



Impact
Investors
Foundation

Impact Investors' Foundation

Nigeria and Ghana Impact
Investing and Policy Landscape

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CONTENT

06

EXECUTIVE SUMMARY



SECTION ONE

Evolving context in Nigeria and Ghana
Supply
Demand
Ecosystem
Policy challenges for impact investing
Recommendations

20

CONTEXT AND PROJECT APPROACH



SECTION TWO

Purpose of this study
Defining impact investing
Approach and methodology

32

DETAILED FINDINGS



SECTION THREE

Country context and overviews
Supply
Demand
Ecosystem

74

INVESTMENT POLICY REVIEW AND RECOMMENDATIONS



SECTION FOUR

Policy review: overview
Developing supply
Directing capital
Increasing demand
Policy and advocacy:
recommendations
Policy and advocacy: case
studies

94

ANNEXES



SECTION FIVE

List of organizations interviewed
Interview Prompts



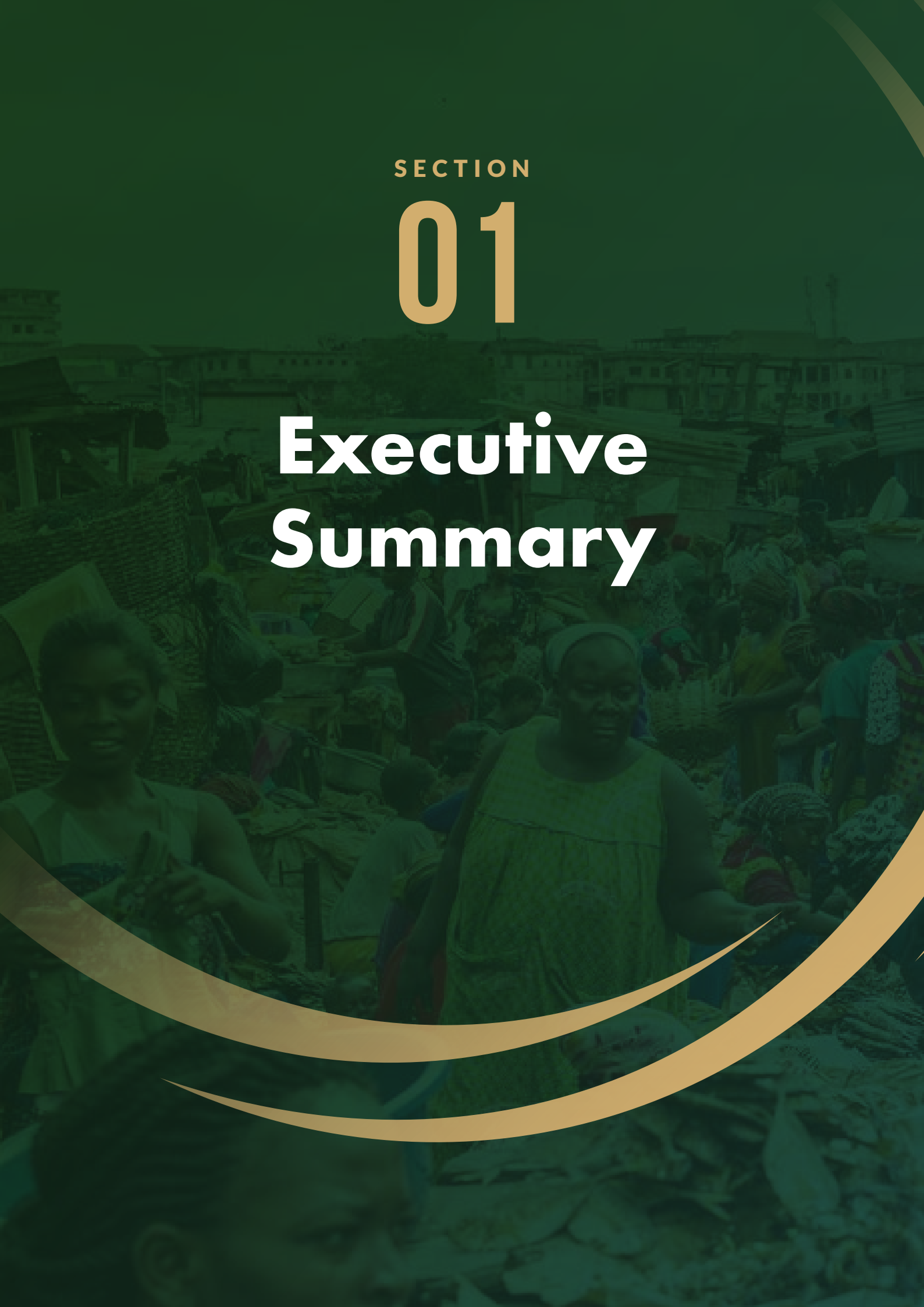
TABLE OF FIGURES

Figure 1: Impact capital deployed by year, 2005-2019	7
Figure 2: Total impact capital deployed per investor type, 2015-2019	8
Figure 3: Investment policy environment framework	17
Figure 4: Nigeria's Economic Growth (2011-2018)	23
Figure 5: Nigeria interest and forex rates, 2011-2018	24
Figure 6: Nigeria, World Bank's Ease of Doing Business Index, 2015-2019	25
Figure 7: Ghana's Economic Growth (2011-2018)	26
Figure 8: Ghana interest and forex rates, 2011-2018	27
Figure 9: Ghana, World Bank's Ease of Doing Business Index, 2015-2019	28
Figure 10: Nigeria impact investor location and type breakdown, September 2019	30
Figure 11: Ghana impact investor location and type breakdown, September 2019	30
Figure 12: Total direct deal values per year in Nigeria and Ghana, 2005-2019	33
Figure 13: Total identified direct impact investments in Nigeria and Ghana, 2015-2019	34
Figure 14: Total identified DFI direct impact investments year by year, 2005-2019	34
Figure 15: Total identified non-DFI direct impact investments year by year, 2005-2019	36
Figure 16: Average transaction size by actor, 2015-2019	36
Figure 17: Direct DFI investments by deal size in Nigeria and Ghana, 2015-2019	37
Figure 18: Direct non-DFI investments by deal size in Nigeria and Ghana, 2015-2019	38
Figure 19: Sector distribution of DFI investments, Nigeria (2015-2019)	39
Figure 20: Sector distribution of DFI investments, Ghana (2015-2019)	39
Figure 21: Sector distribution of non-DFI investments, Nigeria (2015-2019)	40
Figure 22: Sector distribution of non-DFI investments, Ghana (2015-2019)	41
Figure 23: Direct DFI investments by instrument in Nigeria and Ghana, 2015-2019	41
Figure 24: Direct non-DFI investments by instrument in Nigeria and Ghana, 2015-2019	42
Figure 25: Total identified indirect impact investments in Nigeria and Ghana, 2015-2019	43
Figure 26: BDS support requirements across the lifecycle of a business	48

SECTION

01

Executive Summary





EVOLVING CONTEXT IN NIGERIA AND GHANA
SUPPLY
DEMAND
ECOSYSTEM
POLICY CHALLENGES FOR IMPACT INVESTING
RECOMMENDATIONS





This report presents the findings of a research effort to understand impact investing and the associated policy landscapes in Ghana and Nigeria while drawing parallels to West Africa as a whole.

Nigeria
receiving 29%
and Ghana
receiving 25%
of the capital
deployed

In the 2015 Global Impact Investing Network (GIIN) study, 'The Landscape for Impact Investing in West Africa', Nigeria and Ghana represented more than half (54%) of impact investing capital in the region, with Nigeria receiving 29% and Ghana receiving 25% of the capital deployed¹. The remaining impact investing capital in West African markets were found to be highly fragmented, and there are indications that this remains the case². This study primarily focuses on the dominant two countries but also considers the wider West African region whenever possible (recognizing that investors active in Nigeria and Ghana often also invest beyond these two countries and can therefore be relied upon for wider regional insights).

This report aims to fill in the information gap with regards to the impact investing landscape in Ghana and Nigeria.

It builds on the 2015 GIIN study of the West African landscape³. This 2019 study seeks to understand the extent to which:

- Investor experience, deal flow, and outlook have evolved since 2015
- Policy has enabled or inhibited impact investing, and in turn to propose policy recommendations that address the issues identified

Impact investing is defined in alignment with the GIIN definition.

It refers to 'investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return'⁴.

This work uses a mixed methods approach. Its findings were informed by 23 interviews (covering both supply and demand actors across Nigeria and Ghana) and the development of a deal database of 479 transactions (plus almost 62,000 Nigerian domestic DFI transactions). The research was conducted in September 2019.

1 Global Impact Investing Network (2015), The Landscape for Impact Investing in West Africa. Available at: <https://thegiin.org/research/publication/westafricareport> (Accessed 3 December 2019)

2 Investors operating across multiple countries in the West Africa region noted broadly consistent country preferences, with Nigeria, then Ghana, being their major focus areas, followed by Ivory Coast and Senegal. They also noted the fragmented nature of the market overall.

3 The previous GIIN work gathered transaction data from 2005 to 2015, with 2015 reflecting year-to-date partial data only. This study therefore gathered full-year data for 2015 to 2018, and included year-to-date partial data for 2019.

4 Global Impact Investing Network, What You Need to Know About Impact Investing. Retrieved from: <https://thegiin.org/impact-investing/> Oanda.com, December 2019



I.1

EVOLVING CONTEXT IN NIGERIA AND GHANA

Since 2015, both Nigeria and Ghana have experienced deteriorating macroeconomic environments. Nigeria experienced a recession in 2016 and the GDP growth rate for each of the countries has slowed.

Between 2015 and 2019, both the Nigerian naira (NGN) and Ghanaian cedi (GHS) experienced devaluations against the US dollar (from 197 to 307 NGN:USD and from 3.78 to 5.63 GHS:USD)⁵. However, over the same period, both Nigeria and Ghana saw increases in economic diversification and improvements in the ease of doing business, although the ease of doing business remains particularly challenging in Nigeria. Lending remained constrained for micro, small, and medium size enterprises (MSMEs) in both countries. Although prime lending rate in Ghana has declined from a high of 26% in 2015 to 16% today, banks typically charge SMEs higher fees and interest rates (as high as 60%).

This report analyses the effects this evolving context has had on impact investing since 2015.

It finds that despite a deteriorating economic climate, the volume of impact capital deployed increased. This reflects the fact that where investors had already raised funds to be deployed in the region, they remained committed and continued to deploy capital. That said, investors noted that it became more difficult to source quality deals, while on the demand-side business growth was often stifled by a tougher economy.

The findings will be summarized against the three categories of actors interviewed, before turning to consider the policy environment.

These three categories of actor are: supply actors (sources of impact capital), demand actors (businesses seeking impact investment), and ecosystem actors (the range of incubators, accelerators, and technical assistance facilities that enable the impact investing ecosystem).

⁵ Oanda.com, December 2019



I.2 SUPPLY

On the supply-side, investors accepted many of the deteriorations in the macroeconomic environment as a given when operating in the region.

Once investors had raised funds and made a commitment to deploy capital in the region, they continued to do so (although the environment has at times made additional fundraising more difficult). The relatively patient nature of impact capital has, to an extent, allowed some investors to weather the negative effects of short-term volatility because they use a longer time horizon to assess their return on investment.

Although the Ease of Doing Business Index performance improved for both countries, investors continued to note significant challenges, particularly in Nigeria.

That said, there was often a sense that, given the size and materiality of the market, the difficulties of doing business were simply a cost of accessing a sizeable ‘must-reach’ market in West Africa.

Despite a worsening economic climate, the number of impact investors active in Ghana and Nigeria increased markedly.

This reflected a significant increase in non-DFI (development finance institution) investors pursuing impact-oriented deals and courting impact capital in their fundraising activities. Many of these investors focus on commercially viable deals that also have an impact narrative as opposed to providing concessional capital and accepting below market rate returns. For this reason, truly patient impact capital—that accepts below market returns in an attempt to invest in riskier or higher impact deals—remains in short supply.

With this growth in impact investing, actors’ overall deal flows increased but reflected some of the economic uncertainty.

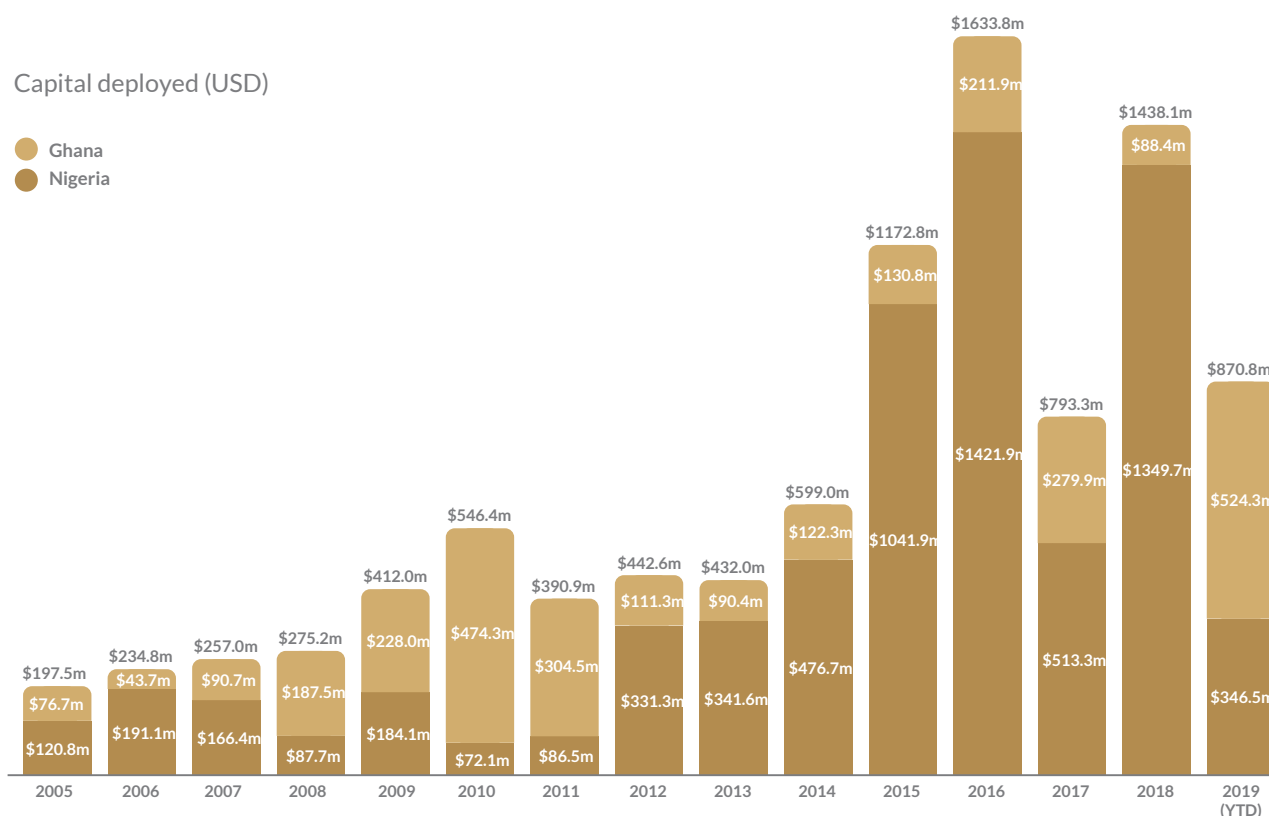
As shown in Figure 1, deal flows between 2015 and 2018 still indicate record highs relative to pre-2015 data⁶. This in part reflects the increased number of impact investors in the market, but the overall increase in deal flow has not been proportional to the increase in the number of investors. Deal flow has also been volatile, with inconsistencies year-on-year that correspond to the wider macroeconomic environment. It reached a record high in 2016 then slowed in 2017 and picked up again in 2018.

⁶ Note: 2019 data reflects the available data as of September 2019. As such, it reflects only a partial year. It is also of note that there is often a lag time in data being made available by investors.

Nigeria continues to experience growth in deal flow, but Ghana has yet to replicate its 2010 peak.

This likely reflects the greater focus placed on Nigeria by development institutions, as well as the opportunities offered by the sheer size of the Nigerian economy (outweighing other challenges such as barriers to ease of doing business). This disparity can also be seen in the relative growth of the Nigerian and Ghanaian impact investing markets. While they were comparable in the 2015 report (29% and 25% of the overall West African market respectively), impact investing transactions in Nigeria since 2015 have been 3.9 times greater in value than those in Ghana (with \$4.7 billion in transactions in Nigeria and just \$1.2 billion in transactions in Ghana)⁷.

Figure 1: Impact capital deployed by year, 2005-2019



DFIs continue to dominate activity in Ghana and Nigeria through direct investment, while also driving significant activity through indirect investment and through the deployment of ‘fund of funds’ models.

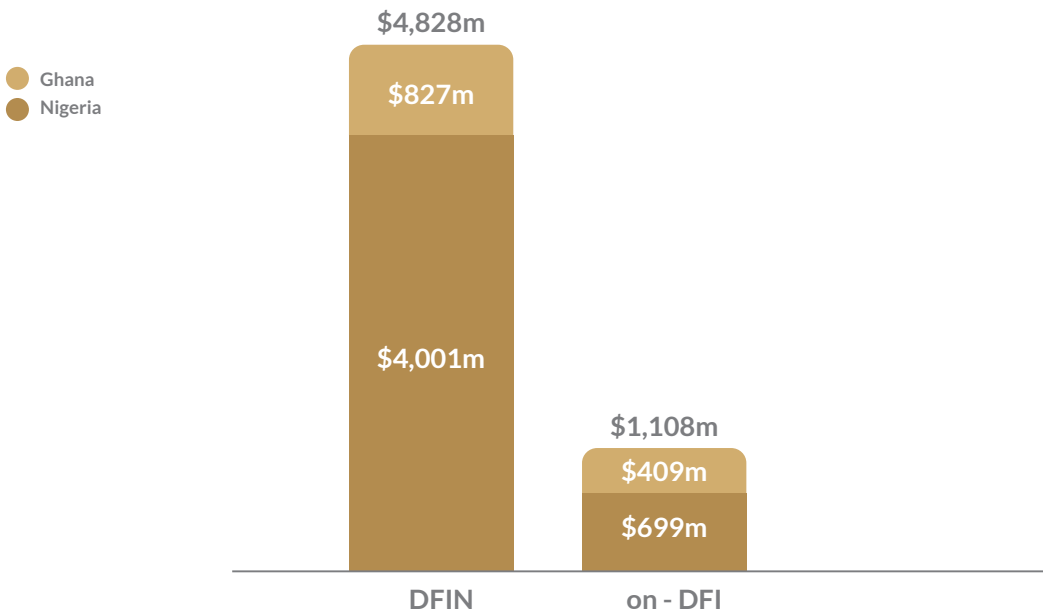
DFI transactions reflect 81% of direct investment capital deployed in Nigeria and Ghana (Figure 2). Although this is lower than the previous 2015 study found (when they represented 97% of the market), they appear to be allocating increasing amounts of capital by funding non-DFI investors through a ‘fund of funds’ model⁸. DFIs also drove 90% of indirect investment transactions identified. Given their dominance, DFIs are significant drivers of the deal flow patterns outlined above—DFI direct investment was at a record high in 2016, declined in 2017, and recovered in 2018. Interviews and desk research on DFIs suggest that the decline in direct investments

⁷ Note: given the scope of work focused on Nigeria and Ghana, updated data is not available for the rest of West Africa.

⁸ Although this study did not set out to quantify fundraising activity, several non-DFI investors interviewed noted that they were heavily funded by DFIs (ranging from 30% to 100% of their funding coming from DFIs)

reflects an increased level of caution, a response to the review of accrued risk profiles following the intense transaction period in 2016, and a revised set of investment strategies.

Figure 2: Total impact capital deployed per investor type, 2015 - 2019



Transaction sizes remain relatively stable for DFIs, averaging \$56.9 million, while non-DFI transaction sizes have increased moderately from \$2.2 million to \$2.6 million^{9,10}, .

For DFI actors, there remains a strong desire to seek out large transactions, which enable them to keep transaction costs manageable. Many interviewees noted that even where DFIs are conducting indirect investment (e.g., providing on-lending facilities to banks), they are often also requesting banks to lend at relatively large loan sizes (at times in a manner not fully aligned with market needs). With non-DFI actors, the increasingly commercial nature of impact investing creates upward pressure on ticket size because the relatively fixed transaction costs can erode profits on smaller transactions. Amongst Non-DFIs, by volume, 67% of transactions are still below \$1 million (vs. 83% across West Africa in the previous study) but these are outweighed in value by larger transactions.

Sector coverage has diversified across the board in alignment with the GDP of both economies.

Across Ghana and Nigeria, agriculture, infrastructure, energy and public-to-public lending¹¹ reflect 58% of the total impact capital deployed, often also in alignment with the dominant sectors in the economy. In Nigeria, agriculture, public-to-public lending and energy reflect the top 3 sectors and total 56% of impact capital deployed. In Ghana, ICT, infrastructure, and financial services reflect the top 3 sectors, totalling 58% of impact capital deployed. The non-DFI space shows a more diversified transaction mix overall. In this domain, Nigeria sees a greater focus on ICT and manufacturing compared to Ghana, while Ghana sees an outsized focus on financial services.

9 The database also includes three Nigerian DFIs with almost 62,000 deals at an average deal size of \$30,000. When reporting average transaction sizes and number of deals, this report splits the analysis between international DFIs and Nigerian DFIs due to the very different nature of their deals.
 10 Note that transaction sizes represent averages across all deal sizes, and includes many sectors where typical deal sizes are larger (e.g., energy, infrastructure)
 11 Public-to-public lending excludes direct general budget support and instead focuses on DFIs that fund government-led development projects, typically through debt financing.

Although DFIs continue to rely heavily on debt-based instruments, non-DFIs are shifting towards an increased use of equity¹².

By value, where the instrument was known, 95% of DFI transactions were debt-based¹³. This reflects the lower risk tolerance of DFIs and the easy route to exit offered by debt. That said, 67% of non-DFI transactions by overall value were equity-based. This increasing deployment of non-DFI equity since 2015 reflects the realities of the economic environment. Entrepreneurs became more willing to give up equity during difficult economic times (often in response to increasingly crippling US dollar denominated debts or weakening market demand). On the positive side, this shift could sensitize a wider audience to the benefits of equity investment.

The obstacles faced by impact investors remain largely consistent with those identified in previous studies and often mirror the wider challenges faced by investors beyond the impact space. The worsening economic climate does, at times, exacerbates these challenges.

Investors still report significant investee-level challenges that hinder their ability to execute deals.

They encounter significant difficulties finding investor-ready businesses that meet both financial and impact criteria. This is often driven by the dominance of a small number of economic sectors and a fragmented West African market that limits the size of the opportunity relative to its potential. Meanwhile, businesses often suffer critical gaps in human capital, limited levels of professionalization, and poor operational data. As one investor noted, even relatively mature businesses require a ‘moderate to heavy lift for them to reach investment readiness’.

Challenges within the impact investing market (and wider financial markets) also exist, including competition for a small number of quality deals, fundraising difficulties, and shallow secondary markets that hinder exits.

The increased number of actors in the market has led to an increased number of investors chasing the same scarce deals. In turn, investors report that valuations have recently inflated. Shallow secondary markets exacerbate the weak exit prospects. Meanwhile fundraising activities remain challenging. It is reportedly difficult to find the ‘right’ funders—those with realistic expectations that align with the nature of impact investing as an investment strategy. This has forced investment funds to grapple with international investors whose expectations do not match on-the-ground realities. Furthermore, it has been challenging for businesses to raise local funds, so they continue to rely on international investors. Local funding is crucial to maximize capital, to identify a broader pool of potential deals, and to match expectations with in-market knowledge.

¹² Note that instrument data was less available than that for other data points.

¹³ By volume, 81% of DFI transactions are debt-based, although when including the three Nigerian DFIs (The Development Bank of Nigeria, Lagos State Employment Trust Fund, and the Bank of Industry) 99.98% of all DFI transactions were debt-based. This reflects that international DFIs are conducting some typically smaller value equity transactions, although debt prevails overall.



I.3

DEMAND

The increasing number of non-DFIs shifts the profile of demand-side actors receiving investment.

More commercially oriented businesses with strong impact narratives are now receiving impact investment. This has been driven by the growth of the non-DFI sector. As such, the delineation of businesses as ‘social enterprises’ remains unclear, and recipients of impact investments seldom identify with this term. Still, these businesses deliver strong social impact—often by reaching beneficiaries at the bottom of the pyramid (BOP) with core services that address challenges such as financial inclusion and access to energy or that otherwise focus on improving livelihoods. Within the DFI sector, there is a continued prevalence of major projects (including energy and infrastructure) receiving DFI financing.

Despite these shifts, demand-side actors that are able to tap into the impact investing market remain scarce.

Businesses are often not equipped to meet investor expectations, and although entrepreneurship may have risen out of necessity in a tough economic climate, interviewees suggest the failure rate may be higher than ever.

Furthermore, a lack of openness to impact investment continues to pose challenges, although there have been some improvements.

An overall preference exists for debt-based financing. Some investors note that those open to equity are often highly leveraged businesses. Meanwhile, the most desirable investment opportunities often seek to keep ownership in house. The limited openness to equity financing is exacerbated in some sectors by the prevalence of subsidized and concessional loans, particularly in agriculture, that skew demand-side expectations in such a way that they no longer correlate with the true cost of capital. Although these concessional loans do not sufficiently cover the full demand for financing, this can have an impact on financing expectations even where such concessional loans are not available. While an emerging ‘start-up class’ is actively courting or setting up to attract equity investors, it remains a small proportion of the total demand-side landscape.



I.4

ECOSYSTEM

These demand-side challenges speak to the lengthy value chain that exists to move a business from inception to readiness for impact investment (and into sustainability).

