems are too expensive for their target market, farmers pay a small fee to Takamoto to install the biogas system and then pay for the gas as they use it, which better fits their needs.

http://takamotobiogas.com/

Tanga Fresh

Tanga Fresh is a dairy company that serves the domestic Tanzanian market. It uses bulk SMS and weekly radio programs to improve quality, e.g. by disease alerts, and to build a direct connection with its 3,500 active farmers, who can respond to Tanga Fresh’s two full-time employees with questions. Tanga Fresh assumes all these communication costs, currently covered by a grant from the African Enterprise Challenge Fund.

http://r4d.dfid.gov.uk/PDF/Outputs/AECS/Tanga-fresh-AECF-case-study.pdf

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Errors and omissions are the responsibility of the authors alone.