Once businesses form, they need to grow to a stage wherein they are ready to accept investment and have achieved the standards desired by investors, i.e., professionalized levels of management. Given the relatively large ticket size of even non-DFI investors, the businesses need to have reached a certain level of growth and maturity to be able to absorb impact capital (averaging \$2.6 million).

At present, the ecosystem is focused mostly on a necessary but insufficient solution space—early-stage incubation.

Although this may bring value in terms of MSME development and job creation, a significant gap exists between businesses graduating from incubators and the types of businesses investors are seeking. Furthermore, while a large number of emerging incubators are focused on developing early-stage businesses, true accelerators that prepare businesses to accept larger quantities of investment are in short supply. In effect, in addition to early-stage incubators, there is a need for ‘accelerators’ that transform growth-stage businesses into investment-ready propositions.

The dearth of investors that source deals via ecosystem actors speaks to shortfalls in the ecosystem, with actors’ interventions not fully aligned with investor needs.

Investors expressed a need to see an increased focus on strong talent working with more mature and established businesses over longer periods of time, and they often sought the provision of more extensive seed financing to help businesses reach investor readiness for larger ticket sizes.

...Businesses need to have reached a certain level of growth and maturity to be able to absorb impact capital (averaging \$2.6 million).



1.5

POLICY CHALLENGES FOR IMPACT INVESTING

This research set out to identify policy constraints holistically across three areas of policy: developing supply, directing capital, and increasing demand.

Policies that develop supply focus on raising capital, bringing it into a region, and making it available for investment. Policies that direct capital build a marketplace that aligns the financial needs of businesses with a supply of investment. Policies that increase demand improve the demand-side environment to ensure more businesses can be recipients of capital. This research focused on identifying binding constraints, i.e., areas that, if unlocked, would most strongly improve the impact investing landscape.

It is important to acknowledge that although policy and advocacy work can unlock further transactions, policy has not stopped investment.

In fact, overall, the impact investing space has grown without significant policy intervention. Still, there are examples wherein policy changes have unlocked growth (e.g., the strong work of the Rural Electrification Fund [REF] within Nigeria's Rural Electrification Agency [REA] in enabling off-grid energy investments). However, there are also cases in which policy and regulatory complexity inhibited investment (notably in areas such as financial inclusion, where a tight and changing regulatory environment constrained the industry for some time). Therefore, there can be value in policy change that levels the playing field, but it must be carefully considered and should balance the intended gains with the ultimate costs (and potential complexity) that policy can add.

On the supply-side, many interviewees noted that West Africa was not a globally competitive location to domicile a fund, but this has not acted as a binding constraint.

Although this is a challenge, there is limited value in seeking to address this issue. The competitiveness gap as a location to domicile is large between West African nations and locations such as the UK, the US, or Mauritius, but it does not necessarily hinder greater investment capital deployment in the region.

Instead of advocating for local domiciliation, it is more important to enable the participation of non-domiciled investors through ensuring free flows of foreign exchange (forex) for registered investment funds—the lack of which was cited as a policy challenge and risk by investors.

Enabling local fundraising and recognizing impact investing as an investment strategy would likely unlock the greatest supply-side effect.

It is most critical to address challenges to raising local funds.

To do so requires correcting sometimes negative perceptions that impact capital is philanthropic and offers no returns, building greater awareness around the impact investing investment strategy, and at times reducing

regulatory requirements that limit asset allocation decisions (as is the case with institutional investors such as pension funds and insurers).

A lack of formal recognition of impact investing as an investment strategy was often cited as a concern.

Formal recognition could enable tailored policy responses towards and incentivization of impact capital, ensure those eligible for incentives are held to strong standards around impact and measurement, and provide assurance to impact investors that they can avail themselves of the same protections offered to other investment strategies and asset classes (i.e., protections set up to cater to larger investments and foreign direct investments (FDI), often around oil and gas).

The scarcity of more concessional or patient impact capital hinders the ability to effectively direct capital.

With most capital in the market seeking commercial returns, there are significant challenges in driving blended finance. This puts at risk deals that could deliver greater social impact but that require concessional capital to fund their public good elements.

Further incentivization may be required to entice investors to accept more below-market returns. The government also has a potential role to play in using impact investment as a means of financing social projects while crowding in further commercial capital. Greater awareness of the (relatively untapped) potential of blended capital is required on the part of government, DFIs, and other concessional capital providers in the region.

On the supply-side, sector-specific reforms have unlocked and can further unlock competitiveness and increase transactions.

As mentioned above, in the Nigerian energy sector, the REA's REF enabled investments in off-grid energy. Still, there were many instances wherein regulations may have held industries back.

Investors cited concerns in several sectors (particularly in digital technology, and financial inclusion) that could benefit from sector-specific reforms. That said, further work would be required to prioritize industries and identify sector-specific impact investment reforms. This can include addressing sector-specific barriers, along with the application of broader mechanisms that can create regulatory flexibility, for example replicating the regulatory sandbox that the Central Bank of Nigeria (CBN) put in place in other sectors.

Meanwhile, greater interaction with funders could ensure the ecosystem is more responsive to investor needs.

The gaps in the ecosystem and the heavy focus on incubators over accelerators (that are better geared towards investor readiness and financing) likely reflects an information failure.

There is an opportunity to work with the current ecosystem and the development partners and government bodies who finance these facilities to ensure funding covers the full chain of necessary interventions and support models required to deliver more investor ready businesses and to ensure that these support models are optimally designed to address business and investor needs.



1.6 RECOMMENDATIONS

The report makes several recommendations:

1. **Recognize and regulate impact capital as an investment strategy** – which can enable other recommended policy responses, ensure impact investors operate at high standards, while also providing impact investors with the assurance that they can benefit from wider investor protections
2. **Support local fundraising by building awareness** – through institutional reforms that engender greater allocation towards impact investing strategies and by socializing impact investing opportunities and leveraging successful transactions for market signalling purposes
3. **Incentivize impact capital (to attract additional capital, to ensure impact capital plays its optimal role, and to encourage layering)** – through decreased restrictions on institutional capital allocations to impact investing strategies; potential tax incentives for concessional capital providers; and the encouragement of governments to use impact investing as a means of financing public projects
4. **Drive demand-side competitiveness and attractiveness through policy reforms (including fiscal incentives)** – by prioritizing and targeting high potential sectors for sector-specific policy reforms and by creating sandbox environments (akin to the sandbox created by the Central Bank of Nigeria for financial inclusion) in other sectors that provide sufficient flexibility for new innovations and businesses to grow while building appropriate regulations
5. **Improve the ecosystem of accelerators, hubs, and incubators** – by engaging with funders and convening ecosystem actors to ensure that business development service providers increase the relevance of their services and avoid clustering funds around only a few intervention areas
6. **Improve the focus on systemic, institutional-level capacity building** – by ensuring that regulators, enforcers, and potential institutional funders all have sufficient understanding of impact investing and can fully engage in the opportunities it presents


These recommendations are demonstrated in the report through case studies that illustrate ways in which other economies (Israel, Kenya, Sierra Leone, South Africa, Tanzania, the United Kingdom, and the United States) have addressed similar challenges.



SECTION

02

Context and Project Approach



PURPOSE OF THIS STUDY
DEFINING IMPACT INVESTING
APPROACH AND METHODOLOGY





II.1

RECOMMENDATIONS

Impact investing is increasingly discussed within the development and investment communities.

It is an investment strategy that can address development challenges while also recognizing that such challenges often represent significant investment opportunities in underserved markets.

Together,
Nigeria
and Ghana
accounted
for more than
half (54%)
of impact
investing
capital in the
region

However, information on the impact investing sector remains limited. This report was written to address this gap.

It builds off the work performed by the GIIN in 2015. Their published study, 'The Landscape for Impact Investing in West Africa: Understanding the current status, trends, opportunities, and challenges', represents one of the few examples of deep research on the sector. This current study seeks to understand how the challenges and opportunities faced by impact investors operating in the region have evolved between 2015 and 2019. It also provides much-needed up-to-date data regarding the deployment of impact capital.

A review of the investment policy landscape supplements this study.

It considers the extent to which policy helped or hindered impact investing transactions and seeks to identify any binding constraints that, if resolved, could significantly unlock further impact investing activity. The findings inform a set of policy and advocacy recommendations included in this report.

This study primarily focuses on Nigeria and Ghana—the two largest impact investing markets as of 2015—drawing parallels with West Africa as a whole.

The weight of these two voices in the region was a key consideration for their selection. This was informed in part by the previous GIIN study, which found that, together, Nigeria and Ghana accounted for more than half (54%) of impact investing capital in the region, with Nigeria receiving 29% and Ghana receiving 25% of capital deployed. They were followed by Senegal and Cote D'Ivoire, which together accounted for an additional 21%. The remaining countries experienced significantly smaller deployments of investing capital. From an economic perspective, Nigeria and Ghana together account for 75.2% of the West African region's GDP¹⁴. At the same time, because many investors who work in Nigeria and Ghana also work throughout the rest of West African, they are often able to draw strong parallels between these two countries and the West African region as a whole.

This study was designed to provide a top-level diagnostic of the status of the impact investing markets in Nigeria and Ghana, and identify corresponding opportunities to improve the impact investing ecosystem.

It provides data on how much capital is being deployed, which sectors are being targeted, and which instruments are being used. It outlines the challenges and opportunities faced by impact investors, entrepreneurs and ecosystem actors. The report also identifies policy constraints hindering growth of impact investing in Nigeria and Ghana and outlines recommendations for identified constraints.

14 West Africa comprises 15 countries: Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Nigeria, Niger, Senegal, Sierra Leone, and Togo. Together they form the Economic Community of West African States (ECOWAS).

The report does not aim to be an exhaustive review, having been conducted over a 6-week timeframe, although the editorial team took several steps in validating that these findings are reflective and exhaustive.

The findings were subject to internal reviews within Dalberg and were found to resonate with Dalberg's wider work in this area. Furthermore, the IIF, Ford Foundation, and the editorial team launched an expert review process to test the findings of this report – with experts noting that the overall findings resonated strongly with their experience in the sector.



II.2

DEFINING IMPACT INVESTING

This work draws on the GIIN definition for impact investing.

It refers to ‘investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return’¹⁵. Three primary characteristics define impact investors:

- Expectation of a positive financial return over the life of the investment
- Stated intentionality of creating impact (social or environmental)
- Commitment to measure and track impact

It is important to note that the measurement of impact proved inconsistent in the earlier 2015 GIIN study¹⁶.

As such, the editorial team for this work prioritized the expectation of financial return combined with a strong intentionality around impact to understand whether an investor qualified as an impact investor, without necessarily excluding investors on the basis that their measurement may not have met robust standards (this approach aligned with the previous GIIN study). With this, this report does acknowledge the need for better impact measurement (building off the 2015 findings) and goes on to discuss this further.

Maintaining a consistent definition of impact investing enables comparisons to be drawn with earlier work.

The definition applied significantly shapes the scope of actors considered. For example, under the GIIN definition, a multitude of investors operating in the region who do not deliberately pursue impact or whose impact is purely the economic growth generated by their investments are not factored into the impact investing landscape. To maintain the ability to draw quantitative comparisons with previous data, such actors have been excluded from the quantitative analysis in this report. However, this study explores qualitatively how such capital relates to the impact investing sphere (recognizing the impact investing market as a smaller part of an overall investing landscape).

This study looked at three sets of actors in the impact investing landscape and details its findings in sections devoted to each:

- **Supply** – the broad range of investor types, including DFIs, foundations, family offices, banks, institutional investors, and fund managers, that are active in the impact investing sector and that deploy capital to companies and projects
- **Demand** – the range of enterprises, both large and small, that seek and receive impact investing capital. This

¹⁵ Global Impact Investing Network definitions. Available at: www.thegiin.org

¹⁶ Global Impact Investing Network (2015), The Landscape for Impact Investing in West Africa. Available at: <https://thegiin.org/research/publication/westafricareport> (Accessed 3 December 2019).

category predominately focuses on MSMEs and social enterprises that pursue both financial viability and a positive social or environmental impact

- **Ecosystem** – organizations, including incubators, accelerators, and technical assistance providers, that actively provide investor or enterprise support

The review of the impact investing policy landscape builds upon and adapts existing definitions, notably The Rockefeller Foundation’s ‘Framework for Policy Design and Analysis’¹⁷.

This framework lays out a broad set of policy and programmatic areas that address the value chain active in the impact investing landscape, including:

- **Supply development** – increasing the amount of capital available to invest (e.g., adjusting regulations and the environment around fundraising, investor registration, and operations)
- **Directing capital** – improving the marketplace in which transactions take place by matching sources of capital with potential investees
- **Increasing demand** – increasing the number of recipients eligible to accept impact investing capital

These are outlined in Figure 3 below.

The review of the policy landscape is deliberately broad rather than deep.

It reflects an initial scan to understand in which parts of the system strong enablers or binding constraints exist. It does not attempt to provide a deep review of each specific area.

In taking an expansive approach to the policy space, this review also looks beyond government actors.

It considers the role of policies set by potential advocacy actors, by potential investment actors (including government and development partners), and by investors themselves. Each of these can or does shape the policy environment for developing supply, directing capital, and increasing demand.

17 Insight at Pacific Community Ventures & Initiative for Responsible Investing at Harvard University (2011) Impact Investing: A Framework for Policy Design and Analysis. Available at: http://www.pacificcommunityventures.org/wp-content/uploads/sites/6/2015/07/Impact_Investing_Policy_Full_Report.pdf. (Accessed 3 December 2019)

Figure 3: Investment policy environment framework

SUPPLY DEVELOPMENT

Increasing the amount of capital available for investment, adjusting investment rules and requirements

- **Investment rules and requirements** –e.g.,
 - Regulation of institutional investors
 - Capital repatriation
 - Exchange control regulations
 - Fund incorporation
- **Risk sharing policies** –e.g., provision of first-loss capital or via public-private partnerships

DIRECTING CAPITAL

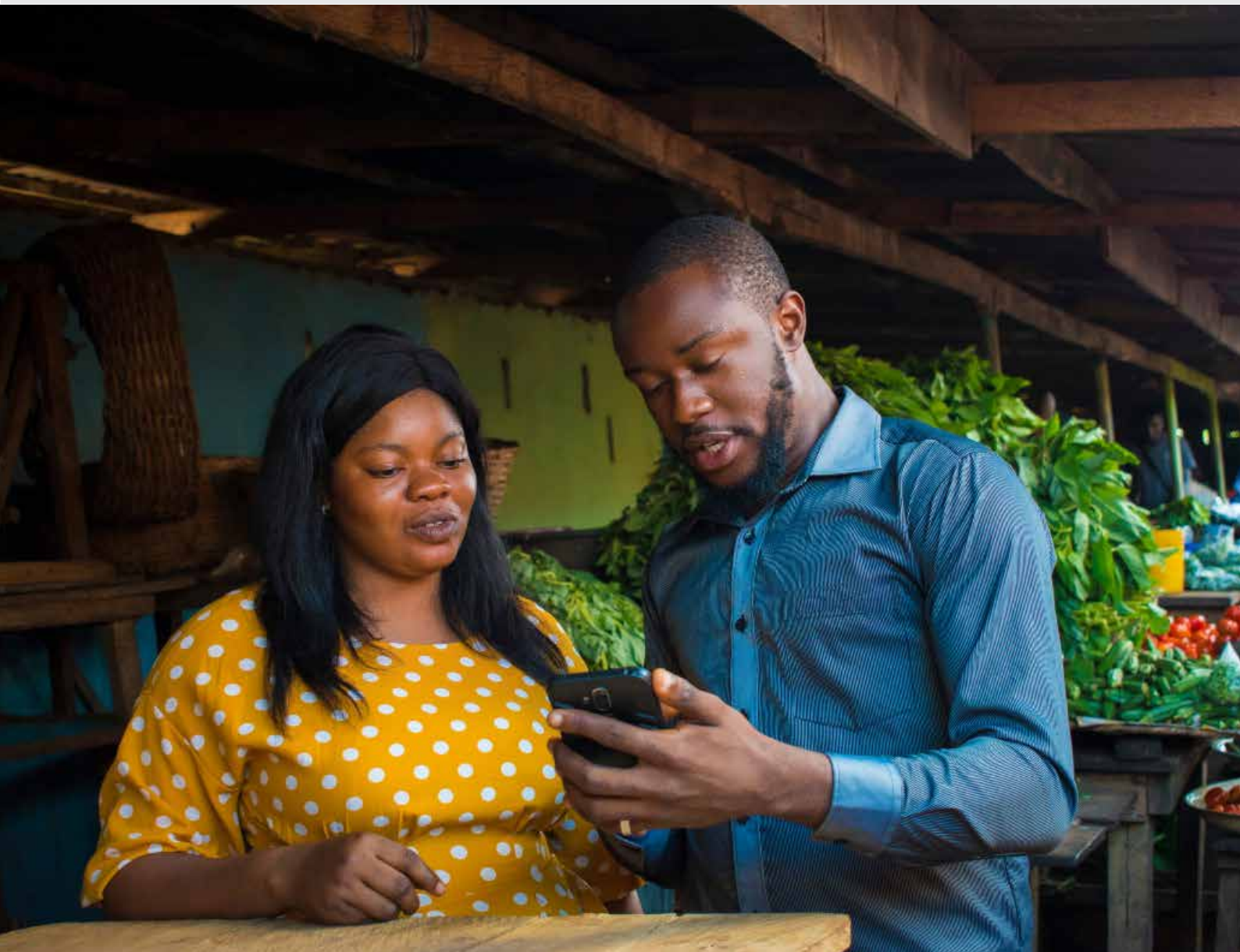
Improving the marketplace connecting supply with demand, adjusting terms of trade, market norms, or prices

- **Tax relief / tax credits** – often for investing in socially - minded transactions
- **Transaction cost subsidies** –e.g., due diligence support
- **Intermediary development policies** – lowering the transaction costs by encouraging the development of intermediaries

INCREASING DEMAND

Increasing the availability of potential capital recipients – often by improving underlying competitiveness

- **Ecosystem interventions** –e.g., subsidizing technical assistance to improve competitiveness
- **Enabling corporate structures** –e.g., creating legal structures that ease the burdens of taking in outside capital
- **Sector-specific policies** –adjusting policies in a specific sector to improve its competitiveness





II.3

APPROACH AND METHODOLOGY

This work applies a mixed methods approach.

It combines primary data gathering with secondary research and draws on both qualitative and quantitative methods.

The approach places heavy emphasis on primary data gathering.

Although the overall investment landscape (i.e., beyond impact investing to look at wider commercial investing) in the region is better researched, impact investing receives considerably less attention and often remains a data blind spot. It is for this reason that primary data gathering has been emphasized.

Qualitative research and key informant interviews

Key informant interviews took place in both Nigeria and Ghana.

Of the 23 interviews conducted in total, 9 covered Nigeria specifically, 3 covered Ghana specifically, while 11 were regional actors that typically had coverage of both Nigeria and Ghana (and often the wider West Africa region)¹⁸. Interviews were conducted in person, where possible, or over phone.

Interviews covered supply, demand, and ecosystem perspectives.

16 interviews were held with investors, while 7 interviews were held with demand and ecosystem actors. To understand the demand side, the editorial team primarily engaged with actors that could provide an aggregated view on behalf of businesses active in both Ghana and Nigeria (e.g., incubators), and leveraged Dalberg's extensive experience engaging with demand-side actors on previous projects.

These interviews covered a range of topics.

They sought responses to the changing context since 2015, forward-looking outlooks, examples of challenges and opportunities faced, and perspectives on the role of the investment policy environment in helping or hindering investment.

¹⁸ Note that the quantitative mapping exercise was not dependent only on the actors interviewed – deal data was also sourced from desk research, publicly available datasets, DFI and investor reports, government reports, and investor websites. This was combined with an extrapolation approach. More detail on the method is outlined below in the 'Quantitative data gathering and analysis section.'

Based on interview insights, the editorial team conducted targeted secondary research.

This enabled the triangulation of points raised during interviews and strengthened the primary research.

Quantitative data gathering and analysis

The editorial team also conducted transaction mapping—gathering available data for all impact investing transactions in Nigeria and Ghana since 2015.

With this, the team identified 479 transactions between 2015 and 2019 through a combination of primary data gathering and extrapolation, the method for which is outlined below. In addition, the team identified almost 62,000 Nigerian domestic-DFI transactions (explored in further detail at the end of this section). It is important to note that because data was gathered in September 2019, data for the year of 2019 reflects an incomplete year-to-date picture. It excludes deals yet to take place at the time of writing (i.e., capital deployed from October to December 2019) and likely excludes other deals for which there are lag times between when the deals took place and when they could be reported.



The team sourced data from investor websites, publicly available reports, data requests, and existing databases of investment transactions in the region¹⁹.

Data collected includes: the investor, the company/project invested in, the amount invested, the year of the transaction, the instrument used (debt vs. equity), and the sector of investment.

Quantitative analysis focused on ‘capital deployed’.

That is to say, only where impact investors had already closed deals were these counted within the quantitative study. Fundraising activities and commitments to deploy capital that had not yet closed were not included.

The role Development Finance Institutions (DFIs) play is integral to the impact investing landscape.

These organizations typically deploy government-provided development capital through investments or loans. Hence, this capital has a strong impact orientation by nature of its source and remit, although not all DFI transactions are equally impact oriented. Given this fact and the fact that DFIs rarely delineate which deals they consider impact transactions, this study collected all available data for DFI transactions. However, it analysed data for DFIs separately due to the unique nature and large size of the DFI actors.

In order to avoid double counting, the study focused on direct transactions.

Investors deploy capital both directly to enterprises and projects and indirectly through financial intermediaries (e.g., fund managers and microfinance institutions). The nature of indirect investment is such that it often becomes a source of direct investment. Thus, indirect investments are excluded to avoid double counting. When a DFI invests through a ‘fund of funds’ approach (in effect, becoming a limited partner in non-DFI funds), the fundraising provided by the DFI is not tracked, but the capital deployed by the fund is captured.

Where data was not available for particular investors or transactions, the team applied an extrapolation method.

Several investors published transaction details but kept the amount of invested capital or the average deal size confidential. In such cases, historic averages per investor served to estimate deal size and average number of deals per year. Where this data was not available (e.g., when historical averages could not be calculated because the investors were new), the average transaction size, segmented by country and actor (DFI vs. non-DFI), was calculated and used for the extrapolation. In addition, some investors were identified as active in the market but did not provide transaction data. For these, the average number of transactions and average transaction size (segmented again by country and actor) was used to estimate deal flows for these investors.

For the first time, this report studies data from domestic DFIs.

This report includes the data for three Nigerian DFIs. The Development Bank of Nigeria and the Lagos State Employment Trust Fund started operating in 2017 and 2018, respectively. The previous report did not include data from the Nigerian Bank of Industry, which was established in 2001. Collectively, these DFIs have transacted almost 62,000 deals since 2015. The deals by Nigerian DFIs differ strongly from the deals conducted by

¹⁹ Many of the deals in the database used for this report were sourced through primary research. However, the editorial team complemented the database with deal flow data captured by EMPEA's FundLink database. The database was accessed in September 2019.

international DFIs. This is taken into consideration in this analysis. This report includes both the international and domestic DFIs when analysing aggregate deal volumes, but draws a clear distinction between the two when discussing average deal sizes and number of deals.

Given both the data collection approach and the use of extrapolation, available quantitative data reflects a directional but non-exhaustive set of transaction data.

The limitations of the data should be recognized, but the editorial team is confident this approach provides a reasonable basis for analysis. The outputs of this analysis were also socialized and tested with the advisory team and during interviews.

BOX 1:

**Direct vs.
Indirect
Investments**



Impact investors invest both directly into enterprises and projects and indirectly through financial intermediaries. To avoid double counting, since an unknown proportion of indirect investments act as a source of direct investments, this report focuses on direct investments. As such, this excludes (1) indirect investments, and (2) also excludes fundraising activities.

For example:

- If an investor provides financing directly to a company or project, this would be captured as a direct DFI investment
- If an investor provides financing to a company, which is then distributed through additional transactions, this would be excluded as indirect investment
- If a funder provides funding to another investor or fund, this would be excluded as fundraising activity (although the capital deployed by the investor or fund would be counted through their direct transactions). This is frequently the case where a local fund manager raises capital from DFIs or other financing institutions



SECTION

03

Detailed Findings



COUNTRY CONTEXT AND OVERVIEWS

SUPPLY

DEMAND

ECOSYSTEM



In alignment with the approach set out in Section II, this section presents findings of the analysis in categories structured as follows:

1. **Country context and overviews** – explores the macroeconomic environment of both Nigeria and Ghana, with a focus on its evolution since 2015
2. **Supply** – outlines the trends among impact investors active in both Nigeria and Ghana. This is broken down into the following sub-sections:
 - **Investor landscape** – maps the active investors in Ghana and Nigeria and discusses the landscape's evolution since 2015
 - **Investor outlook** – explores how investor perceptions have shifted in response to the changing country contexts
 - **Quantitative deal flow analysis** – analyses deal flow data to identify new patterns in impact investing activity since 2015
 - **Investor challenges** – synthesizes qualitative challenges identified by investors that inhibit their ability to conduct and scale impact investing activities
3. **Demand** – reviews the perspectives of businesses that are actual or potential recipients of impact capital and considers how their financing needs have evolved, how their perceptions have changed, and how their ability to access impact capital has shifted
4. **Ecosystem** – reviews the ecosystem of business development support providers (e.g., incubators and accelerators) and examines the extent to which they effectively enable impact investing to take place





III.1

COUNTRY CONTEXT AND OVERVIEWS

A review of the evolving country contexts informed stakeholder interviews and was the basis for understanding how their behaviours evolved since 2015.

This section sets out the changing macroeconomic environment in both Nigeria and Ghana and explores their overall economic performance, their GDP growth rates, the changes in their interest and exchange rates, and their performance with regard to the ease of doing business (measured in accordance with the World Bank's Ease of Doing Business [EoDB] Index).

Since 2015, Nigeria and Ghana have shared similar challenges that, to an extent, reflect the increasingly difficult economic climate of the region as a whole.

Both Nigeria and Ghana have experienced weak economic growth, which is largely driven by a decline in oil prices (both economies rely heavily on the production and sale of crude oil). Furthermore, between 2015 and 2019, both the Nigerian naira (NGN) and Ghanaian cedi (GHS) experienced devaluation against the US dollar (from 197 to 307 NGN:USD and from 3.78 to 4.68 GHS:USD).

That said, the Nigerian and Ghanaian governments have focused on stabilizing and diversifying their economies. This has facilitated growth in the non-oil sector—notably, in services, which now accounts for over 50% of the GDP in both countries. In absolute terms, the ease of doing business remains a challenge across the region. That said, measured against the World Bank's EoDB Index, Ghana has performed relatively well, and Nigeria has seen improvements since 2015.



NIGERIA

Overall, Nigeria has experienced advances in both its economic diversification and its EoDB Index performance, although GDP growth has been sluggish, and lending continues to be constrained.

The economy has seen improved diversification due to government efforts to drive growth beyond oil to a more diversified set of sectors. Meanwhile, between 2015 and 2018, Nigeria's EoDB rank improved by 24 places, though infrastructure constraints and high costs of doing business continue to present challenges for both foreign and local businesses. Overall, economic growth has been sluggish. In the first and second quarters of 2016, Nigeria experienced negative GDP growth, with many of the effects of this recession seen in the latter part of that year. Interest rates remain high and lending continues to be constrained.

Economic Performance and Structure

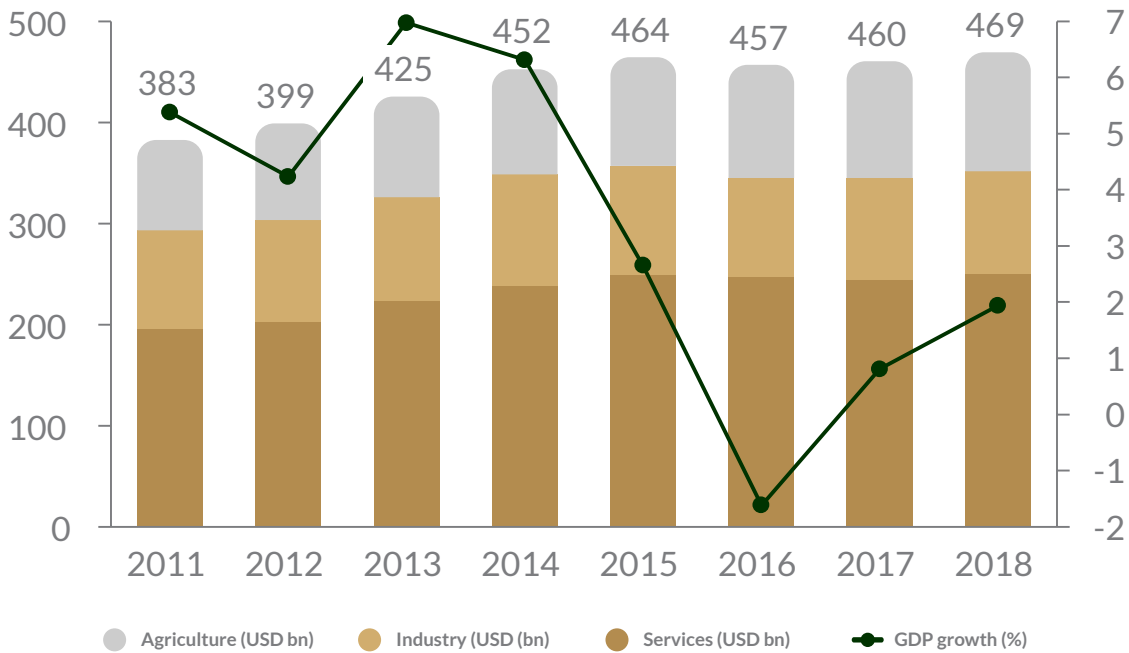
With the largest population and GDP in the region, Nigeria reflects a significant economic opportunity.

Following a rebasing in 2013, Nigeria's 2014 GDP was estimated to be \$569 billion²⁰, surpassing South Africa as the largest economy in Africa. This data, which used updated prices and improved methodology, revealed an economy that is far more diverse than previously understood. Nigeria is the most populous country in Africa, with 196 million inhabitants. By 2050, Nigeria is expected to have the third largest population globally with 733 million inhabitants²¹. This will place it ahead of the United States (projected to have 434 million inhabitants) and Pakistan (projected to have 403 million inhabitants). This demographic projection indicates a sizeable potential market for products and services in Nigeria.

20 International Monetary Fund (2015) World Economic Outlook. Available at: <https://www.imf.org/external/datamapper/NGDPD@WEO/NGA>

21 United Nations (2019) World Population Prospects. Available at: https://reliefweb.int/sites/reliefweb.int/files/resources/WPP2019_Highlights.pdf. (Accessed 22 October 2019)

Figure 4: Nigeria's Economic Growth, 2011–2018



Source: World Bank, Global Development Indicators, 2018; World Bank Database GDP data is constant values

However, since 2015, Nigeria has suffered from weak overall macroeconomic performance, slipping into recession in 2016. Between 2012 and 2015, the economy averaged an annual growth rate of 4.5%, before contracting by 1.5% in 2016. This was in part driven by a decline in oil prices and crude oil production in Nigeria. Although the oil sector accounted for only 8.4% of GDP, lower forex earnings had spill-over effects on non-oil sectors dependent on imports of inputs and raw materials. In 2017, the Nigerian economy returned to a positive, albeit more sluggish, growth rate of 0.8%, supported by a 1.6% growth in the oil sector and a 0.45% growth in the non-oil sector.

The Nigerian government's economic diversification agenda has spurred growth and investor interest in the non-oil sector, particularly agriculture and services.

Following the recession, the government announced several plans to diversify the economy and lessen its heavy reliance on crude oil. The most prominent of these is the Economic Recovery & Growth Plan (ERGP) which was announced in 2017 and aims to

stabilize the economy and increase industrialization. The plan focuses on non-oil sectors such as services, agriculture, manufacturing, construction, mining, and utilities.

Within this context, there have been a broad range of interventions designed to drive diversification.

In agriculture, the government is focused on increasing access to finance and inputs for farmers by expanding the scope of several existing initiatives such as the CBN's Anchor Borrowers Program (which has now been expanded to include all 36 states and major crops) and the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) scheme. The government has also increased its budgetary allocation to the agricultural sector by NGN 15 billion in 2018 to NGN 118 billion to support various projects aimed at boosting productivity, integrating value chains, and improving access to markets. These include the set-up of the staple processing zones to provide incentives to attract private investors, and the launch of the Agribusiness Resource Centre to facilitate access to market information for agribusinesses and



other agriculture actors.²² In Telecommunications and ICT, the government is supporting and establishing ICT Hubs to enhance skills, provide and develop infrastructure facilities, and to incubate start-ups. More generally, the ERGP also includes targeted support for MSMEs through (1) the establishment of the ERGP Focus Labs in 2018 (investment facilitation fora), and (2) signing of 'The Secured Transactions in Movable Assets Act 2017' and 'The Credit Reporting Act 2017' (the "CRA") to facilitate access to credit for SMEs.²³

These efforts have resulted in the non-oil sector is gaining prominence,

with services now accounting for 53.2% of GDP and agriculture accounting for 25.1% of GDP. As a result, the non-oil sector is gaining prominence, with services now accounting for 53.2% of GDP and agriculture accounting for 25.1% of GDP.²⁴

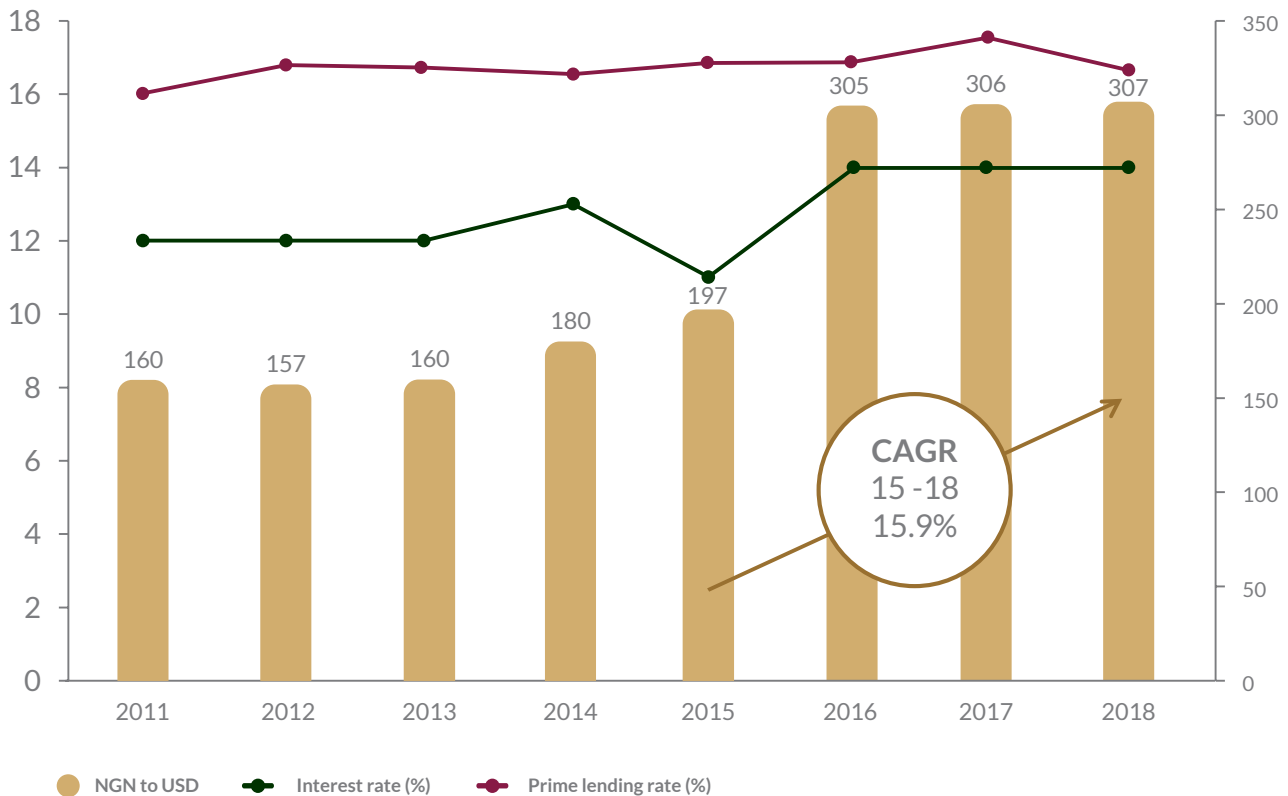
22 The Nigerian Government (2017) The Nigeria Economic Growth & Recovery Plan 2017-2020. Available at: <https://smedan.gov.ng/images/NECR.pdf> (Accessed 5 December 2019)

23 The Nigerian Government (2017) The Nigeria Economic Growth & Recovery Plan 2017-2020. Available at: <https://smedan.gov.ng/images/NECR.pdf> (Accessed 5 December 2019)

24 World Bank (2018), Global Development Indicators. Available at: <http://datatopics.worldbank.org/world-development-indicators/>

Interest and Exchange Rates

Figure 5: Nigeria interest and forex rates, 2011–2018



Source: Central Bank of Nigeria, Statistical Bulletin: Financial Statistics, 2018; Central Bank of Nigeria, Statistics Database

The lending environment in Nigeria is constrained, and the cost of borrowing has increased, limiting the growth of MSMEs in the country.

The Central Bank's benchmark interest rate in Nigeria increased from 11% in 2015 to 13.5% in July 2019. This significantly increased the cost of borrowing. Additionally, due to the tough macroeconomic environment, commercial banks have recorded non-performing loans above the statutory limit of 5%. This has caused them to cut down lending and shift focus to deposit growth. As a result, access to credit remains challenging for small businesses. In 2018, MSMEs received just 0.3% of the total commercial banking credit, despite contributing 48% to Nigeria's GDP²⁵.

The devaluation of the naira and the increase in foreign exchange restrictions represent significant shifts that are likely to impact both the investment community and businesses.

Between 2014 and 2016, oil prices dropped from \$111/bbl. to \$30/bbl., causing the naira to lose over 54.8% of its value. This also placed strain on businesses that required foreign exchange to pay for imported goods. Following the Central Bank of Nigeria's introduction of greater restrictions on foreign exchange, the naira stabilized. The Central Bank then introduced an 'Investors & Exporters Window' to increase the availability of foreign exchange at prevailing market rates.

25 Central Bank of Nigeria (2018) Statistical Bulletin: Financial Statistics. Available at: <https://www.cbn.gov.ng/documents/Statbulletin.asp>. (Accessed: 22 October 2019)

Ease of Doing Business

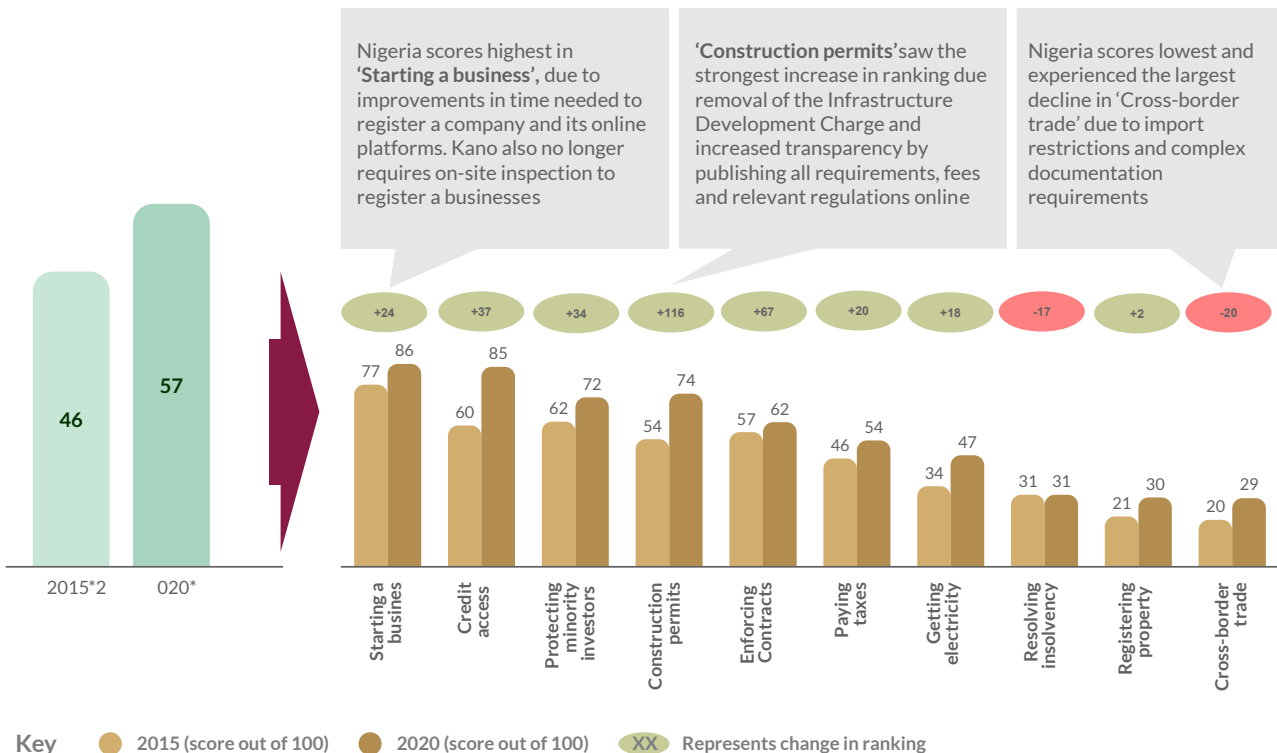
Since 2015, the Government of Nigeria has introduced various plans and investment-friendly policy reforms to improve competitiveness.

For instance, they set up the Presidential Enabling Business Environment Council (PEBEC) in 2016 to eliminate bureaucratic constraints to doing business in Nigeria. Since its introduction, the time taken to register property decreased from 77 to 30 days while the time required to obtain a construction permit was halved from 42 to 20 days²⁶. Additionally, the council introduced a 48-hour timeline for the issuance of Nigerian visas to aid the entry of international investors into the market.

As a result of interventions such as these, Nigeria’s EoDB rank improved by 38 places between 2016 and 2020 from 169 to 131, and was recognized by the World Bank as one of the 10 most improved countries, although it continues to present a challenging operating environment.

Globally, Nigeria ranks 131 out of 190 countries on the EoDB Index²⁷ –making it one of the most difficult countries in the world in which to operate. This ranking is largely driven by poor power supply and infrastructure, the existence of multiple regulatory bodies operating independently of one another, and high levels of corruption.

Figure 6: Nigeria, World Bank’s Ease of Doing Business Index, 2015–2020



Source: World Bank; Doing Business in Nigeria Report, 2020; World Bank, Doing Business in Nigeria Report, 2015; Federal Republic of Nigeria, Economic Recovery and Growth Plan. 2017 –2020
 * - Reflects different methodologies used between 2015 and 2020 datasets

26 Presidential Enabling Business Environment Council (2018) Making Business Work. Available at: <https://easeofdoingbusinessnigeria.com/images/Documents/PEBEC-Annual-Report-June-2018.pdf> (Accessed: 22 October 2019)
 27 World Bank (2020) Doing Business 2020. Available at: https://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf (Accessed: 3 December 2019)

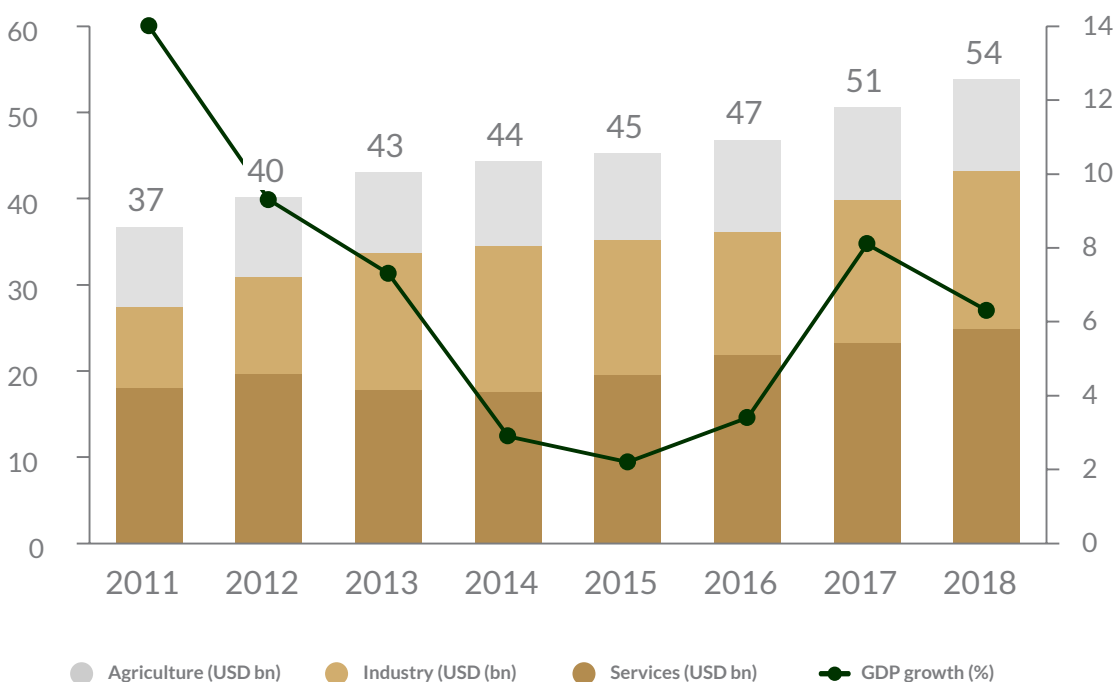
GHANA

Since 2015 Ghana's economic growth has continued but at reduced rates, lending has remained constrained, and exchange rates have deteriorated, but the ease of doing business in Ghana has continued to represent a relative strength.

Economic growth in Ghana experienced a high in 2011 at 11.1%, but slowed down thereafter (averaging 5% since 2015). Meanwhile, MSME lending has remained constrained and the exchange rate of the cedi against the US dollar has deteriorated (although less so than the Nigerian naira), exhibiting an approximately 7% decline. Still, Ghana remains a relatively easy place to do business. Interest rates have dropped, and, like Nigeria, Ghana's economy has increasingly diversified.

Economic Performance and Structure

Figure 7: Ghana's Economic Growth, 2011–2018



Ghana's economy continues to grow but at a significantly slower rate compared to its 2011 highs.

Like Nigeria, Ghana's GDP growth rates have weakened since 2015. Between 2015 and 2018, annual GDP growth averaged around 5%—down from highs of 11.1% experienced between 2011 and 2013. Contributing factors include sharp currency devaluation, rising inflation, high levels of government debt, and contraction in the financial services sub-sector (which suffered due to the failure of seven local banks in 2017 and 2018). Meanwhile, Ghana's economic dependence on primary commodities such as gold and crude oil continues to expose the economy to international commodity price shocks

Like Nigeria, Ghana recently completed a GDP rebasing and identified a more diversified economy than was previously understood.

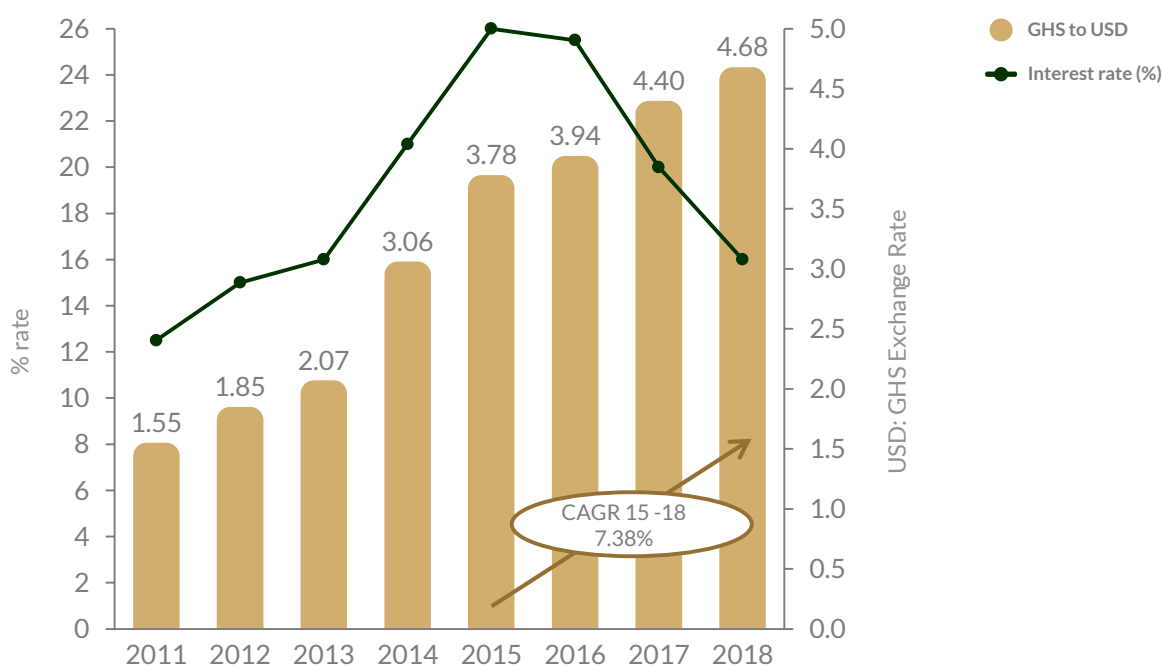
In September 2018, the Ghana Statistical Service (GSS) uncovered an economy 24.6% larger than was understood in 2017. It also revealed a GDP growth rate of 8.1% in 2017 compared to 3.4% in 2016. Following the rebasing, the industry sector's contribution to GDP was understood to be greater, at 33.9% in 2018, while the services sector remained the largest contributor at 46.3% of GDP.

The government's efforts to drive industrialization and develop infrastructure have buttressed GDP growth.

For example, Ghana plans to improve and expand its infrastructure, in an effort to position itself as a transportation, energy, and logistics hub within the West African region. The government has also focused on driving growth in the agriculture and industry sectors through the implementation of various initiatives including the Planting for Food and Jobs program (PFJ), the One District One Factory (1D1F) initiative and the One Region, One Park (1R1P) initiative.

Interest and Exchange Rates

Figure 8: Ghana interest and forex rates, 2011–2018





Interest rates in Ghana have improved, but this has not resulted in increased MSME lending.

The Central Bank's benchmark interest rate in Ghana was 17% as of July 2018, compared to 24% in 2015, while Ghana Treasury Bills yielded an average return of 17% in July 2018, compared to 24.5% in 2015. This reduction in earnings on money market instruments caused banks to shift their focus toward private sector lending. However, as commercial banks continue to adopt stringent credit risk management procedures, a significant proportion of these funds are directed toward sizeable corporate entities leaving MSMEs largely underserved. That said, through initiatives such as the National Entrepreneurship and Innovation Support Program (NEISP), the government has sought to improve access to credit for MSMEs.

As in Nigeria, the significant devaluation of the Ghanaian cedi and the scarcity of foreign exchange have contributed to a challenging context for investors and businesses.

The Ghana cedi recorded a sustained, although decelerating, depreciation of 7.38% between 2015 and 2018, compared with 25% between 2011 and 2015. The recent currency devaluation has occurred as a result of the strengthening of the US dollar globally. The increasingly scarce foreign exchange has also heightened risk for businesses engaged in international trade.

Ease of Doing Business

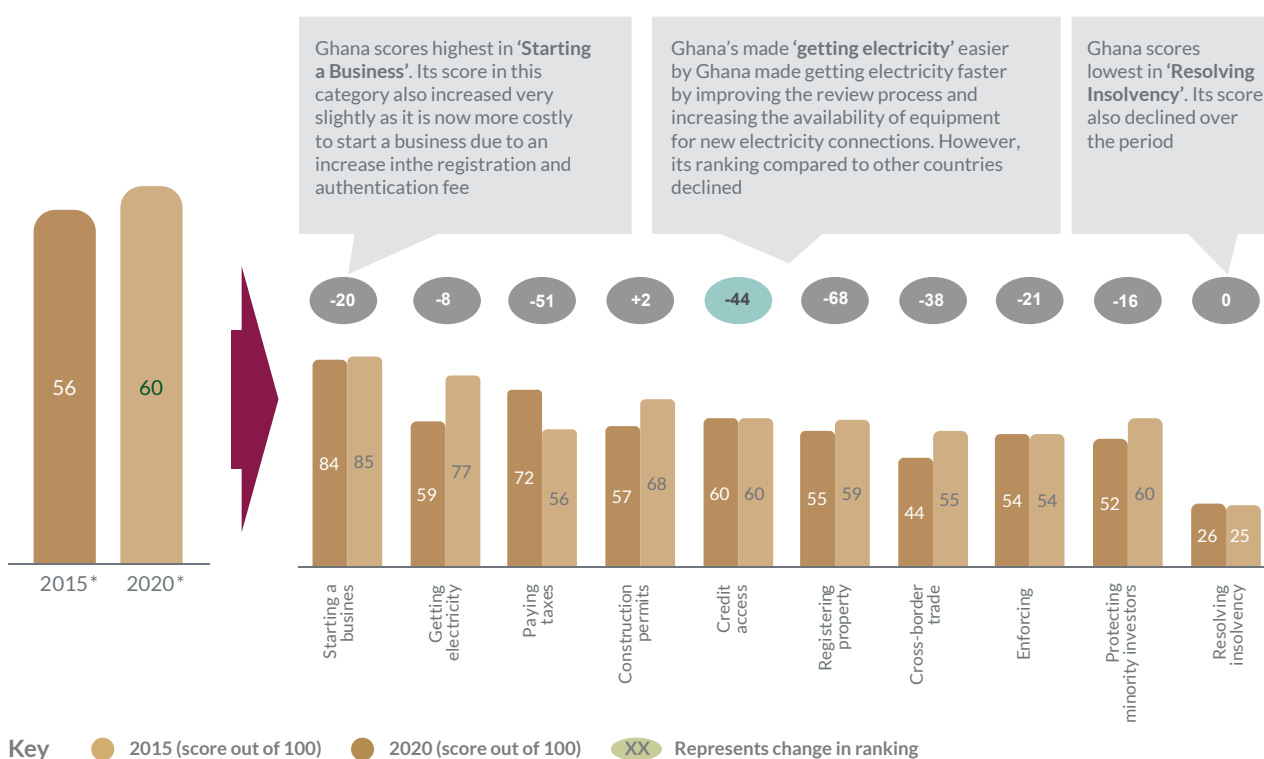
Ghana's business environment is less restrictive than that of Nigeria and the rest of West Africa.

It ranks 2nd in West Africa in the 2020 World Bank's Ease of Doing Business Index, with a score of 60 – considerably higher than the regional average of 53.3. Ghana's impressive performance is driven by the government's commitment to improve infrastructure and drive sustainable growth. The Mo Ibrahim Index of Good Governance reinforces the understanding that Ghana is one of the easiest places to do business, giving Ghana a score of 60 out of 100.

The government remains committed to improving the ease of doing business in Ghana, recognizing the importance of trade and foreign direct investment (FDI) to their economy.

This is reflected in policies that reduce the general cost of doing business and promote investor confidence in Ghana. Ghana enjoys a stable, multi-party democratic system that is committed to market liberalisation. On the Global Competitiveness Index, Ghana ranks 111th out of 144 countries, ahead of Nigeria (116th) and Cote d'Ivoire (118th).²⁸ However, a lack of consistent electricity supply remains a major challenge affecting its business environment. Ghana is currently generating just over half its installed capacity – 2,400 megawatts out of a potential 4,398.5.²⁹ Though the Ghanaian government is committed to improving power generation, distribution and transmission infrastructure and investing in off-grid renewable energy solutions to improve rural access.³⁰

Figure 9: Ghana, World Bank's Ease of Doing Business Index, 2015–2020



Source: World Bank; Doing Business in Ghana Report, 2020; World Bank, Doing Business in Ghana Report, 2015

28 World Economic Forum (2019) The Global Competitiveness Report. Available at: http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf (Accessed 4 December 2019)

29 USAID (2018) Ghana: Power Africa Fact Sheet. Available at: <https://www.usaid.gov/powerafrica/ghana> (Accessed 4 December 2019)

30 PwC Ghana (2019) 2019 Budget Highlights: A Stronger Economy for Jobs and Prosperity. Available at: <https://www.pwc.com/gh/en/assets/pdf/2019-budget-highlights.pdf> (Accessed 4 December 2019)



III.2 SUPPLY

This section turns to explore the supply-side, that is, the role of impact investors in deploying capital, with a focus on how their outlook has shifted.

This draws on key informant interviews with investors and other ecosystem actors, while also presenting the analysis of a database of transactions that took place between 2015 and 2019. Again, it is important to note that the 2019 data reflects only a partial year's data (as of September 2019), and that the lag time for many organizations between transaction and data release means 2019 data will not reflect all actual capital deployed to date.

Investor landscape

All investors that were active when the previous landscape study was conducted continued to operate, and they deployed 16% more capital³¹.

Among investors interviewed, this continued presence underscored a sustained commitment to the region. The investors covered in the previous study deployed \$3.5 billion from 2015 to 2018, compared to \$3 billion from 2011 to 2014³². That said, several noted difficulties sourcing deals due to the unfavourable economic climate.

Despite a tough macroeconomic climate, since 2015, over 50 additional impact investors have begun investing in Nigeria and Ghana.

This number encompasses both new investors that joined the market and existing investors that re-oriented their mandates towards impact-centred deals. This study has identified 24 additional investors in Ghana and 39 in Nigeria, or 51 additional impact investors in both countries combined (with some new investors operating across Nigeria and Ghana). Despite a challenging macro-economic climate, such a shift is proof of a growing attraction to impact investment in the region.

The increasing number of impact investors is in part driven by the heightened focus historically commercial-oriented investors now place on impact.

It is worth noting that a number of the investors operating in the market have yet to self-identify as impact investors, despite having clear impact intentions that extend beyond commercial returns. Many of these new investors still seek market returns but actively screen deals for impact orientation. This often aids fundraising, given the role of DFIs operating through a 'fund of funds' approach. Several of the non-DFIs interviewed were sourcing funds from DFIs (and some non-DFIs were funded entirely by DFIs). Amidst this shift to a more

³¹ Only one investor was identified as potentially having ceased operations, but the investor could not be reached for validation.

³² The editorial team often compares 2011–2014 with 2015–2018 (the last 4-year period with full-year data available for each year).

commercial orientation, however, impact measurement has become more inconsistent. Many investors rely on the premise that if they screen impact-oriented deals, and these deals perform well against financial metrics, impact will follow. Others tracked job creation as a proxy indicator. Very few investors, beyond the DFIs, used formal measurement frameworks such as the GIIN's Impact Reporting and Investment Standards (IRIS). However, investors recognise impact measurement is important and many note an intention to develop more formal processes and metrics for measuring non-financial impact.

There are now more than twice as many impact investors operating in Nigeria and Ghana, with a strong increase in in-country presence.

In 2019, 21 impact investors, both DFI and non-DFI, have an office in Ghana, up from only 7 in 2015. The number of impact investors operating in the country without a physical presence is slightly higher. This study identified 32 non-presence investors in Ghana. In Nigeria, the physical presence of impact investors has increased fourfold from 8 in 2015 to 32 in 2019. The same number of investors without a physical presence in Nigeria operate there.

Figure 10: Nigeria impact investor location and type breakdown, September 2019

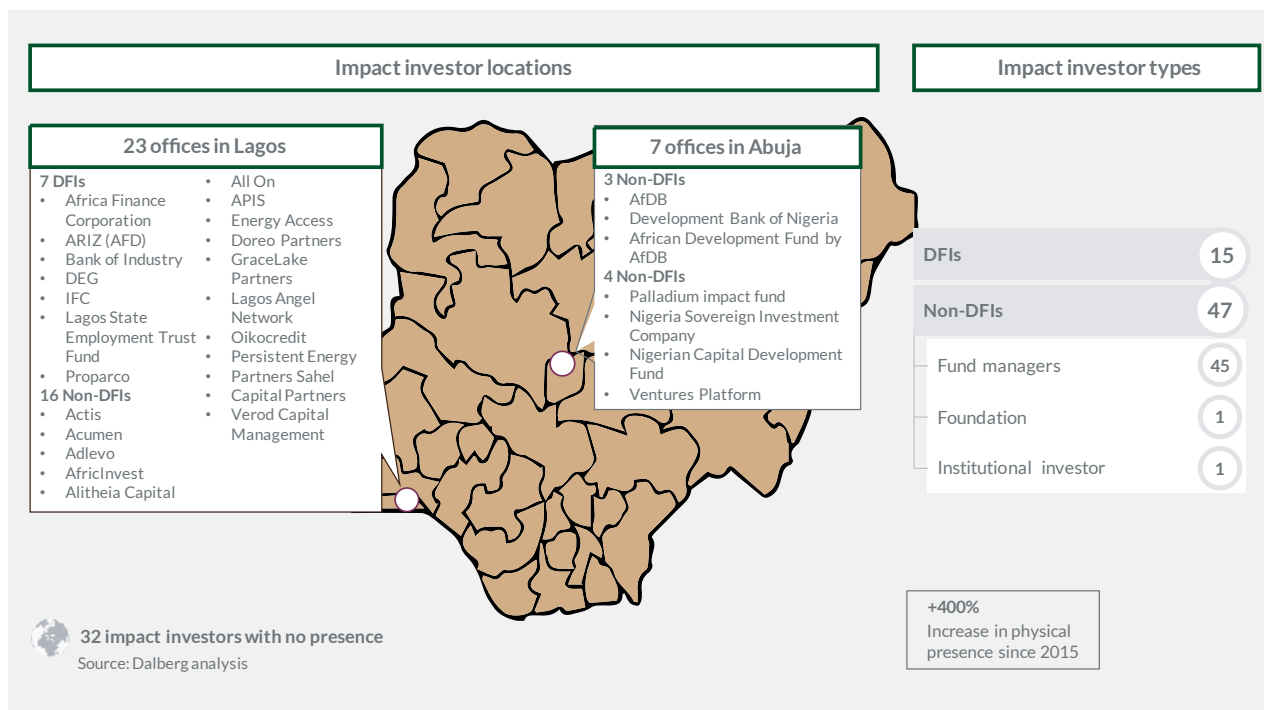
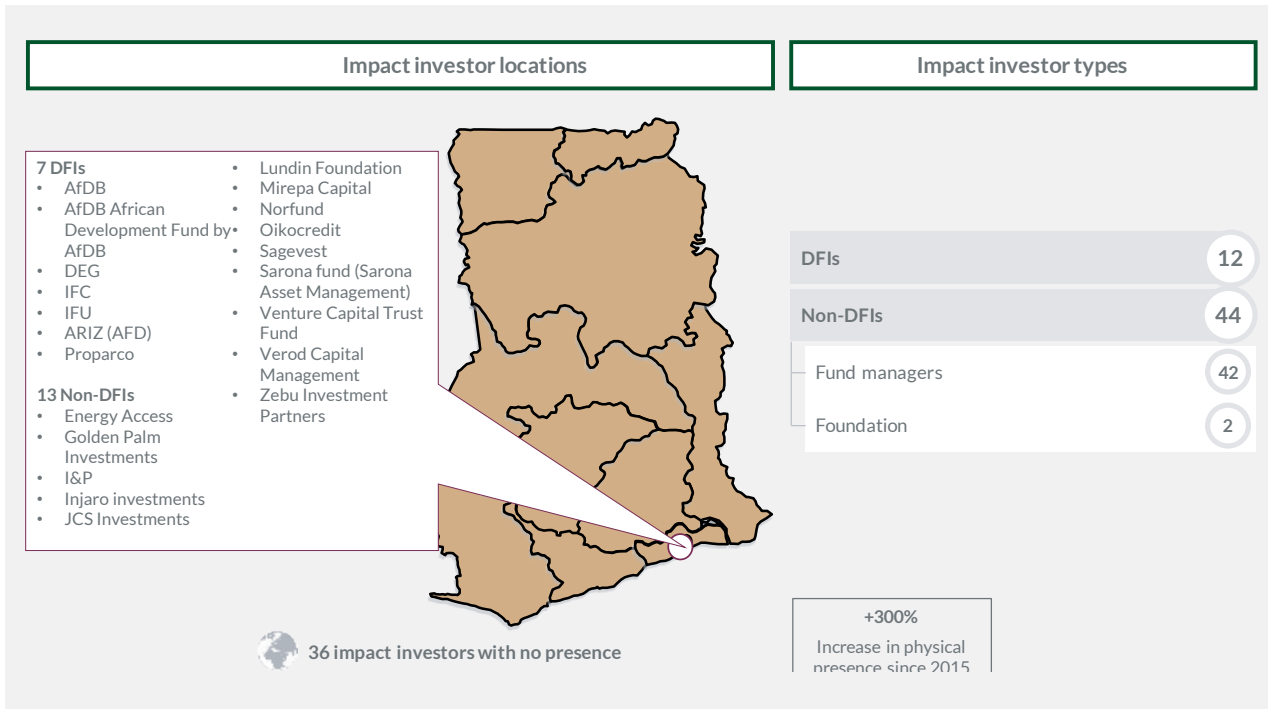


Figure 11: Ghana impact investor location and type breakdown, September 2019



Investor outlook

As outlined in Section III.1 (Country context and overviews), both Nigeria and Ghana have experienced significant changes in macroeconomic performance since 2015.

Interviews with investors explored the extent to which their outlook going forward shifted as a result of these changes.

For the most part, investors responded neutrally to the difficult economic climate, often accepting it as a cost of doing business.

Several noted that they had raised new funds since 2015 and that the economic slowdown had been ‘priced in’ to these funds. Although it may impact fundraising prospects going forward, many investors noted that once capital has been raised and committed, macroeconomic factors become a reality that investors must work around. Some even noted that the challenging business environment can present opportunities to invest at discounted rates, although this can also make it more difficult for businesses to grow to a stage of investor readiness (decreasing their investment prospects).

Forex risks materialized for investors, but this too was generally viewed as a cost of doing business that impact investors were, at times, better situated to weather relative to their commercial counterparts.

The majority of investors interviewed raise a significant (if not exclusive) proportion of their funds from beyond the continent and often need to deliver Euro (EUR) or United States dollar (USD) denominated returns. Owing to the devaluation of both the naira and the cedi significant forex risk materialized. Investors noted continued pessimism in this regard, with some evaluating deals to ensure they are viable even in the face of continued

devaluation. That said, many investors noted that this was, to a certain extent, priced into funder expectations—reflecting the assumed risk of working in the region. At times, impact capital was felt to be better able than commercial funds to weather such challenges because, although impact funders still seek returns, their impact-orientation can allow them to be more patient (with some funds embedding longer time horizons to weather such challenges).

Despite positive movements in the World Bank EoDB Index, investors perceived little on-the-ground change in EoDB since 2015.

This was particularly true in Nigeria, where investors noted that the operating environment remained largely unchanged (despite the policy reforms outlined in Section III.1 [Country context and overview]). That said, the size of the economic opportunity in Nigeria was felt to outweigh the costs of doing business in this environment. Investors continued to perceive Ghana as a more business-friendly environment, with limited changes in this regard.

An increased awareness of impact investing (despite the worsening economic climate) perhaps represented the largest shift in investor outlook.

In alignment with the rise in actors identified above, investors noted a surge in impact investing in the region. Investors felt that, by deterring fully commercial investors, the worsening economic climate had perhaps opened the door for increased impact investing by creating a greater need for investment while enabling a less competitive investing environment. These shifts correlate, to some extent, with wider investing trends. EMPEA noted that private capital fundraising (from within the region) in Africa rose by 22% and the exit of several investors opened paths to local fundraising, supported by a less competitive environment³³.

Although awareness increased, several investors raised concerns of ‘impact washing’.

This reflects the increasingly commercial focus of impact investors outlined above. Several investors questioned whether increases in awareness were accompanied by a sufficiently robust definition of how investors would achieve and measure impact. In essence, although, in many cases, the impact investing brand improved the ability to raise funds, there was concern around whether such funds were fully leveraged for impact.

These findings reflect qualitative insights drawn from interviews. The following section explores transaction trends from a quantitative perspective.

Quantitative deal flow analysis

In addition to exploring investor perceptions, the editorial team also built a database of all identifiable transactions in Nigeria and Ghana between 2015 and 2019 (as outlined further in Section II.3) and combined it with data from the 2015 GIIN research on the impact investing market in West Africa to draw comparisons and identify trends.

This section explores findings from this quantitative analysis against a number of variables, primarily: actor, sector, transaction sizes, instruments deployed, and time.

33 EMPEA (2018) Africa Data Insight: Year End 2018. Available at: <https://www.empea.org/research/africa-data-insight-ye-2018/> (Accessed 3 December 2019)



ACTIVITY BY GEOGRAPHY

The total combined impact investing market across Nigeria and Ghana was \$5.9 billion from 2015 to 2019, compared to \$1.8 billion from 2010 to 2014.

Much of this growth overall reflects larger transaction sizes and the emergence of new actors in the market. It aligns with an increased awareness of impact investing, as outlined in the investor landscape and investor outlook portions of this section. Although the report takes into account the flow of deals that have taken place thus far in 2019, this data may be incomplete (given the delays in publishing 2019 data, outlined in Section II.3). \$524 million in impact investing activity has been identified in Nigeria and another \$346 million has been identified in Ghana for 2019 (as of September).

Although both Nigeria and Ghana remain substantial impact investing markets, the Nigerian market has grown more rapidly and is now more than 3.9 times the size of Ghana's.

The GIIN study (2015), found the impact markets of Nigeria and Ghana to be approximately equivalent in size, making up 29% and 25% of the overall West African market respectively³⁴. In the current study, Nigeria represents a \$4.7 billion market, while Ghana represents a \$1.2 billion market.

In the current study, Nigeria represents a \$4.7 billion market, while Ghana represents a \$1.2 billion market.

³⁴ Global Impact Investing Network (2015), The Landscape for Impact Investing in West Africa. Available at: <https://thegiin.org/research/publication/westafricareport> (Accessed 3 December 2019).

The larger size of Nigeria’s economy drives investors’ preference to invest there.

Many investors mention Nigeria’s natural competitive advantage, i.e., the sheer size and investment potential of its economy. Ghana ranks better for the ease of doing business, but Nigeria’s economic potential outweighs its poorer performance in this metric.

This section will go on to explore the nuanced evolution of both markets since 2015.

This is illustrated through three main lenses: activity over time, activity by actor (DFIs vs. non-DFIs), and transaction sizes (how this capital is deployed).

ACTIVITY OVER TIME

Total impact capital deployed has increased significantly since the last report, although this growth has been inconsistent.

As shown in Figure 12, 2015–2018 deal flows reflect record highs relative to those captured in pre-2015 data. That said, a record year in 2016 was followed by a dip in 2017, with a partial resurgence in 2018³⁵.

The overall growth in impact investing is largely reflective of the increased number of impact investors in the market.

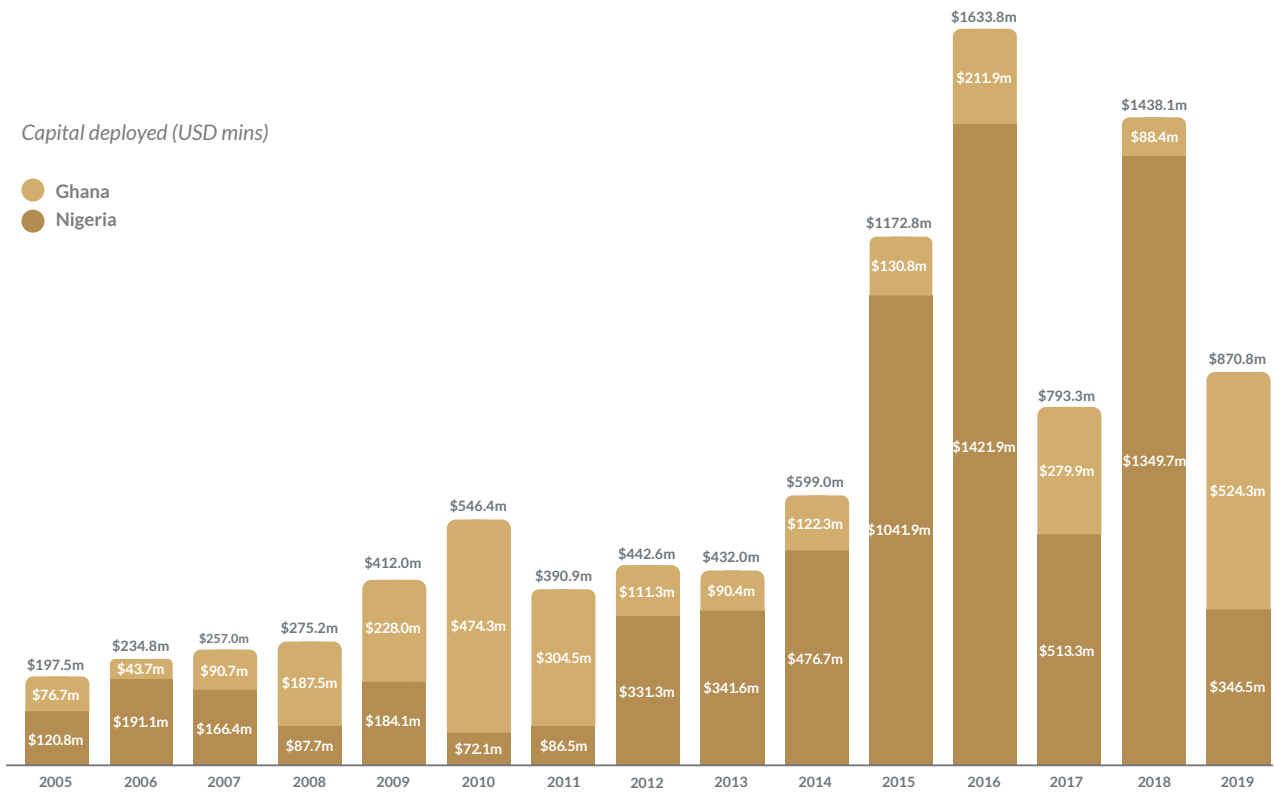
New actors have emerged (as outlined earlier in this section), however, the increase in actors in the impact market outpaced increases in total capital deployed. This largely reflects a prevalence of non-DFI actors, which typically execute fewer deals at smaller transaction sizes (and therefore exert a less significant market impact compared to large-scale DFIs).

The volatility of capital deployed varies by country, with Ghana experiencing more consistent growth than Nigeria.

This is in part driven by the different macroeconomic contexts. In 2016, Nigeria entered an economic recession, the effects of which were felt most strongly towards the end of that year. Given the time lag associated with deal activity, it is likely that the downturn continued to affect deal flows into 2017.

35 The analysis also captures deal data for 2019, but because this data only reflects transactions from part of the year, it cannot be compared to prior years.

Figure 12: Total direct deal values per year in Nigeria and Ghana, 2005–2019



ACTIVITY BY ACTOR

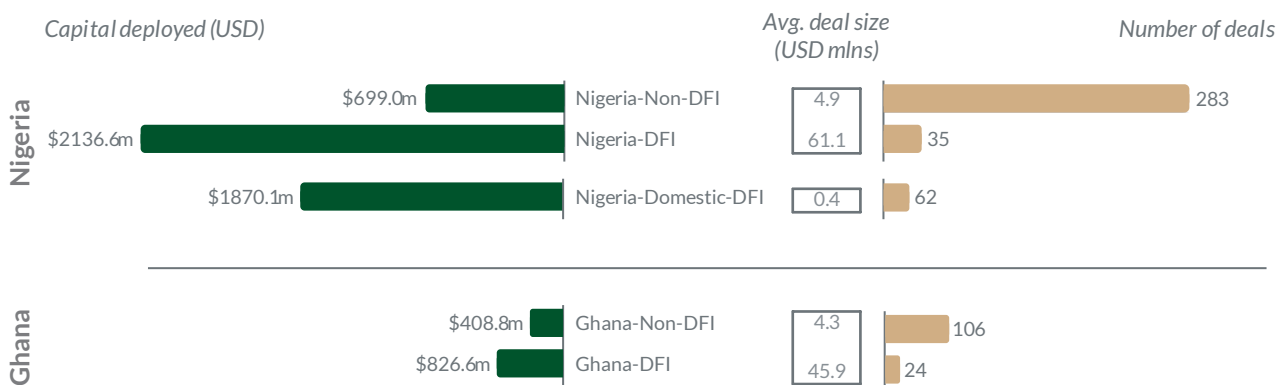
Understanding these trends over time requires a segmentation by actor.

DFIs and non-DFIs have different characteristics and motives and react differently to market signals, as outlined in Section II (Context and Project Approach). Furthermore, the sheer size of the DFI market means that analysing both in aggregate would risk masking the nuances of the non-DFI market.

In both Nigeria and Ghana, DFIs dominate the landscape of impact investing, providing 81% of the capital deployed.

As Figure 13 shows, in both countries, non-DFIs executed significantly more deals than DFIs, but because DFI deal sizes are much larger on average, they deploy a significantly greater amount of capital overall. Capital deployed directly by DFIs represents 67% of the market in Ghana and 85% of the market in Nigeria (including Nigerian domestic DFIs).

Figure 13: Total identified direct impact investments in Nigeria and Ghana, 2015–2019



DFIs

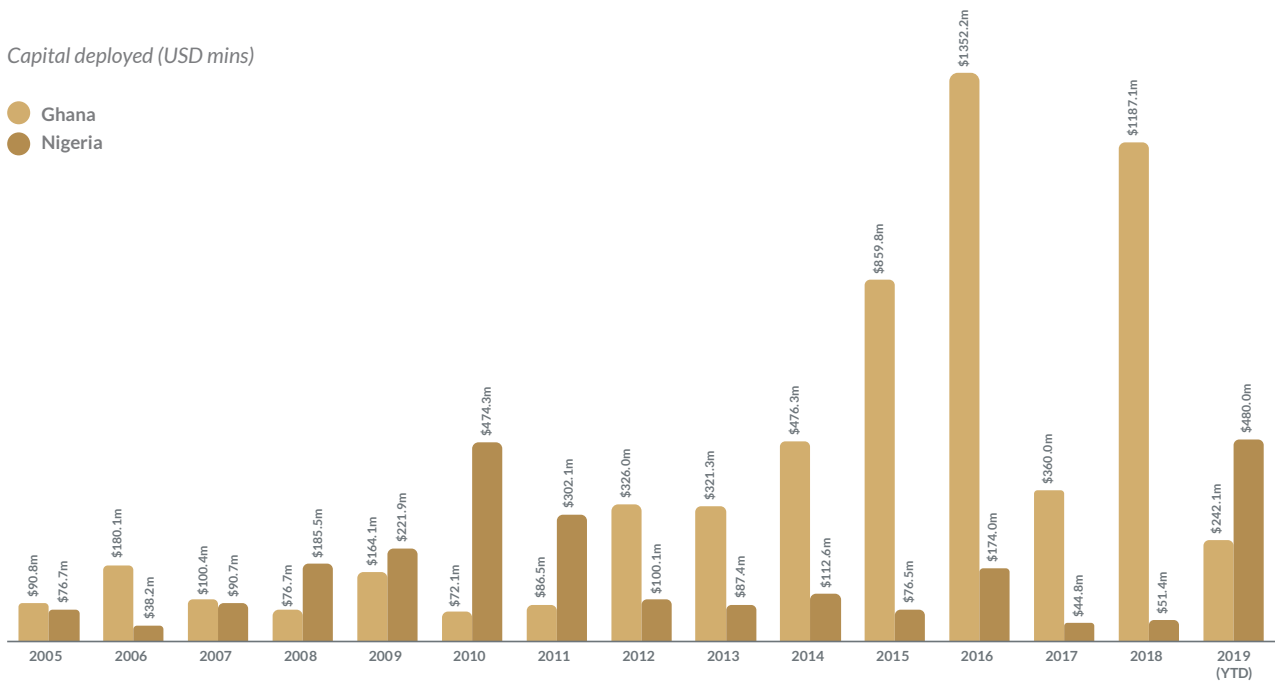
DFI transactions in Nigeria and Ghana have been deployed at much greater levels in Nigeria than Ghana.

In the two countries combined, DFIs allocated more than \$4.8 billion since 2015, with strong growth in deployment from 2014 to 2016 (Figure 14). That said, this growth is mainly driven by the Nigerian market, which captures around 83% of all DFI investments. In Nigeria alone, the total amount of impact capital invested by DFIs amounts to \$4 billion since 2015. Ghana, on the other hand, has seen much lower deployments as well as less volatility in those deployments. Impact investments by DFIs in Ghana totalled \$827 million since 2015, half of which was allocated in 2019.

Much of the fluctuation in year-to-year impact investment values since 2015 was driven by DFI trends in Nigeria.

Total impact capital deployed by DFIs in Nigeria increased fourfold between 2013 and 2016. In 2016, impact capital peaked at \$1.4 billion deployed—equal to the total investments made in 2014 and 2015 combined (Figure 14). After the economic recession in 2016, DFI lending dropped sharply before recovering in 2018.

Figure 14: Total identified DFI direct impact investments year by year, 2005–2019



The volatile deployment curve in Nigeria is partly the result of an increased level of caution in response to a review of accrued risk profiles after 2016.

The economic downturn in 2016 created both a macroeconomic opportunity and a developmental need for DFIs to increase investments. The effects of the 2016 recession, wherein both the Nigerian naira and Ghanaian cedi experienced devaluations against the US dollar, became more apparent in 2017. Some DFIs interviewed for this report noted that the 2016 recession led to a re-evaluation of institutional risk appetite and safeguard mechanisms. As a result, investments in DFIs in 2017 dropped significantly before rebounding and adjusting to pre-recession levels in 2018.

International DFIs are still the largest overall funders, but, in Nigeria, domestic DFIs provide 47% of total DFI funding.

Overall, international DFIs provide around 53% of all DFI funding in Nigeria. However, three Nigerian DFIs have increased lending significantly since 2015 and now represent 47% of DFI funding in the country. Collectively, the Nigerian Development Bank, the Bank of Industry, and the Lagos State Employment Trust Fund have provided \$1.9 billion in funding since 2015.

The Nigerian DFIs focus on smaller lending transactions, and thus, although they contribute only 47% of funding, they represent 99.95% of DFI transactions by volume.

Their lending almost doubled the total amount of capital deployed by DFIs in Nigeria, from \$2.1 billion to \$4 billion between 2015 and 2018 (Figure 13). Deals increased from 59 transactions between 2011 and 2014, to

almost 62,000 deals between 2015 and 2019 (year to date)³⁶. The domestic DFIs lend at significantly smaller transaction sizes (averaging \$30,000 per deal) than those of the remaining set of international DFIs (averaging \$56.9 million per deal).

Non-DFIs

Non-DFIs make up just 19% of the overall impact investing market by value, but there are a greater number of non-DFI investors than DFI-Investors, and non-DFI investors deploy a larger quantity of deals.

From 2015 to 2019, non-DFIs in Nigeria and Ghana executed approximately 430 deals for a total value of \$1.1 billion. Owing to the size of Nigeria's market, there have been about twice as many deals there as in Ghana.

Compared to the previous period, non-DFI investment has increased 20-fold.

This is in part driven by the rise in total number of non-DFI impact actors from 19 to 47 during this period. As earlier outlined, this reflects both new actors in the market (often in fast growing areas such as digital, financial services and off-grid energy), but also previously more commercial investors that are orienting towards a greater impact focus in order to attract funds³⁷. The surge in impact investors leads to a 24-fold increase in non-DFI investment in Nigeria and a 15-fold increase in Ghana.

Although non-DFIs reflect 19% of the market, an unknown but potentially sizeable volume of this segment is often funded by DFIs through a 'fund of funds' approach.

Although funding sources were not mapped, many of the non-DFI actors reported that between 30% and 100% of their funding originating from DFI organizations, in part driving the increasing number of actors in the market.³⁸ As such, the non-DFI segment of the market behaves differently, but DFIs retain dominant influence over the total market.

Non-DFI investors were affected by the deteriorated economic climate of 2016 but reacted differently to the economic strain.

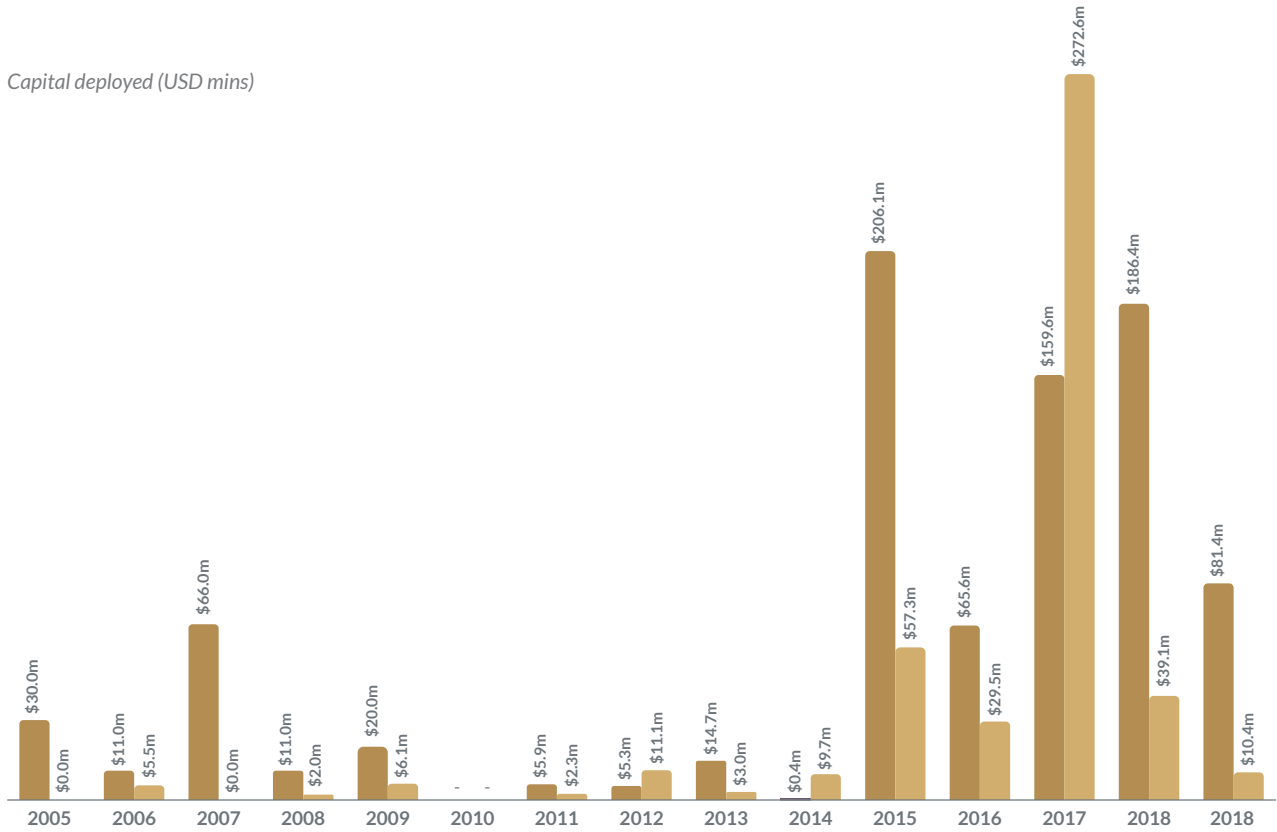
Non-DFI investments in Nigeria dropped from a total deal value of \$206.1 million in 2015 to \$65.5 million in 2016. Non-DFI investments returned to pre-recession levels by 2017 and by 2018 had exceeded 2015 levels. Both DFI and non-DFI investors experienced a retreat and then a resurgence of activity following the recession, but each set of investors reacted differently. Whereas DFIs lent throughout most of 2016, deal data suggests that non-DFI investors suspended lending as soon as signs of economic strain in Nigeria became visible. To some extent, due to the smaller size of their organizations, non-DFI processes can be more responsive than those of DFIs. Non-DFIs also have less lengthy and less complex bureaucratic procedures than DFIs and can therefore react more quickly to sudden developments in the market. Non-DFIs may have more flexible risk mitigation strategies, but they also likely weigh the relative importance of impact and financial return differently.

36 The Development Bank of Nigeria and the Lagos State Employment Trust Fund started operating in 2017 and 2018, respectively. The previous report did not include data from the Nigerian Bank of Industry, which was established in 2001

37 Note that where impact investors have re-oriented towards impact and they have therefore been added to the deal database, their data would only have been sourced back to 2015, explaining some of the spike seen in 2015

38 Transactions related to fundraising activities were not captured in the deal database

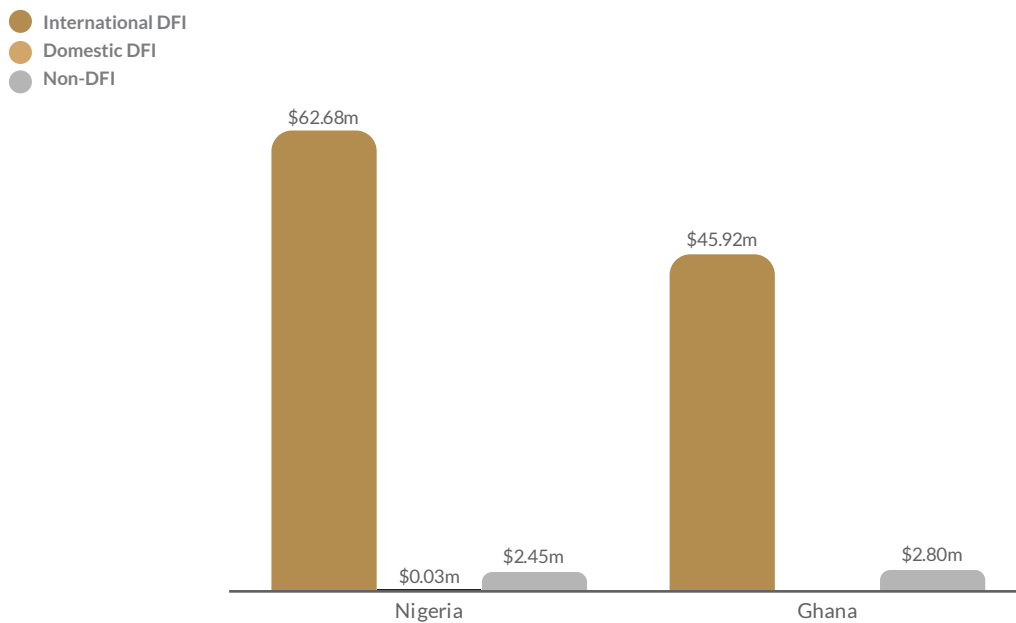
Figure 15: Total identified non-DFI direct impact investments year by year, 2005–2019



TRANSACTION SIZES³⁹

DFIs

Figure 16: Average transaction size by actor, 2015–2019



³⁹ Note: given the significant variance between international and Nigerian domestic DFIs, Nigerian domestic DFIs have been separated for the purpose of transaction-size analysis

In line with the 2015 study, DFIs (excluding Nigerian domestic DFIs) continue to lend at larger overall ticket sizes than non-DFIs.

This aligns with the desire of DFIs to minimize transaction costs by lending in larger quantities. For the two countries combined, the average deal size is \$2.6 million for non-DFIs and \$56.9 million for DFIs. The average non-DFI deal size of each country is similar. However, the average DFI deal size in Nigeria is 37% larger than that in Ghana, owing mostly to large public sector management and agriculture investments in 2016.

Larger transactions represent the greatest numbers of DFI deals.

As shown in Figure 17, more than half of DFI deals in Nigeria are greater than \$20 million (excluding domestic DFIs). Ghana reflects a more mixed picture, although this is somewhat skewed by the smaller size of its DFI market. Still, 47% of DFI transactions in Ghana are greater than \$20 million.

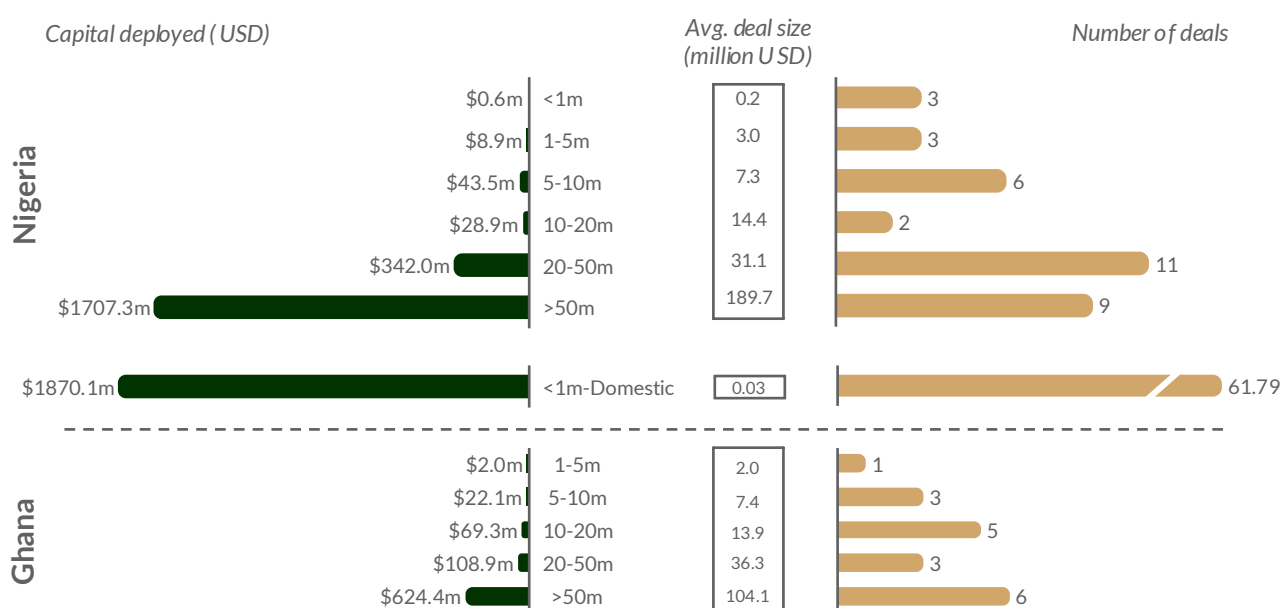
Actors noted that the DFI preference for lending in large ticket sizes does not always align with on-the-ground funding needs.

Several actors talked about the challenges of finding larger transactions and suggested that for broader development to occur there is a need to stimulate MSME growth (such businesses will need time to develop before they reach even the current non-DFI ticket sizes).

The smaller transaction sizes of Nigerian domestic DFIs contrast strongly with the wider DFI sector, helping to offset this wider trend and respond to the need for smaller transaction sizes.

The Bank of Industry, Development Bank of Nigeria, and Lagos State Employment Trust Fund mainly aim to serve MSMEs through the provision of smaller investment amounts. They deploy capital at levels less than \$1 million per deal (with an average deal size of \$30,000). Still, these local actors deploy nearly as much capital as international DFIs (for every \$1 deployed by Nigerian domestic DFIs, \$1.40 is deployed by international DFIs in Nigeria).

Figure 17: Direct DFI investments by deal size in Nigeria and Ghana, 2015–2019



Non-DFIs

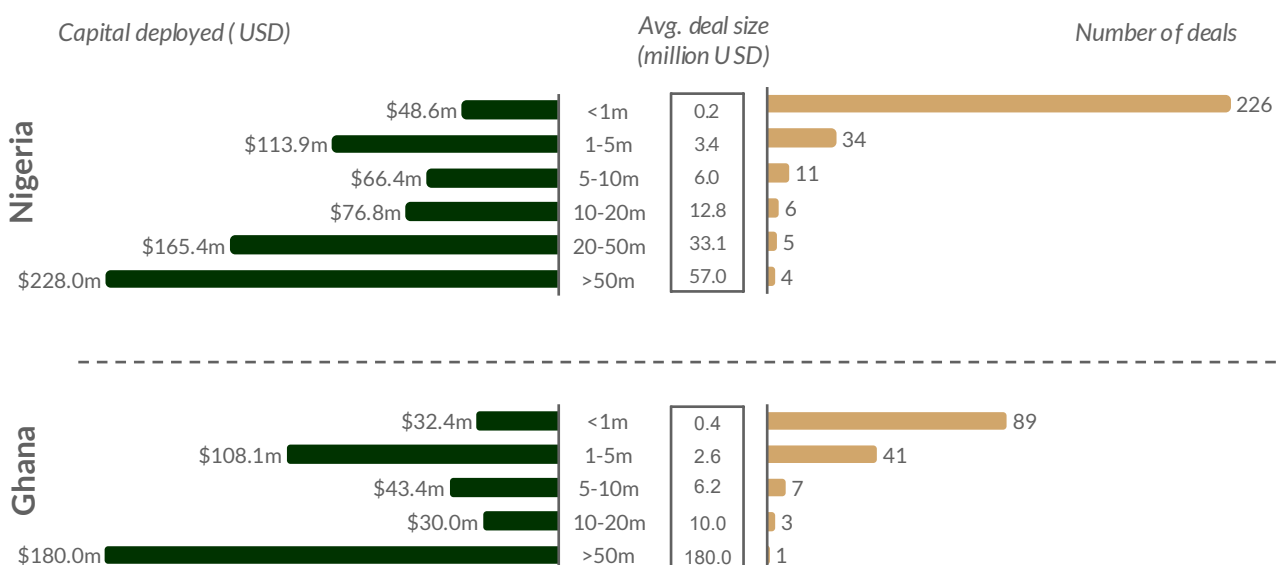
Although the average transaction size for non-DFIs is significantly smaller, it has increased since the last report, from an average of approximately \$2.2 million between 2011 and 2014 to an average of \$2.6 million between 2015 and 2019 (YTD).

This increase reflects the rising presence of commercial investors, which are pursuing larger ticket sizes as a way to balance transaction costs. The relatively fixed transaction costs can rapidly eat into the profits of smaller deals.

Among non-DFIs, there are a greater number of small deals by volume, but large deals outweigh small deals in total value.

In Nigeria, 79.9% of non-DFI transactions occurred at levels below \$1 million and in Ghana, 61.6% occurred at these levels. For each country, the average deal size was approximately \$0.3 million. Many of these deals could represent seed funding, either under a venture capital (VC) model or with the expectation of additional future funding. Despite their volume, these deals reflect just 7% of total investment value in Nigeria and 8% in Ghana.

Figure 18: Direct non-DFI investments by deal size in Nigeria and Ghana, 2015–2019



SECTOR FOCUS

Overall, sector coverage has increasingly diversified.

As of September 2019, 10 sectors represented 90% of transactions by value, compared to just 6 sectors prior to 2015. Notable sectors often align with significant national priorities. For example, investments in the agricultural sector enhance food security, investments in the financial services sector build financial inclusion, and investments in infrastructure impact most aspects of the economy.

DFIs drive a number of top-level sector trends, while non-DFIs have a more nuanced sector focus.

The next section will address each.

DFI investors

Across both countries, DFIs continue to focus on the core economic sectors, such as energy and infrastructure, that can absorb larger investments.

This aligns with the prominence of larger DFI transaction sizes outlined above. Nigeria and Ghana face ongoing infrastructure and energy deficiencies that hinder economic development but provide opportunities for impact investment in these sectors.

Agriculture has seen a significant increase in transactions since 2015.

In both Nigeria and Ghana, DFIs conducted the highest number of transactions in the agriculture sector. Such transactions were more dominant in Nigeria, where they represented about a third of the total number of DFI transactions (see Figure 19). Interviewees reinforced this finding, indicating greater interest in the agriculture sector due to increasing commercialization, government support, and technical assistance from development agencies. For example, the Central Bank of Nigeria launched the Anchors Borrowers' Program in 2016 to provide financing to smallholder farmers engaged in the production of identified commodities⁴⁰. Additionally, the Federal Ministry of Agriculture and Rural Development (FMARD) recently set up Staple Crop Processing zones to encourage agribusinesses to set up processing plants in the country by providing fiscal, investment-based, and infrastructural incentives⁴¹. Such initiatives help further develop the value chain and create a pipeline of investment-ready businesses in the sector.

The remaining sector priorities for DFIs are largely driven by the nature of the economy in each country.

Nigeria, for example, sees a much greater focus on agriculture, as outlined above. Public-to-public lending has played a key role in financing an extensive number of development programs in this sector in recent years. In Ghana, meanwhile, information and communications technology (ICT) plays a much bigger role, with Ghana having established itself as an easy location for technology companies to do business. The Transport & Logistics sector is also a key priority in Ghana, reflecting its trade-orientation. Projects such as the Accra Urban Transportation Project (supported by the AfDB) and the development of metro/light rail transit systems in Accra and Kumasi demonstrate Ghana's commitment to this sector⁴².

40 Central Bank of Nigeria (2017) Anchor Borrowers Program Guidelines. Available at: <https://www.cbn.gov.ng/out/2017/dfd/anchor%20borrowers%20programme%20guidelines%20-dec%20%202016.pdf> (Accessed: 3 December 2019)

41 Federal Ministry of Agriculture and Rural Development, Stable Crops Processing Zones. Available at: <https://fmard.gov.ng/staple-crops-processing-zones-scpz/> (Accessed: 3 December 2019)

42 PwC Ghana (2019) 2019 Budget Highlights: A Stronger Economy for Jobs and Prosperity. Available at: <https://www.pwc.com/gh/en/assets/pdf/2019-budget-highlights.pdf> (Accessed: 3 December 2019)

Figure 19: Sector distribution of DFI investments, Nigeria (2015–2019)

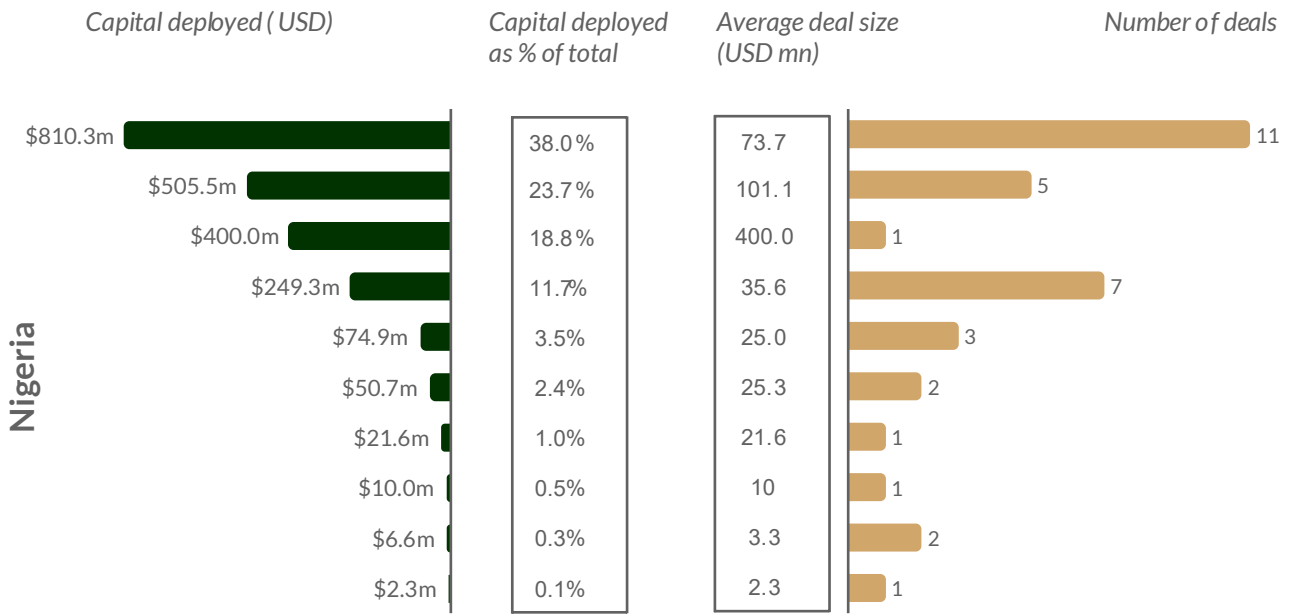
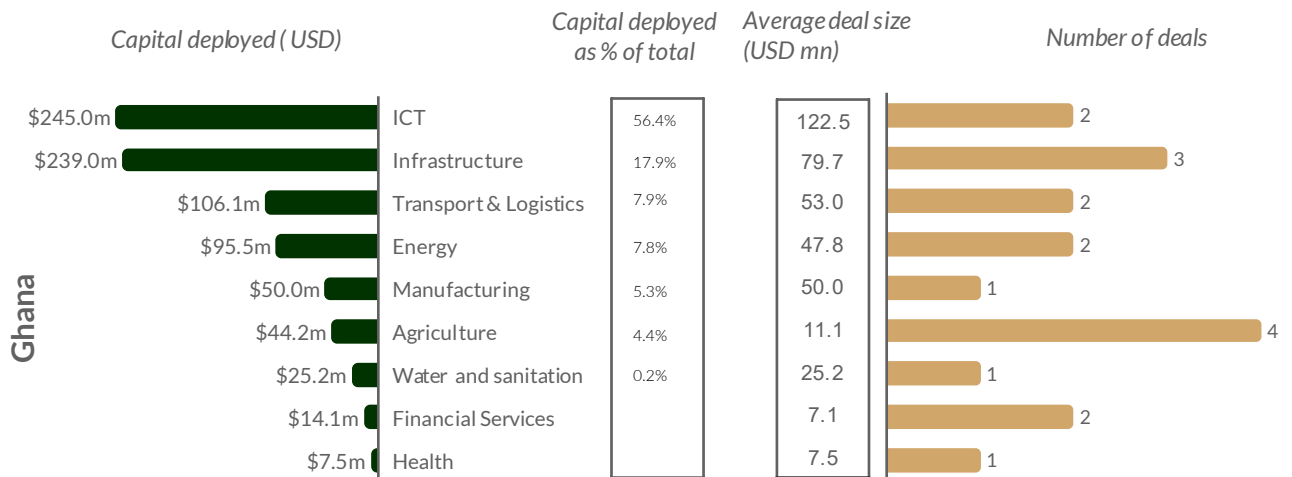


Figure 20: Sector distribution of DFI investments, Ghana (2015–2019)



Non-DFI Investors

Due to its smaller ticket sizes, non-DFI capital can be placed in a wider variety of sectors and is therefore driven much more by the specific economic environment of each country.

In Nigeria, energy, financial services, and agriculture represent key sectors.

Non-DFIs conducted 30 deals in the Nigerian energy sector, reflecting an increasing interest in renewables and the smaller energy companies that are playing a role in fulfilling the countries energy needs. Investments in financial services reflect a significant interest in financial inclusion, with strong innovations emerging (e.g., microfinancing institutions, new banking models, and digital financial technologies). Meanwhile, agriculture continues to remain a crucial pillar of the economy.

New sectors are also emerging in Nigeria.

For example, traditionally, the education sector received little attention from impact investors due to the dominance of government-based and philanthropic funding. However, interviewees noted interest in the emergence of low-cost private schools and education start-ups, particularly those using technology to facilitate service delivery.

In Ghana, meanwhile, the financial services sector dominates non-DFI transactions.

This reflects the significant opportunities presented by more favourable financial regulations in Ghana. Other sectors remain smaller, with several non-DFI investors noting that it is often difficult to source deals in Ghana because of its relatively small economy.

Figure 21: Sector distribution of non-DFI investments, Nigeria (2015–2019)

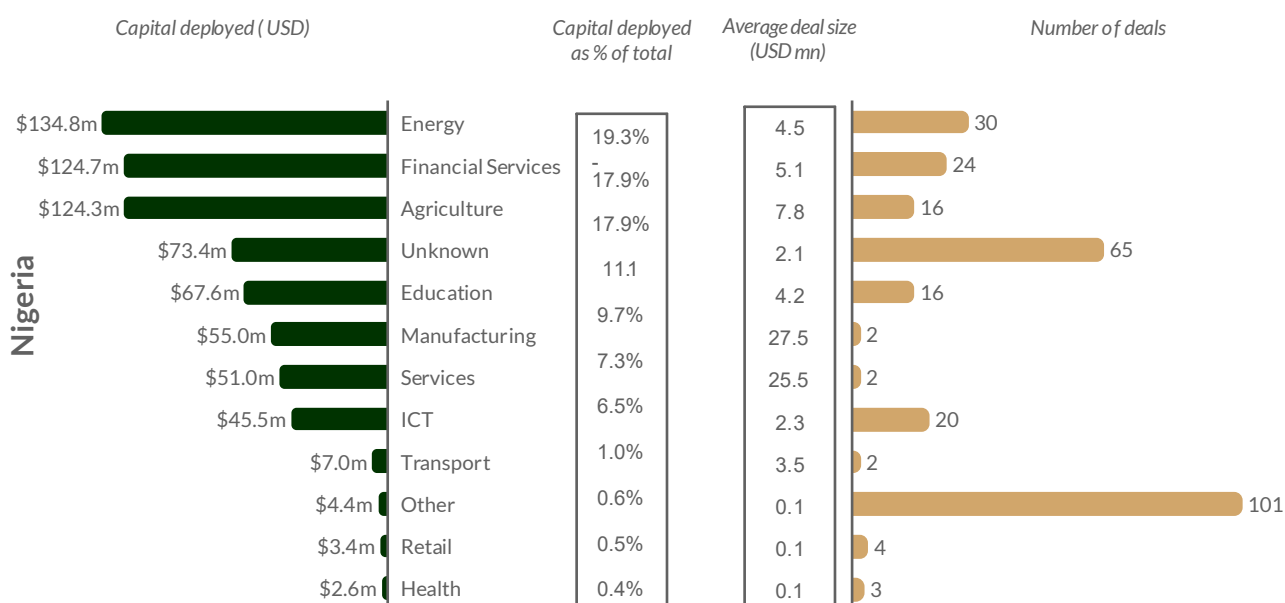
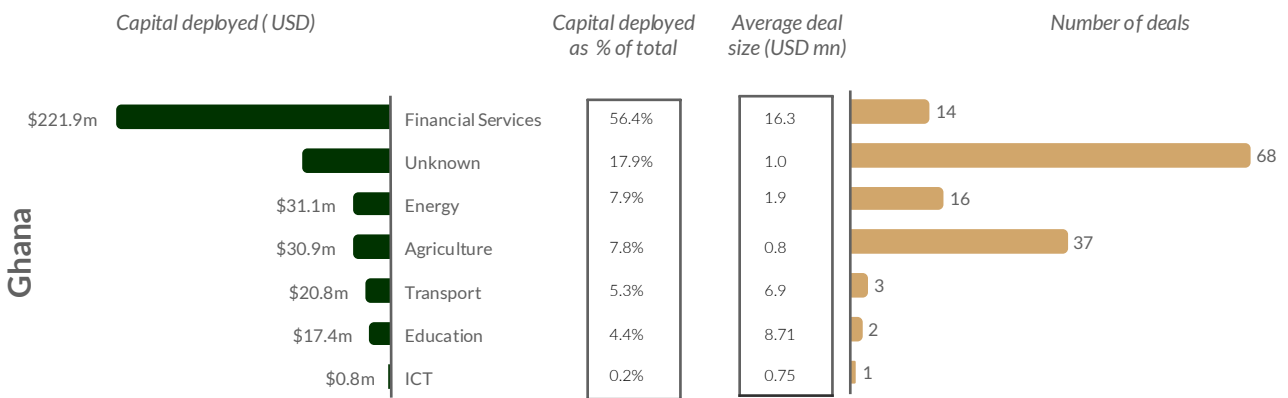


Figure 22: Sector distribution of non-DFI investments, Ghana (2015–2019)



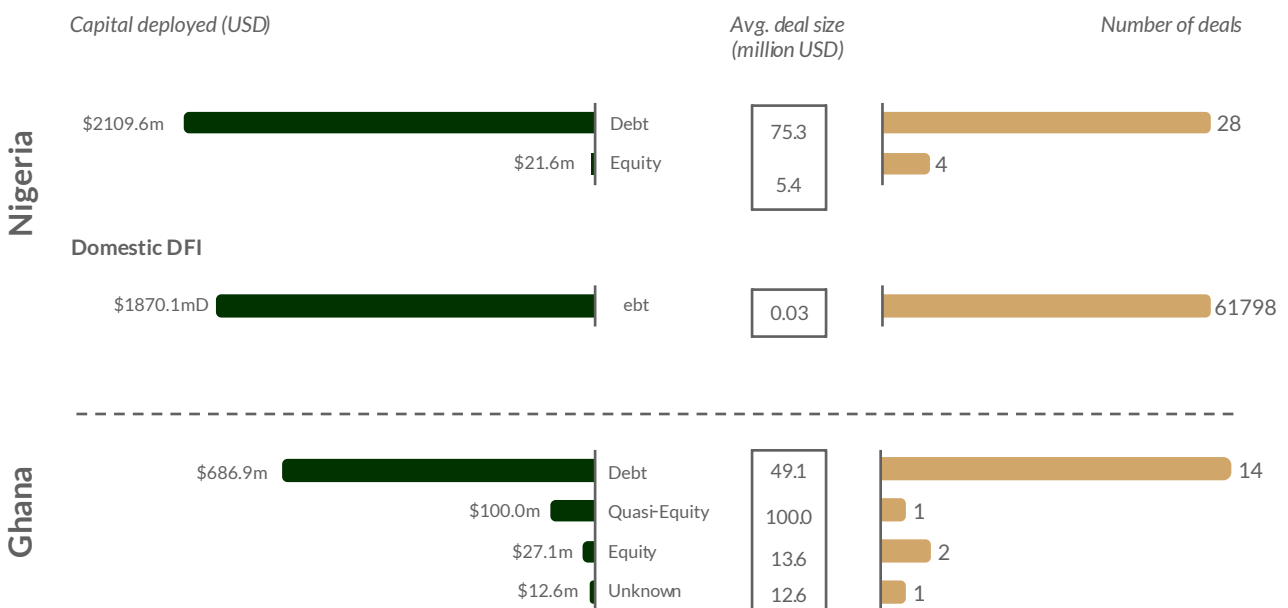
INSTRUMENTS DEPLOYED

Data regarding instruments deployed was relatively less available. For 19% of transactions, it was not possible to identify the instrument used, although, by value, this represented under 5% of the deals⁴³.

The overall market still sees the vast majority of capital deployed through debt (81% of known deals by value), although Ghana sees a greater share of equity deals.

This is illustrated in Figure 23 below. These patterns reflect differences in the risk appetites and preferences of DFI and non-DFI actors.

Figure 23: Direct DFI investments by instrument in Nigeria and Ghana, 2015–2019



⁴³ Data availability for instruments deployed by DFIs was strong. They account for a larger percentage of total deal value, which is why data coverage by value was significantly better than by volume. Data availability regarding instruments deployed by non-DFIs was weaker.

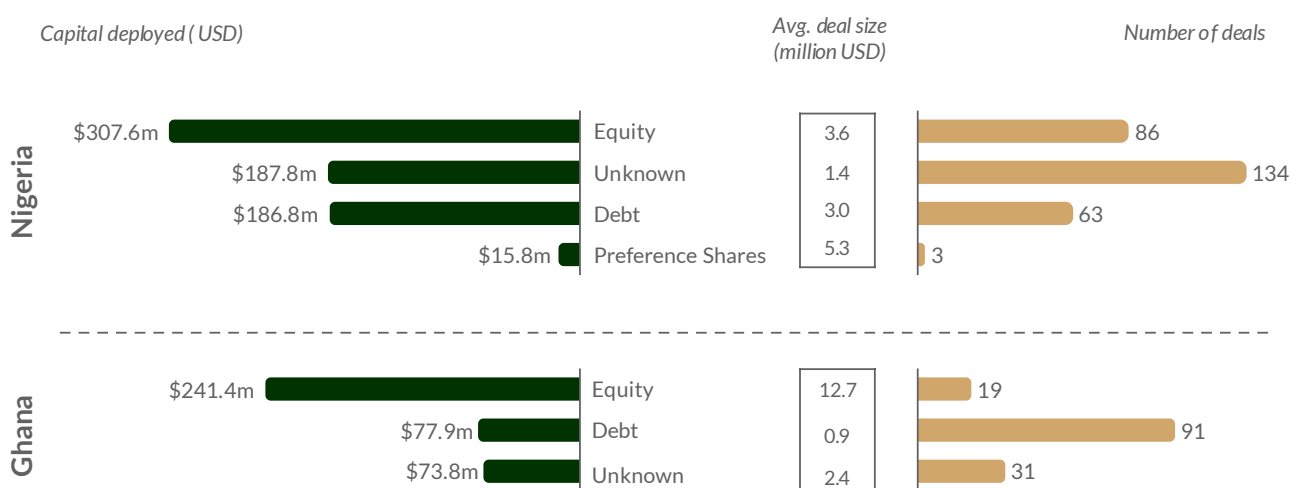
DFIs deploy the vast majority of deals (95% by value, where the instrument is known) through debt.

This largely correlates with the GIIN study, which noted that 91% of DFI transactions deployed debt. DFIs heavily prefer to use debt-based instruments because they offer a clearer path to exit and require less active management. As an overall trend this is consistent across both countries, although a handful of major (quasi) equity-based deals do bring the average debt deployment down slightly in Ghana to 84%.

Non-DFIs are showing an increasing willingness and ability to deploy equity.

Previously, non-DFI actors also deployed significant levels of debt, but 66% of non-DFI transactions are now equity-based. This growth in equity-based transactions has occurred despite challenges identified by investors in finding quality equity deals and despite business reluctance to relinquish control. Much of this is likely driven by the economic climate, wherein businesses with US dollar denominated debts and those suffering from reduced demand become increasingly prepared to accept equity given their financing needs. That said, this growth in equity-based transactions has signalled the positive potential of equity investment and sensitizing people in the market to equity as an instrument.

Figure 24: Direct non-DFI investments by instrument in Nigeria and Ghana, 2015–2019



Although they are outside the scope of this study, it is important to acknowledge that other financing methods continue to operate within the region.

Many of these play a crucial role in blended financing. Technical assistance and grants are often provided alongside equity or debt investment. The use of credit guarantees also remains prominent and can enable further debt investment.

INDIRECT INVESTMENT

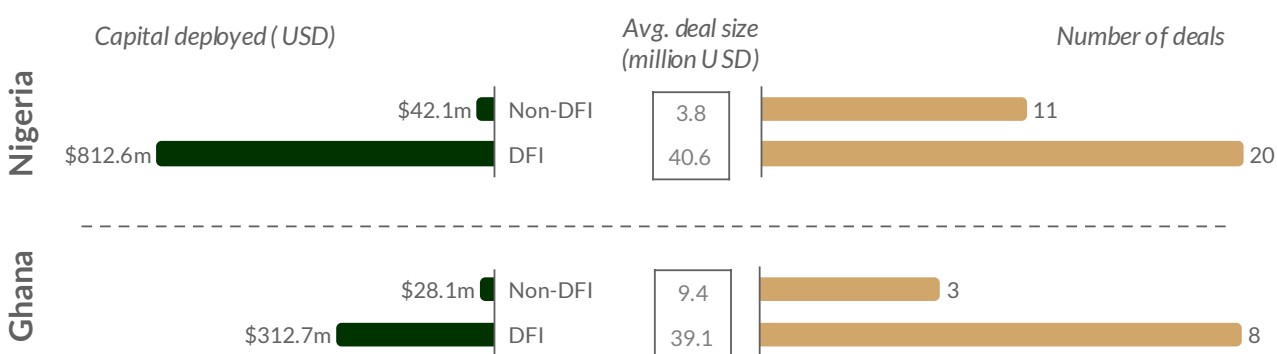
As outlined in Section II (Context and Project Approach), indirect investment was excluded from the analysis to avoid double counting.

This is due to the recognition that large proportions of indirect investments are later used to enable direct deals in a manner that is not always readily traceable. That said, data on indirect transactions was captured where it was available – with particularly strong coverage for DFIs (which, given their overall dominance, likely also comprise a large proportion of the DFI market). Recognising that the indirect investment data is non-exhaustive, this section combines the data available with insights gained in interviews to make sense of broader trends in indirect investing.

Identified indirect investment totalled \$1.2 billion, while 90% of these indirect investments were driven by DFIs.

Although the data is non-exhaustive, indirect investment remains a significant source of activity. When combining both direct and indirect deals, indirect transactions reflect 17% of the overall impact investing marketplace. Indirect investments comprise around 15% of Nigerian market transactions and around 22% of Ghanaian market transactions.

Figure 25: Total identified indirect impact investments in Nigeria and Ghana, 2015–2019



Indirect investment was predominately used as a means to enable on-lending activity, with 80% of indirect transactions taking place in financial services⁴⁴.

This focus on financial services is driven by the fact that commercial banks can lend at significantly lower transaction costs compared to impact investors. There are also some examples of on-lending capital deployed via non-banking financial institutions (notably, Max.ng in Nigeria, which provides financing to drivers, and Babban Gona, which provides farmer financing).

⁴⁴ Definition of On-lending: 'When an organization lends money that they have borrowed from another organization or person,' Financial times/Lexicon available at : http://markets.ft.com/research/Lexicon/Term?term=on_lending

Indirect transaction sizes are large, averaging \$28.5 million each, and, although this does not necessitate large average loan sizes for on-lenders, actors complain that the prevalence of such large transactions produces unrealistic expectations.

In many cases, large ticket sizes can produce pressure on banks to lend in large amounts, despite the fact that viable loans of this nature are few in number.

Investor challenges

Many of the challenges faced by impact investors remain consistent with those identified in previous studies and mirror challenges faced by investors more broadly.

These challenges reflect difficulties at the investee level and within financial markets as a whole.

At the investee level, gaps in capacity, limited data, and the tough economic climate make sourcing and executing deals difficult. Meanwhile, from a financial market perspective, investors note increased competition for deals (driven by the growth of investors in the space), shallow secondary markets that inhibit exit prospects, and difficulty fundraising (particularly in raising local capital but also in finding the ‘right’ patient capital).

These challenges are explored in more depth below.

Business challenges

Despite the size and potential of both economies, investors in Nigeria and Ghana struggle to find investor-ready businesses that meet their financial and impact criteria.

Building a pipeline of investment-ready businesses is the most common concern for investors as the majority of MSMEs do not meet investor requirements for impact potential, risk, return, and size of investment.

The dominance of a number of key sectors increases the challenge of sourcing quality investments in both Nigeria and Ghana.

Even in Nigeria where the economy is significantly larger, investors report a scarcity of viable opportunities. Interviewees in Nigeria note that the Nigerian economy still lacks diversification, and where opportunities do exist, they are concentrated in a few sectors, particularly the ICT/digital sector. Consequently, many investors chase such opportunities. To an extent this is a positive advancement, reflecting a successful push by the Nigerian government to support ICT entrepreneurs and start-ups with the introduction of the ‘Smart Nigeria Digital Economy’ project and the establishment of tech-oriented hubs. In Ghana, challenges to sourcing quality investments are exacerbated by the smaller size of the economy—with a GDP one eighth the size of Nigeria’s in 2018. Despite the ease of doing business, several investors noted a lack of viable investor-ready enterprises and some investors have decreased their involvement in Ghana in recent years.

Weak regional integration curtails the size of investment opportunities in Nigeria and Ghana and makes investing in the wider region more challenging.

Investors noted that fragmentation in the West African market limits the ability of businesses to grow and achieve scale. Under a more integrated market, many Nigerian and Ghanaian sectors would enjoy competitive export markets within the region. In such an environment, MSMEs would be more likely to reach the larger ticket sizes desired by impact investors. In addition to enabling wider market access, regional integration would bring various other benefits to the private sector, including access to cheap raw materials, labour, and economies of scale. The absence of regional integration shapes investor outlook towards the wider West African region. Frequently investors noted that the fragmented nature of the region increases the effort required to invest beyond Nigeria and Ghana. The absence of viable investees makes such prospects even more stark.

Critical gaps in business leadership contribute to the struggles MSMEs face when trying to professionalize and meet investor standards.

Attributes such as strong financial management, transparent governance, and effective risk management become increasingly crucial as MSMEs transition from self-sufficient businesses to enterprises ready to accept outside investment. Investors note that MSME managers often lack exposure to 'what good looks like' and thus lack the vision necessary to become investor ready.

Companies often need significant investment readiness support (that is often not available) and technical assistance (TA) once deals are completed.

Interviewees noted that most businesses require moderate to heavy lifting to get them investment ready, and they require technical assistance to ensure value is realized from the investments that are made. Investors, therefore, use technical assistance facilities as a means of both de-risking the investment and exercising active management control. Such facilities are prioritized and funded by investors, frequently with grant support from the development institutions. However, the general dearth of pre-deal investor readiness support (explored more in Section 1.4 [Ecosystem]) leads to a shallow pipeline of investment prospects.



A lack of available data impedes investors' ability to make sound investment decisions.

Interviewees note a lack of complete and comprehensive data upon which to appraise potential investments. This ranges from business-level accounting data to macro-level data upon which to inform market sizing. It is often not possible for investors to gather enough information to conduct due diligence prior to making a deal, and the lack of credit bureaus in the region makes it difficult for them to assess business credit histories.

Financial market challenges

Investors also note inflated valuations that are caused both by the scarcity of viable deals and by the increasing competition for such deals.

This dynamic reflects the expanding landscape of investors outlined earlier in this section. It is exacerbated by a start-up mentality that leads businesses to expect high valuation despite unproven track records and underdeveloped customer bases.

Exit prospects remain challenging given the shallow nature of the secondary markets.

Many investors expressed a desire to exit to strategic buyers, but they were not able to do this as often as they desired. Furthermore, even amongst financial buyers, the secondary markets have limited depth. This poses a significant challenge, as it often requires more than a single investment period for businesses to graduate away from impact capital and become more sustainable. This has led investors to reflect on the need for longer time horizons in their funding deals, with some considering establishing evergreen funds.

In light of the challenging economic environments in Nigeria and Ghana, realistic funder expectations are crucial, but investors noted that such realism was often lacking.

The limited availability of more patient, impact-oriented capital remains a challenge, as outlined earlier in this section. Even when DFIs provide capital to fund managers, it is often treated on equal footing with other forms of capital and is, therefore, accompanied by demands for commercial returns. Such investments tend to be coupled with risk averse funder expectations that do not always provide the level of flexibility needed to operate.

Local fundraising was identified as a 'must solve' challenge, given that such funding brings strong contextual understanding and expands total available capital.

Due to low levels of awareness and the misperception that impact capital is purely philanthropic or high risk, investors noted that local capital fundraising remains difficult. This is an essential challenge to address. The contextual understanding of local funders could help resolve the expectation challenges outlined above while an emotional commitment to their communities would likely increase their desire to deliver greater impact.



III.3 DEMAND

This section explores the outlook of impact-oriented businesses that are or can become potential recipients of impact capital. It primarily draws on the perspectives shared by impact investors and ecosystem actors regarding demand-side challenges, but select conversations with prominent social enterprises also provided insight.

Since 2015, impact capital has shifted away from self-identified social enterprises toward commercial-first organizations that also address social needs.

The number of self-identified social enterprises in the region remains low. That said, investors increasingly recognize the role that commercial-first enterprises can play in addressing social issues. Specifically, they can help create improved livelihoods, address the needs of bottom-of-the-pyramid (BoP) customers, incorporate local communities (particularly vulnerable populations) into business operations and supply chains, and aid in providing core services (e.g., energy and infrastructure).

Given the high failure rate of early-stage enterprises, few investor ready businesses are available, and although a tough economic climate has driven people toward entrepreneurship, it has also made achieving success increasingly difficult.

Qualitatively, ecosystem actors noted a high failure rate for businesses. Research in other regions of the continent supports this perspective, with a recent study finding that 90% of MSMEs in South Africa fail within their first two years of operation⁴⁵. This failure is driven by a range of challenges, including difficulty with financing and cash flow management. With the increase in ‘necessity’ entrepreneurs, these challenges are exacerbated as the typical start-up is less likely to possess the requisite experience to succeed.

Despite these broad challenges, some new sectors are now gaining traction and growing, enabling an increase in deal flow as outlined in Section I.2 (Supply).

Improved sector-specific policies (which will be explored further in Section IV [Policy]) have helped increase the prevalence of off-grid energy start-ups and enabled new opportunities in financial inclusion. Additionally, the Digital/ICT sector has grown. This burgeoning digital start-up ecosystem has found inspiration in the emergence of high-profile start-ups on the continent and, to some extent, in the successes of the East Africa region in this space.

45 The Entrepreneurial Dialogues in association with the Gordon Institute of Business Science State of Entrepreneurship in South Africa. Available at: <http://sablennetwork.com/pdf/The%20Entrepreneurial%20Dialogues%20-%20State%20of%20Entrepreneurship%20in%20South%20Africa.pdf> (Accessed 3 December 2019)

Access to MSME finance more broadly remains constrained, which can prevent businesses from reaching the level of maturity needed to access impact capital.

In Nigeria, MSMEs accounted for 96% of all businesses⁴⁶ and contributed 48% of the GDP in 2018⁴⁷. However, they received only 0.3% of the total commercial banking credit⁴⁸. This disparity has been worsened by the challenging macroeconomic environment, which has driven a rise in non-performing loans⁴⁹. Similar trends are observed in Ghana, where the recent banking crisis has caused commercial banks to be more prudent with lending (as outlined in Section I.1[Evolving context in Nigeria and Ghana]). Additionally, MSMEs are often unable to meet stringent collateral requirements or absorb the cost of financing until they reach greater levels of maturity and sustainability. Although angel investment movements have grown (for example, the Lagos Angel Network has seen strong growth since 2015), their small overall size means few businesses will likely be able to tap their offerings.

Most businesses that reach the maturity to access impact capital show a strong preference for debt financing, while other businesses that are open to equity are often already highly leveraged.

Enterprises in the region prefer debt financing over equity due to their desire to maintain control. Investors noted that low awareness of the benefits of equity investments (e.g., the credibility, expertise, and active management that an outside investor can bring) persists. They also noted that those businesses that are more willing to accept equity are often highly leveraged and seek equity only due to an inability to find further debt financing. As such, finding quality equity investment opportunities is difficult.

An emerging 'start-up class' that actively courts equity investment does exist, although it represents a small proportion of overall businesses.

High-profile start-ups such as Jumia, Interswitch, and Andela have inspired an emerging sector of investor-savvy entrepreneurs in the region (particularly in the technology and fintech sectors). These businesses tend to better understand venture capital (VC) and private equity (PE) investing, exhibit more willingness to offer equity, and view such investment as a goal from inception.

The availability of concessional, below-market funding may accentuate the preference for debt and cause businesses to have unrealistic expectations around the cost of financing.

There are numerous concessional loans available for small enterprises operating in Nigeria, particularly in the agricultural sector. Interviewees suggested that such loans may crowd out private sector investors because they are unable to compete with facilities that lend at below-market or zero-interest rates. Though investors recognize the need for concessional funding to fill market gaps, they believe it should be administered intelligently so as not to hinder private sector investment by encouraging the establishment of unsustainable business operations or unrealistic cost of financing expectations among entrepreneurs.

46 Small & Medium Enterprises Development Agency of Nigeria (SMEDAN) (2019) National Enterprise Development Program; Small Available at: <https://smedan.gov.ng/nedep/> (Accessed 3 December 2019)

47 National Bureau of Statistics (NBS)

48 Central Bank of Nigeria (2018) Annual Statistical Bulletin. Available at: <https://www.cbn.gov.ng/documents/Statbulletin.asp> (Accessed 3 December 2019)

49 National Bureau of Statistics (2018) Selected Banking Sector Data Available at: <http://www.nigerianstat.gov.ng/download/759> (Accessed 3 December 2019)

III.4 ECOSYSTEM

The ecosystem of business development support has grown rapidly in recent years.

Various stakeholders identified a proliferation of active incubators, accelerators, business development service (BDS) providers, and technical assistance facilities.

To enable investment to take place, it is important for ecosystem actors to address the full set of challenges that emerge along the business lifecycle.

The lifecycle stages and their associated needs are outlined in Figure 26 below. During the seed stage, support plays a role in incubating new ideas. In the early stage, support helps businesses develop, gain traction, and facilitate market readiness. As businesses enter their mid-stage, there is a need to accelerate their growth by connecting them to financing, skills, and other linkages. This ultimately enables them to reach a level of maturity from which they can accept larger volumes of equity. As the businesses grow, they continue to require technical support to strengthen their capabilities and to ensure they remain viable and sustainable.

Figure 26: BDS support requirements across the lifecycle of a business

	Seed stage	Early stage	Growth stage	Late stage	Exit stage
	<i>Business maturity stages</i>				
Business Characteristics	The business may still be in concept stage or have progressed to testing its market feasibility	The business is typically an existing legal entity and seeks funding from friends and family, angels and incubators	The business is typically looking to access larger funding from VCs and corporates for expansion	The business is typically experiencing steady growth and has established track-record	The business is considering various exit strategies such as IPOs, mergers and acquisitions, etc.
Support required	<ul style="list-style-type: none"> • Business plan and value proposition development • Pitching • Building a product prototype and product testing • Mentoring and Networking • Investor connection • Business administrative support (e.g. registration facilitation; tax waivers; etc.) 	<ul style="list-style-type: none"> • Pitching • Business development services (financial planning and management, governance and structure) • Market facilitation (certification; membership for associations, industry regulations, etc.) • Technical capacity building (best practices and quality management) 	<ul style="list-style-type: none"> • Expansion support (e.g. marketing, new product launch, etc.) • Stakeholder relationships facilitation (e.g. for access to land to increase production capacity) • Business investment into own assets (office space, trucks, warehousing and storage, etc.) • Continued technical support 	<ul style="list-style-type: none"> • Expansion support (e.g. marketing, new product launch, etc.) • Continued access to technical support and knowledge • Continuous relationships with relevant ecosystem actors (e.g., benefit from sector-wide interventions incl. policy advocacy support and value chain development) 	<ul style="list-style-type: none"> • Financial (e.g. getting through an IPO, private sale etc.), tax and strategy advisory services • Succession planning • Financial reporting and management
Ecosystem Actors	Incubators		Accelerator	Technical Assistance providers	

Today's ecosystem overwhelmingly focuses on incubation, a necessary but insufficient aspect of enabling businesses to reach investor readiness.

Incubators typically provide enterprises with access to mentorship, connection with a network of entrepreneurs, and support with business plan and pitch development, business strategy planning, and business administration. Many investors noted that incubation programs have proliferated but focus on MSMEs at early stages, before they are ready for investment. Incubation is necessary to build a long-term pipeline, but insufficient to catalyse the wider chain of events that enable businesses to reach the scale and maturity requisite to accept impact investment.

A small set of actors focuses on providing BDS focused on acceleration and investor readiness, but they fall short in terms of the coverage and quality of service they provide.

Many BDS providers work closely with government agencies and local DFIs (such as the Bank of Industry). Several investors noted that BDSs that target more mature businesses in a sustained way are better suited to helping them reach investor readiness. Still, they conceded that the BDS providers themselves often require technical assistance to build their own capacity and improve their operations.

Some common shortfalls emerged with both incubators and BDS providers.

Many of these were observed in different parts of the ecosystem and represent key considerations in designing a fit-for-purpose set of ecosystem actors going forward. They included:

- **Shallow nature of support provided to businesses** – Given the moderate to heavy lift required to reach investment readiness, many businesses need sustained support (one year or more) to holistically address their challenges
- **Siloed nature of the ecosystem** – Several actors noted that the ecosystem would benefit from greater visibility and engagement between actors. This could enable businesses to graduate from earlier stage programs into well-specialized, next-level programs that address their changing needs
- **A focus on business concepts over talent** – particularly in seed-stage programs, the extent to which the business idea alone is an indicator of success is limited. Instead, there is a need to more strongly identify leaders who display the greatest ability to succeed
- **Geographic concentration of actors** – Despite a strong development need to build geographically diversified growth in the region, ecosystem actors tend to coalesce in major urban centres
- **Lack of clear standards and a strong need for consistency** – No comprehensive accreditation framework exists to promote the development of capacity and regulate the practices of BDS providers in the region. This creates limited transparency into their performance, and it can be difficult for funders and participants to select programs optimally.

Despite an increasing number of ecosystem actors and due in part to the challenges outlined above, investors noted very few cases in which they had sourced investments through incubators or accelerator programs.

Several investors noted that such actors were not well-suited to their needs, and some distanced the ecosystem of incubators from the impact investing landscape altogether.

Encouragingly, a small number of programs, often driven by development partners, that seek to address these challenges by providing more holistic support.

These tend to combine deep interventions at the firm-level with engagement with potential investors. For example:

- The West Africa Trade and Investment Hub (WATIH) funded by the United States Agency for International Development (USAID) provides a holistic set of services that drive competitiveness, create linkages, and provide access to finance and investment support. WATIH concluded in 2019 with intentions and re-launch activities to begin a new iteration of trade and investment programming through a new trade hub ongoing⁵⁰
- USAID also partners with the Nigerian government through its Feed the Future program to improve the ease of doing business in the agricultural sector, broaden access to finance by mitigating the credit risks of agribusinesses, and promote investment opportunities for agribusinesses to expand and scale up operations⁵¹
- UK Department for International Development's (DfID) LINK program provides similar support through a relatively expansive set of services targeted at farmers, SMEs, and investors in northern Nigeria⁵².
- Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) has, since 1974, refreshed or launched several initiatives with an explicit aim to drive job creation and SME access to finance and economic development:
 - The Pro-Poor Growth and Promotion of Employment in Nigeria program (SEDIN) is a collaboration between the German Federal Ministry for Economic Cooperation and Development, the EU and several federal, state and local government agencies to improve entrepreneurial framework conditions, access to financial and business services as well as entrepreneurial and management skills of entrepreneurs
 - Nigeria Competitiveness Project (NiCOP) is a four-year project set up to provide financial and technical support to small and medium business in selected value chains such as tomato and leather to improve their commercialization, competitiveness and exports.⁵³

Such programs are, however, relatively few in number and were rarely referenced by investors against the much larger backdrop of other actors.

50 USAID, West Africa Trade and Investment Hub. Available at: <https://2012-2017.usaid.gov/west-africa-regional/fact-sheets/west-africa-trade-and-investment-hub> (Accessed 3 December 2019)

51 USAID, USAID Launches Agribusiness Investment Activity in Nigeria. Available here: <https://www.usaid.gov/nigeria/news-information/press-releases/usaaid-launches-agribusiness-investment-activity-promote>

52 DfID (2019) LINKS – Powering Economic Growth in Northern Nigeria. Available at: <https://devtracker.dfid.gov.uk/projects/GB-GOV-1-300028> (Accessed 3 December 2019)

53 NIPC (2019) FG Partners EU, GIZ to Deepen Economic Diversification Program in Nigeria Available at: <https://nipc.gov.ng/2019/05/09/fg-partners-eu-giz-to-deepen-economic-diversification-program-in-nigeria/> (Accessed 3 December 2019)

Given the shortfalls of the ecosystem, once transactions close, investors mostly rely on in-house TA facilities to support their portfolio companies (rather than partnering with existing providers).

TA is often essential to de-risk investments, and it enables investors to play the active management role they often find necessary given the relative immaturity of businesses in the region. That said, several investors noted limited partner options. This may explain their preference to utilize in-house TA or to contract out to select consultants rather than partner with existing providers.

Although actors at times talked about the need for systems-level TA, such offerings were found to be in short supply.

Actors discussed the need to build the capacity of, among other actors, regulators (e.g., the Securities and Exchange Commission in both Ghana and Nigeria), government policymakers, and institutional funders who could work with impact investing as an investment strategy. However, few actors in the ecosystem are addressing this need.



SECTION

04

Investment Policy Review and Recommendations



POLICY REVIEW: OVERVIEW
DEVELOPING SUPPLY
DIRECTING CAPITAL
INCREASING DEMAND
POLICY AND ADVOCACY: RECOMMENDATIONS
POLICY AND ADVOCACY: CASE STUDIES



IV.1

POLICY REVIEW: OVERVIEW

This report places new focus on the effects of the policy environment on the impact investing landscape.

A significant topic of interviews with actors operating in the sector focused on the extent to which policy acts as an enabler of or barrier to impact investing. The following section discusses insights gained from the interviews and presents a set of policy and advocacy recommendations. These recommendations are brought to life in the report through case studies that illustrate ways in which other economies (including Kenya, South Africa, Sierra Leone, Israel, the UK and the US) have addressed similar challenges.

Overall, this research found that the policy environment for impact investing remains underdeveloped but that not all constraints are binding.

Both Nigeria and Ghana lack policy frameworks that explicitly support impact investing as an investment strategy. Consequently, investors face constraints across the value chain in registration, regulation, and operation. However, not all constraints are binding. Despite challenges, the value and number of deals have grown over recent years. This implies that absent or inadequate policies are not an absolute constraint to activity.

Several areas of possible policy and advocacy intervention were identified.

A few policy shifts could help increase the flow of funds and build demand for impact investing assets. Broadly, this report identifies the need for policy and advocacy efforts that can:

- Advance the recognition of impact capital as an investment strategy
- Build greater awareness to mobilize local capital
- Incentivize appropriate layering of capital
- Drive sector-specific reform in high-priority industries
- Convene and shape the ecosystem of business development service providers
- Create stronger organizations able to drive systemic/institution-level TA

Policy interventions must be addressed in a balanced manner—they have proven effective in the past but can also create distortions.

Investors mentioned that detailed, coherent, and transparent policies can help a sector advance. The off-grid electricity sectors in Nigeria and Ghana are examples wherein successful policy interventions contributed to growth⁵⁴. However, regulators must be mindful of negative consequences. Policy interventions risk distorting the market and may even be harmful. This is particularly the case when regulators fail to acknowledge the realities of the market or neglect the capacity of institutions and private sector actors to implement self-guiding regulations. For instance, FinTech companies elsewhere have mostly thrived in ecosystems wherein they were able to operate without a banking license, but they were hampered in Nigeria by tight regulatory regimes (with investors noting this should be a stronger sector than it is, given financial inclusion challenges). This underscores the risk that policy interventions can hinder rather than help the sector.

In designing potential interventions, it is crucial to think broadly about policy and advocacy, particularly since many solutions extend beyond the government policymaking realm.

Government policy will often be a necessary but insufficient component of the solution space. In addition to improving policy, there is a need to ensure the impact investing ecosystem takes advantage of the space this

⁵⁴ The Rural Electrification Fund (REF) in Nigeria and the National Rooftop Solar Programme (NRSP) in Ghana are examples of funding and subsidy schemes that successfully contributed to the growth of the off-grid electricity sectors.

creates. Policy can create the regulatory framework to act but will rarely compel action that addresses many of the challenges this chapter explores. Advocacy to drive behavioural change could target a range of actors. DFIs are obvious immediate actors to engage since they continue to be the predominate funders of the impact investing sector. The wider investor community should also be considered, including the government, which can act not only as a regulator but also as an investor in the fulfilment of their service delivery obligations. The role of development partners is also significant, particularly with regards to funding the support ecosystem around impact investing.

The following subsections consider the challenges identified in each part of the policy framework.

They follow the structure outlined in Section II (Context and Project Approach), identifying policy constraints holistically across three areas of policy: developing supply, directing capital, and increasing demand. Policies that develop supply focus on raising capital, bringing it into a region, and making it available for investment; policies that direct capital build a marketplace that aligns the financial needs of businesses with a supply of investment; and policies that increase demand improve the demand-side environment to ensure more businesses can be recipients of capital. These subsections will be followed by a set of clear recommendations and case studies that illustrate ways in which others have intervened to address similar challenges.



IV.2

DEVELOPING SUPPLY

Developing supply involves increasing the amount of capital available for investment, often by adjusting investment rules and requirements.

Overall, interviews revealed many challenges in this area. However, it identified the inability to increase local fundraising and the weak recognition of impact investing as an investment strategy as the areas where intervention would be most beneficial. Many actors also noted that Nigeria and Ghana were not competitive locations in which to domicile, although this was found to not be a binding constraint.

Fund registration and operation

Neither Nigeria nor Ghana were perceived as competitive destinations for investors to domicile, leading to most funds being domiciled abroad.

Despite having improved their performance in the Ease of Doing Business Index, investors note that both countries still lack competitiveness as fund domiciles. Funds, even those with a physical presence in Nigeria or Ghana, often prefer to domicile in Mauritius, the US, or the UK. The competitiveness gap between domiciling in Nigeria and these more globally competitive investment locations is significant. Compared to Mauritius, where many of the funds operating in Africa are domiciled, Nigeria and Ghana have far less flexible and less modern legal frameworks, weaker judiciaries, fewer tax incentives, less stable political and economic systems, and more underdeveloped infrastructure.

Investees that raise funds from global capital markets also tend to incorporate abroad.

Companies operating in Nigeria or Ghana but raising funds from international investors often incorporate abroad to meet investor requirements. An estimated 70% of Nigerian tech start-ups that raised seed funding needed to incorporate in holding companies offshore⁵⁵. It can often be easier for start-ups to raise funds when they operate via corporate structures based in countries with stable and familiar legal frameworks (especially around taxation and intellectual property)⁵⁶.

Although Nigeria and Ghana are not competitive locations to domicile relative to global investor destinations, this is not likely a binding constraint.

The decisions of investors and investees to register in foreign jurisdictions does not prevent them from doing business in Nigeria or Ghana. The analysis presented in Section III.1 (Supply) of this report shows that both countries enjoy a significant amount of impact investing activity despite their lack of competitiveness as destinations in which to domicile funds.

55 Abayomi-Olunle, O. (2017) Offshore HoldCos as Investment Vehicles for Nigerian Startups – Some Considerations for Founders and VCs. Available at: <https://techcabal.com/2017/06/21/offshore-holdco/> (Accessed 3 December 2019)

56 *ibid.*

In this context, however, forex restrictions pose a more significant risk, and in Nigeria, investors face significant challenges moving funds in and out of country.

On paper, investors can transfer capital and profits in foreign currency and can work through authorized dealers that are accredited by the government to repatriate assets and profits⁵⁷. However, capital controls introduced in the wake of the depreciation of local currencies have restricted access to foreign exchange and prevented the flow of dollars out of these economies. This has increased costs and delays. Some investors interviewed noted that this is one of the largest risks they face. More significantly this creates a perception that Nigeria is a riskier environment to invest in, decreasing Nigeria's appeal as a location toward which to allocate funds. Some investors noted that forex restrictions had triggered them to re-evaluate their portfolios despite their commitment to Nigeria.

Recognition of impact capital

The failure of regulators to recognize impact/seed-stage investing as an investment strategy presents a frequently cited challenge.⁵⁸

Regulatory authorities do not recognize impact capital as a separate investment strategy that can be deployed across various asset classes, although frameworks are often in place around venture capital and private equity that could be applied to impact capital transactions.

Investors expressed some concerns around investor protections, which were in part driven by perceived risk and at times by difficulties accessing vehicles that provide sufficient protection.

There was a strong sentiment that legal protection structures were designed for the larger ticket sizes associated with more commercial investment strategies (with these structures historically having been built to cater to oil and gas investors). As such, some investors felt uncertain that similar protections would be extended to impact investments. In some cases, smaller investors were unable to access necessary legal structures given the prohibitive costs. This reflects both the ease of registering as a fund (with some instances of impact investors operating as private investors, at times in syndicate given the complexity of registering a fund) and the perceived difficulties of drawing on legal remedy if required.

The greater challenge presented by the failure to recognize impact investing as an asset class is the resultant difficulty of regulating it in a tailored manner.

Several investors called for more stringent standards defining impact investing and raised concerns around the possibility of 'impact washing' (wherein investors benefit from the impact investing brand without truly devoting themselves to the stringent measurement of the impact generated). Furthermore, given its social benefit, there may be instances in which, if impact capital was a fully recognized investment strategy, it could gain flexibility or attract incentives that may otherwise be difficult to access.

57 For Nigeria, foreign currency dealings are regulated by: Federation of Nigeria, Foreign Exchange (Monitoring and Miscellaneous Provisions) Act, 1995. In Ghana, they are regulated by: Foreign Exchange Act, 2006 (Act 723), 2006.

58 Note that many individuals interviewed in Nigeria and Ghana referred to impact investing as an "asset class", while the discourse in the sector more broadly does not use this term. Asset classes refer to the category of asset that investment is placed into (e.g., venture capital, mid-cap businesses), whereas investment strategy refers to the weighting and methodology for selecting investments. With this clarification, the report refers to impact investing as an "investment strategy" throughout. Alignment of the discourse in Nigeria and Ghana with standard terms such as investing strategy more broadly may also have potential further the sector as a whole.

Fundraising activities

There continue to be challenges to allocating greater domestic capital towards impact investment in West Africa.

As explored in Section II (Supply), the majority of capital in the impact investing market is sourced internationally, predominately through DFIs. Domestic capital, in relative and absolute terms, is largely absent from impact investing. There have been advances in Nigeria where domestic DFIs now represent 47% of DFI capital deployed (and this at times is derived from fundraising from international DFIs), but domestic funding still remains in short supply.

Local capital exists, but limited efforts have been made to entice such capital towards impact investing, so it is often allocated elsewhere.

Local capital takes several forms including: domestic institutional capital (e.g. pension funds and insurance), corporate investing/corporate venturing capital, and high net worth individuals (HNWIs). Individual funds often solicit local capital as part of fundraising efforts, but there is little work to address the barriers on a more systemic level (e.g., market information gaps and regulations that restrict asset allocations). Each of the potential domestic funders experience different motivations and constraints when considering investing in smaller asset classes. The report will now consider each segment of potential source of local capital in turn.

Caps on allocating assets towards private equity and venture capital may be too stringent, reducing the amount domestic institutions can allocate toward impact investment as an investing strategy (which is often focused on these asset classes).

Pension funds and insurance companies are regulated with regard to their exposure to different asset classes, including higher-risk assets such as private equity and venture capital. Currently, Nigerian pension funds can invest a maximum of 5% in equity⁵⁹. For insurance companies, new regulations allow listed equity up to 50% of total assets. However, non-listed equity allocations, including venture capital, are restricted to 10% of all assets⁶⁰. In Ghana, pension funds granted in 2017 allowed for an exposure of up to 10%⁶¹. There may be room for institutional investors to loosen some of these restrictions. Insurance and pensions funds are relatively closed systems and are unlikely to face bank runs, which means that liquidity would likely be maintained even with more exposure to a riskier asset class (via loosened allocation restrictions). Leniency around these requirements could also be considered in the case of impact investing transactions within these asset classes, in order to actively entice impact investing as an investment strategy.

Even if caps on equity exposure for pension and insurance funds were lifted, there would still be a systems-level need for better understanding of venture and impact capital as an investing strategy.

The investment limits for equity defined by pensions and insurance regulators in Nigeria and Ghana represent an upper limit to the amount of domestic institutional funding that can flow into private equity, including equity

59 National Pension Commission (2019) Regulations on Investment Pension Funds Assets. Available at: <https://www.pencom.gov.ng/wp-content/uploads/2019/01/AMENDED-INVESTMENT-REGULATION-FEBRUARY-2019-.pdf> (Assessed 3 December 2019)

60 DFID, FSDA, Cenfri, World Bank (2019) The Role of Insurance in Inclusive Growth: Nigeria Diagnostic. Available at: https://cenfri.org/wp-content/uploads/2019/02/The-role-of-insurance-in-inclusive-growth_-Nigeria-diagnostic.pdf (Assessed 3 December 2019)

61 Axis Pensions (2019) NPRA to Introduce New Investor Guidelines. Available at: <http://axispension.com/ghana/resources/latest-news/item/1-npra-to-introduce-new-investor-guideline.html> (Assessed 3 December 2019)

in impact assets. The lack of understanding of venture and impact capital is an additional hurdle that makes the flow of domestic funds towards impact assets more difficult. Investors note that pension and insurance funds lack the capacity and expertise to integrate equity investments into their portfolio⁶². Even though pension funds can invest in equity, they generally maintain low exposure to equity investments. Although these regulations were often designed with the intention of increasing exposure as the asset class was better understood over time⁶³, regulators remain hesitant to lift caps on the exposure of pensions and insurance funds to different asset classes –with interviewees noting they too may need to better understand these alternative approaches.

Corporate venturing may be a significant source of impact capital, but it is not sufficiently incentivized.

Corporations generally have a strong motivation to invest in corporate ventures as a means of fulfilling corporate social responsibility (CSR) obligations, advancing supply chain development agendas, driving innovation and R&D, and securing market intelligence by working more closely with start-ups. Investors recognize the potential here and have initiated discussions with corporations around possible corporate venturing funds, but they noted that early efforts have not yet gained traction.

High net-worth individuals display little appetite to invest via impact investing strategies.

Nigeria and Ghana each have a wealthy upper class and a growing middle class that could be potential sources of capital. These groups of individuals should have vested interest in impact in their countries and may also be more amenable to local currency-denominated returns. That said, investors note significant challenges in mobilizing such capital. The inability to raise local capital from individuals is tied to the lack of a domestic investment culture, the perceived risk of investing in equity, and the lack of attractive platforms. Apart from a few exceptions, such as the Lagos Angels Network, local capital from individuals is rarely used to systematically build small businesses or to create other forms of social impact. Mobilizing this capital is particularly crucial as the presence of local capital could strengthen the confidence of international funders and increase available funds.

62 Lynn, A. (2017) Ghanaian pensions struggle to enter PE. Available at: <https://www.privateequityinternational.com/ghanaian-pensions-struggle-enter-pe/> (Accessed 3 December 2019)

63 Ogunkunle O (2013) Private Equity Fund Raising in Nigeria—The Legal Requirements for Pension Funds. Available at: <https://jpe.pm-research.com/content/16/2/90.abstract> (Accessed 3 December 2019).

IV.3

DIRECTING CAPITAL

Directing capital refers to improving the marketplace by connecting the supply of capital with the demand for capital by adjusting terms of trade, market norms, or pricing. The challenge for the marketplace is to ensure that each type of capital plays the role it is most suited to play. Greater incentivization of truly patient and impact-first capital (currently, a relatively small part of the impact investing landscape) could allow enterprises to crowd-in more total capital while offering the opportunity to deliver greater social impact.

Impact investing actors in Ghana and Nigeria are increasingly seeking market returns while screening for social impact.

As outlined in Section 1.2 (Supply), impact capital offered in the market is increasingly commercial in nature. Impact investors aim their capital at investments that generate a social or environmental impact, but most of them expect commercial returns. Such expectations inhibit the overall impact investing market. Impact capital that accepts longer time horizons, smaller ticket sizes, or below-market returns is in short supply, leaving many impact-oriented businesses without access to needed funds.

Impact capital plays a crucial role in the value chain, but the lack of investors prepared to accept below-market returns limits the ability to layer capital appropriately and maximize its impact.

Not all capital requirements can or need to be met by impact investors. There is a strong potential to layer capital. Most impact investors still look for reasonably strong commercial returns, so layering in first-loss or concessional capital could enable more investments to take place. For instance, a water deal that takes on greater cost in order to impact sustainable development goals (SDGs) may make up for decreased margins by utilizing blended capital to pay for its public good aspects at a lower return rate. In some cases, parts of the financing may require a longer repayment period while other parts could deliver market returns within a more typical debt financing timeline. In such instances, impact investors could provide patient capital and crowd in more commercial financing.

There is an opportunity to employ tailored incentives to direct different types of capital towards the places in the market where each will be most impactful.

Impact investors must drive efforts to allocate and layer capital. Still, policy makers can help entice actors to accept below-market returns and enable the effective layering of capital. For example, there are opportunities to apply tax treatments that encourage investment in below-market capital. Actors noted insufficient collaboration between grant-giving organizations and investors. Given the outsize role of DFIs and development partners, there are extensive opportunities for investors to work more closely with them to unlock investments and crowd-in more commercially oriented capital. Incentivization would likely need to be advanced in conjunction with a greater recognition of impact capital as an investment strategy, as outlined above.

IV.4

INCREASING DEMAND

Increasing demand refers to interventions that aim to increase the availability of potential capital recipients. This covers those interventions that directly impact the firms seeking capital (e.g., by improving their regulatory set-up or enabling them to more easily accept capital) and those that work within the ecosystem to improve demand.

Sector-specific reforms have demonstrated their ability to unlock additional investment opportunities. Although an industry-by-industry assessment was not within the scope of this research, investors identified a potential for further sector-specific reforms (noting sectors where regulatory challenges exist). The lack of coordination within the ecosystem also reflects a potential area for intervention. Given gaps in the ecosystem and the clustering of development partner funding around incubators (leaving other business needs unmet), there is an opportunity to engage in greater advocacy to ensure that ecosystem funding and interventions align with investor needs.

Sector-specific policy

Sector-specific policy reform has been key to unlocking the investment potential of particular sectors.

As investors noted, the oil and gas industry has benefited from a well-developed policy framework that provides investors with much needed assurances and protection. The off-grid energy sector in Nigeria also now benefits from specific regulatory interventions, driven by the Rural Electrification Agency's (REA) Rural Electrification Fund (REF), which, investors note, unlocked additional transactions.

However, policy can and has constrained investment in some sectors.

Several investors noted that although recent advances have started to unlock changes, growth and investment in the financial inclusion/financial technology (FinTech) sectors have been constrained due to the Central Bank of Nigeria's conservative regulation of mobile money and banking licenses. They also noted that policy uncertainty in agriculture played a role in deterring investment. Furthermore, in industries such as insurance, regulation can present a high barrier to entry that prevents new investment opportunities from emerging.

Investors still recognized the potential for balanced sector-specific reforms.

This research did not seek to identify which specific sectors exhibit the greatest need or to understand what reforms are most necessary. That said, investors noted that there would be value in exploring sector-specific reforms for more targeted impact. Examples given included opportunities for greater reform in financial inclusion (where greater flexibility is often required), in the digital sector (where issues such as data protection and intellectual property were suggested as crucial and unresolved), and in insurance (where industry regulations prevent the entrance of new and innovative players). In many cases, investors noted that start-ups need greater flexibility to grow and establish product/market fit without facing the same level of complexity established players face in the regulatory environment.

Sector reforms typically require a whole government approach but have struggled to extend beyond individual agencies.

For example, even if the Ministry overseeing a particular sector drives a reform agenda, there is a need to ensure a coherent response from a range of other government actors (e.g., tax services and other departments with regulatory oversight). This is a crucial consideration in pursuing sector-specific reforms and speaks to the intense effort required to realize material changes.

BOX 2:

Case Study – The role of the Rural Electrification Agency (REA) in enabling investment

The Rural Electrification Agency (REA) was set up in 2005 as an implementation agency of the Federal Government of Nigeria. Following the development of the Economic Growth & Recovery Plan (ERGP) in 2017, a new REA Board were inaugurated and given a mandate to with increase energy access for rural dwellers in Nigeria.

The Agency has launched various initiatives aimed at providing financial and technical support to SMEs and entrepreneurs providing off-grid energy solutions to rural communities.

For example, the Nigeria Electrification Project (NEP) provides grant funding, market information and technical assistance to catalyse off-grid development in Nigeria. To support this, the agency has secured funding from the World Bank (USD350 million with USD150 million being allocated to mini grids) and the African Development Bank (USD200 million).

The Rural Electrification Fund funds capital energy projects through a public private partnership model and the Energizing Economies Initiative supports rapid development of off-grid electricity solutions to provide power to economic clusters in rural Nigeria.¹

The REA in collaboration with the Nigerian government and development agencies is also working to create an enabling environment for through development of key polices such as the NERC Regulatory Framework for Minigrids which provides protection for investors. The agency is also working with the World Bank to setup a minigrid tender process which standardizes requirements, coordinates access to finance, capital expenditure support, and credit enhancement to developers and investors, and proves technical assistance to support success.²

1. Rural Electrification Agency (2019) Impact Report. Available at: <http://rea.gov.ng/REA-IMPACT%20REPORT%20JAN%202019.pdf>

2. Rural Electrification Agency (2019) The off-grid opportunity in Nigeria. Available at: https://www.esmap.org/sites/default/files/Presentations/REA_Damilola-Off-Grid%20Opportunity_03122017web.pdf

Ecosystem interventions

Despite significant donor funding of ecosystem actors, gaps remain that leave investor needs unmet and potentially stifle the size of the impact investing landscape.

Most incubation and technical assistance facilities run on donor funding. Yet, as identified in Section 1.4 (Ecosystem), strong investor readiness programs are missing. This reflects limited coordination and alignment across the sector and points to opportunities for more strategic funding alignment in proportion with business and investor needs. Such alignment could create a more connected ecosystem (wherein one program could serve as a graduation point into another).

At times, more flexible policies towards Technical Assistance Facilities (TAFs) may also be beneficial.

TAFs are generally perceived as relatively effective components of the ecosystem that de-risk investments and allow investors to play more active managerial roles. That said, investors have called for greater flexibility, noting high levels of bureaucracy and unclear rules around how funds can be used. In some cases, these rules prohibit relevant purchases (for example, one investor noted an inability to use TAF funds to purchase a much-needed computer for accounting and financial management).

There is a great opportunity for technical assistance provision at the institutional level.

With the vast majority of actors focused on firm-level assistance, there is little support at the institutional level (e.g., governments). Government-level support is often crucial. Impact investing continues to be relatively misunderstood and regulators need to be better informed to regulate appropriately. Investors mentioned that even where policies are in place, officials are often poorly informed, and confusion around the way in which policies are to be implemented arises. To address such issues, technical assistance could target improvements in awareness and perception of the sector. This is particularly relevant for institutional investors, which will require a strong understanding of impact investing as an investment strategy (and the corresponding asset classes impact investors most often invest into) before they are willing to allocate funding towards it.

IV.5

POLICY AND ADVOCACY: RECOMMENDATIONS

This report sets out a number of policy recommendations for consideration with regard to the impact investing sector while recognizing many of these recommendations may also have further positive effects on the broader commercial investing landscape. These recommendations do not necessarily align one-to-one with individual challenges but, rather, have the potential to touch on several challenges simultaneously.

1. Recognize impact capital as an investment strategy

A pre-requisite to many other policy interventions is the recognition of impact capital as a distinct investment strategy. In the absence of this, impact capital risks being treated in the same manner as wider investment capital.

Such recognition could:

- Facilitate regulators' and policymakers' ability to target impact capital with tailored policy interventions unique to impact capital (and distinct from wider commercial debt or equity investment activity)
- Enable a more stringent definition of what can be classified as impact capital (and thereby benefit from potential impact capital incentives), mitigating the risk of 'impact washing' and ensuring impact investors maintain high standards
- Provide assurance to impact investors that their activities are recognized and regulated, clarifying their ability to utilize the protections extended to other investment strategies and to specific asset classes impact investors deploy capital into (e.g., private equity and venture capital)
- Require impact investors to have formal and well-developed impact metrics that are measured and reported regularly

Although recognition of impact capital as an investment strategy is not sufficient to address the full extent of challenges, it may be a necessary first step and could represent a symbolic advance that yields market signalling benefits.

2. Support local fundraising by driving outreach and advocacy to build awareness

Impact investors consistently stressed the difficulty of local capital fundraising. However, there is a potential to promote the impact investing investment strategy by building capacity beyond individual investors (either through a government agency or through non-governmental advocacy). Policy and advocacy can help actively entice such capital on a more systemic level by correcting market disinformation and promoting successful deals that can produce a market signalling effect.

This would require tailored outreach and engagement efforts with the relevant potential funders including: domestic institutional capital sources, corporate investors that could engage in corporate venturing, and high net worth individuals.

There is also a parallel potential to gradually ease asset allocation restrictions, enabling local institutional capital sources (e.g., insurers, pension funds, etc.) to increase allocations to impact capital as their understanding of the investment strategy improves.

3. Incentivize impact capital to coax new capital into the sector, encourage impact capital to play its optimal role, and facilitate the layering of impact capital with other asset classes

Impact capital could crowd in greater levels of overall capital through blended finance that allows DFIs to provide first-loss capital or to accept below-market returns. Currently, particularly in the non-DFI space, DFI funded capital and commercial capital get combined in a way that forces them to play equivalent (mostly commercial) roles.

Policy can help incentivizing impact capital to play a more patient and catalytic role, notably, by offering tax incentives for those prepared to accept below-market rates or to provide first-loss capital. Furthermore, tax incentives can encourage new actors to engage in impact investing. For example, corporations often use corporate venturing to drive backwards integration and enterprise development in their supply chains (with significant potential for social development). Tax incentives could encourage them to more often direct such venturing toward impact investments.

This has significant potential if implemented in tandem with a stronger recognition of impact capital as an investment strategy. An accreditation system would ensure that incentives reach the 'right' impact investors (potentially encouraging them to increase their commitment to impact).

Government could also play a greater investment role. Its provision of below-market or first-loss capital into the public good aspects of wider deals (often relevant in the case of core infrastructure and service projects) could enable impact capital to be funded while crowding in other financiers to invest in aspects of the deals that deliver market returns.

4. Drive demand-side competitiveness and attractiveness through policy reforms

Policy uncertainty and lack of cohesion makes it more difficult for businesses to become competitive and limits their willingness and ability to accept financing from third parties.

Policies can help drive demand by removing regulatory barriers that reduce the competitiveness of certain sectors and inhibit business growth. Such policies could define regulatory sandboxes wherein new innovations could grow without suffering from over-regulation (building on models such as the Central Bank of Nigeria's regulatory sandbox covering FinTech). This would allow investors to shape suitable regulatory responses over time that balance risk and reward.

There is also a significant opportunity to target more industry-specific policy issues on a sector-by-sector basis. This would require a greater effort to prioritize industries based on their commercial viability (how much new impact investing would take place in the absence of regulatory issues) and based on how likely it is that they could advance the policy agenda.



5. **Improve the ecosystem of accelerators, hubs, and incubators**

The sparse pipeline of investment-ready businesses produces a strong constraint on the impact investing sector. While a range of hubs and incubators run programs targeted at growing businesses, there is little coordination among ecosystem actors and information about the elements needed to help businesses reach self-sufficiency is generally lacking.

Research and advocacy efforts could inform the sector and encourage more optimal distribution of funding (that addresses the current gaps and minimizes overcrowding in the incubator space). These efforts would require close engagement with the development community (that currently funds such programming) and with the business development service providers themselves.

6. **Improve focus on systemic, institution-level capacity building**

The capacity of government institutions to design and implement policy changes is often the critical factor determining policy impact. Many of the recommendations outlined in this section hinge on stronger institutional capacity. A lack of impact capital research has led to significant gaps in such capacity, and few actors have engaged in providing system-level technical assistance.

There is, therefore, a great need to provide targeted support to key institutions, which, in turn, could enable the advancement of other recommendations outlined above. Technical assistance facilities currently operated by investors could be encouraged to expand their focus into these areas. There are also opportunities to expand the role of existing government agencies (e.g., the Nigeria Investment Promotion Commission) in this space. Development partners, as well, could consider providing such support to ensure adequate capacity building reaches the relevant parties.

IV.6

POLICY AND ADVOCACY: CASE STUDIES

This section offers lessons from countries that have found solutions to problems similar to the ones Nigeria, Ghana and West Africa as a whole are facing in their impact investing spaces.

RECOGNIZING IMPACT CAPITAL AS AN INVESTMENT STRATEGY

United States – Jumpstart our Businesses Startups (JOBS) Act⁶⁴.

In 2012, the US government signed the JOBS ACT that removed some Securities and Exchange Commission (SEC) regulations on small businesses – illustrating the ability to create a tailored policy environment for particular investment strategies or asset classes. The law aimed to increase access to finance for small and growing US businesses, recognizing that small businesses across the country could not comply with Wall Street rules. Rather than specifically defining seed and venture capital as an asset class, the law defined ‘emerging growth businesses’ and decreased fundraising regulations for those businesses. It allowed small businesses with an annual revenue of less than \$1 billion during their last reported fiscal year to issue IPOs and raise funds via crowd-funding platforms. The JOBS Act also created exceptions to broker-dealer registration to enable companies to create funding portals through which small businesses could source capital. The law facilitated access to finance for small businesses by creating an easier, less bureaucratic way to connect with investors.

MOBILIZING DOMESTIC CAPITAL

South Africa – Venture Capital Company (VCC) regime.⁶⁵

South Africa’s VCC regime is a tax regime that incentivizes local investment. It was set up in 2009 and is designed to run until June 2021. Companies and trusts that invest in VCCs can deduct the amount spent on VCC shares from their income and, consequently, reduce their income taxes. As long as they hold the VCC shares for more than five years, the associated tax deductions will not be subject to recoupment. From the perspective of the tax authorities, their overall tax revenue is only postponed. SARS forgoes taxes from the investor company in the year of the investment with the expectation that they will receive future tax payments from the investee company, capital tax payments from the VCC upon exit of the investee, or capital and dividend tax payments when the funds are paid out to the investor. By the end of 2018, there were more than 100 registered VCCs in South Africa which, collectively, had raised \$240+ million in domestic funding and delivered it to South African SMEs⁶⁶.

64 U.S. Securities and Exchange Commission (2012) Spotlight on Jumpstart Our Business Startups (JOBS) Act. Available at: <https://www.sec.gov/spotlight/jobs-act.shtml> (Accessed 3 December 2019)

65 South African Revenue Service (2019) Venture Capital Companies (VCC). Available at: <https://www.sars.gov.za/ClientSegments/Businesses/Pages/Venture-Capital-Companies.aspx> (Accessed 3 December 2019)

66 Lilington, M. & Nyanin, G. (2016) Private equity in South Africa: market and regulatory overview. Available at: <https://uk.practicallaw.thomsonreuters>.

South Africa – South Africa Small and Medium Size Enterprise (SA SME) Fund.⁶⁷

Building on the VCC regime, South Africa launched the SA SME fund in 2019. The fund is a standalone investment vehicle that pools funding from more than fifty Johannesburg Stock Exchange (JSE)-listed firms and the Public Investment Corporation (PIC). The fund currently has a target size of \$100 million. Approximately one third of its funding will be allocated to incubation programs, one third to growth-stage investments, and one third to impact and support investments⁶⁸. As a fund of funds, it does not invest directly but channels resources to specialized equity managers, incubators, and accelerators as well as growth and impact funds. The fund invests both in accredited VCCs and select funds, incubators, and accelerators that have thus far not been accredited. Fifty percent of the Fund's investments are earmarked for black businesses, in line with South Africa's Broad-Based Black Economic Empowerment (BBBEE) regulations⁶⁹. Given the size of the fund and the strong direction provided by CEOs of some of South Africa's biggest and most influential companies, it is a powerful tool for courting local funding.

EFFECTIVELY INCENTIVIZING IMPACT CAPITAL AND LAYERING IT WITH VARIOUS ASSET CLASSES

United Kingdom – Venture Capital Schemes.⁷⁰

Since 2010, the British government has expanded the scope of its venture capital tax incentive schemes in order to address the financing gaps that British SMEs face. Today, the UK has one of the most extensive and elaborate tax incentive schemes for start-ups and social businesses in the European Union. There are currently six different tax incentive schemes targeting business angel and venture capital investments in SMEs and start-ups, the most prominent of which are the Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Schemes (SEIS), the Venture Capital Trust (VCT), and the Social Investment Tax Relief (SITR)⁷¹. The different schemes provide various forms of tax exemption, tax deferrals, and tax credits for investors⁷². Most relief is given upfront or at the time of disposal. To ensure that tax relief effectively targets investment in start-ups and small businesses, the incentives are generally tied to a range of qualifying criteria, including the size of the financial deal and the number of employees in the investee business. Tax incentives have no sector focus, although investment in certain more established sectors such as energy generation, finance, and property development are excluded from tax incentives⁷³. Through their comprehensiveness, the Venture Capital Schemes effectively incentivize the allocation of capital towards seed-stage, early-stage, and impact assets. Today, the United Kingdom's taxation schemes for venture capital are rated among the most favourable worldwide⁷⁴.

com/4-376-4687?transitionType=Default&contextData=(sc.Default)&firstPage=true&bhcp=1 (Accessed 3 December 2019)

67 SA SME Fund website. Available at: <https://sasmefund.co.za/> (Accessed 3 December 2019)

68 Stephen, T. (2019) Here are the eight funds that the SA SME Fund will invest in. Available at: <https://ventureburn.com/2019/03/sa-sme-funds-eight-funds/> (Accessed 3 December 2019)

69 SA SME Fund (2019) CEO Circle Launch & Investor Feedback. Available at: <https://sasmefund.co.za/wp-content/uploads/2019/04/SA-SME-CEO-Circle-Launch-and-Investor-Feedback.pdf> (Accessed 3 December 2019)

70 HM Treasury (2014) Tax-advantaged venture capital schemes: ensuring continued support for small and growing businesses. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/340079/Consultation_Tax-advantaged_venture_capital_schemes.pdf (Accessed 3 December 2019)

71 Further tax incentive schemes are Private Placement Withholding Tax Exemption and Business Property Relief

72 European Commission (2017) Effectiveness of tax incentives for venture capital and business angels to foster the investment of SMEs and start-ups. Available at: https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_paper_69_vc-ba.pdf (Accessed 3 December 2019)

73 HMRC (2018); Venture Capital Schemes Manual – Excluded Activities (VCM3010). Available at: <https://www.gov.uk/hmrc-internal-manuals/venture-capital-schemes-manual/vcm3010> (Accessed 3 December 2019)

74 European Commission (2017) Effectiveness of tax incentives for venture capital and business angels to foster the investment of SMEs and start-ups. Available at: https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_paper_69_vc-ba.pdf (Accessed 3 December 2019)

Tanzania – Catalytic First-Loss Capital in Providing Employment and Knowledge (PEAK II).⁷⁵

The PEAK II program in Tanzania was designed to provide micro-asset leasing to small businesses and entrepreneurs. However, the lending environment in Tanzania combined with the overall macroeconomic conditions increased the risk and cost of lending significantly. As the project was deemed to have a high-impact, Netherlands Development Finance Company (FMO) and other investors layered first-loss capital with more commercial forms of capital to meet the expected risk-return profiles. Through FMO, the government of the Netherlands provided a EUR 1 million grant that was invested as a C class commitment, convertible into equity. The first-loss nature of this grant reduced the downside risk for other investors, including foundations, charities, high-net worth individuals, and impact investing funds. In such a scenario, losses are first absorbed by class C investors, then class B, and finally class A. Investment proceeds are distributed in the reverse order until all investors reach a financial return of 10%. This structure allowed FMO to crowd in another \$3.8 million in investments—\$1.7 million as debt-like Class A investments and \$1.9 million as equity Class B investments.

IMPROVING THE ECOSYSTEM OF ACCELERATORS, HUBS AND INCUBATORS

Israel – Creation of a leading start-up hub.

Until the 1980s, Israel's economy was largely driven by the public sector. In the 1990s, the government launched a few programs focused on covering the riskiest parts of the innovation, incubation, and acceleration process. The two most prominent programs are the 'Yozma' investing vehicle and the Technological Incubators program. 'Yozma' was an \$80 million investing vehicle that took a 40% stake in ten newly founded venture capital funds and provided insurance covering 80% of the downside risk. The vehicle also directed a \$20 million fund that invested directly in small companies⁷⁶. The fund was accompanied by the Technological Incubators program, a government-funded incubation and acceleration program implemented by certified incubator operators. The program incubated disruptive start-ups and provided them with assistance and funding for up to two years (reaching total contributions as high as \$800,000 per company). The program covered 85% of the incubation costs as a grant that the start-ups were only required to pay back as performance-based royalties once they began generating revenues. Incubator operators covered the remaining 15% of the incubation costs in exchange for equity shares in the incubated businesses. Over 1,500 companies have graduated from this program⁷⁷.

75 GIIN, PEAK II (Providing Employment and Knowledge) – Catalytic First Loss Capital.

76 Yin Yin, D. (2017) What makes Israel's Innovation Ecosystem so Successful. Available at: <https://www.forbes.com/sites/davidyin/2017/01/09/what-makes-israels-innovation-ecosystem-so-successful/#17f2528d70e4> (Accessed 3 December 2019)

77 Ibid.

DRIVING DEMAND-SIDE COMPETITIVENESS AND ATTRACTIVENESS

Kenya and Sierra Leone – Regulatory sandboxes for FinTechs.

In 2018, Sierra Leone and Kenya launched the first regulatory sandboxes on the African continent. These regulatory sandboxes take place in very different contexts. Kenya offers one of the continent's most dynamic start-up ecosystems and enjoys the continent's most advanced mobile money infrastructure. Sierra Leone, in contrast, is emerging from a decade of civil war and the Ebola crisis and continues to exhibit very low financial inclusion rates. The test environments were launched and are overseen by the Capital Markets Authority (CMA) in Kenya, and the Bank of Sierra Leone (BSL)—Sierra Leone's Central Bank. An inaugural cohort of up to four FinTechs are working with designated teams within the CMA and BSL to establish testing plans and performance metrics. BSL and CMA expect to gain insight into disruptions across the capital market value chain so as to design regulatory responses to manage risk, systemic instability, and market conduct. For FinTechs, the regulatory sandbox provides a relaxed regulatory environment in which to operate and grow before having to fully comply with regulatory requirements⁷⁸.



78 Kamau, P. (2019) CMA Regulatory Sandbox admits three fintech firms. Available at: <https://africabusinesscommunities.com/tech/tech-news/kenya-cma-regulatory-sandbox-admits-three-fintech-firms/> (Accessed 3 December 2019)

CGAP (2018) What Can We Learn from Sierra Leone's new Regulatory Sandbox. Available at: <https://www.cgap.org/blog/what-can-we-learn-sierra-leones-new-regulatory-sandbox> (Accessed 3 December 2019)

UNSGSA (2019) Early Lessons on Regulatory Innovations to Enable Inclusive FinTech. Available at: https://www.unsgsa.org/files/3515/5007/5518/UNSGSA_Report_2019_Final-compressed.pdf (Accessed 3 December 2019)

SECTION

05

Annexes

LIST OF ORGANIZATIONS INTERVIEWED
INTERVIEW PROMPTS



V.1

LIST OF ORGANIZATIONS INTERVIEWED

Actor category	Interview location	Organization
Supply	Ghana	Injaro Investments
Supply	Ghana	Venture Capital Trust Fund (VCTF)
Supply	Nigeria	Bank of Industry
Supply	Nigeria	All On
Supply	Nigeria	InfraCredit
Supply	Nigeria	Sahel Capital
Supply	Nigeria	Sterling Bank
Supply	Nigeria	Lagos Angel Network
Supply	Regional	Acumen
Supply	Regional	GreenTec Capital Partners
Supply	Regional	AfricInvest Group
Supply	Regional	Leapfrog Investments
Supply	Regional	FMO
Supply	Regional	Palladium Group
Supply	Regional	Accion
Supply	Regional	Africa Finance Corporation (AFC)
Demand	Nigeria	Max NG
Ecosystem	Ghana	Meltwater Entrepreneurial School of Technology (MEST)
Ecosystem	Nigeria	Enterprise Development Centre, Pan-Atlantic University
Ecosystem	Nigeria	Ventures Platform
Ecosystem	Regional	Crossboundary Advisory
Ecosystem	Regional	Aspen Network of Development Entrepreneurs (ANDE)
Ecosystem	Regional	African Private Equity and Venture Capital Association (AVCA)

V.2

INTERVIEW PROMPTS

Supply-side interviews focused on understanding investment appetite and perceptions of policy challenges

Main theme	Sub-theme	Questions
Impact orientation	<ul style="list-style-type: none"> Mission and type of impact Impact measurement 	<ul style="list-style-type: none"> What is your funds history, and how did this shape your impact orientation? How do you benchmark or measure performance of the fund? How do you define your “impact mission” beyond financial returns? How do you measure impact?
Fund focus and operations	<ul style="list-style-type: none"> Fund remit and operating approach Response to macroeconomic changes 	<ul style="list-style-type: none"> What is the total capital you deploy in the country? What is your fund’s remit? Are there specific types of deals you focus on? How do you source (1) funders, (2) potential transactions? Have you already exited investments, and if so through what mechanisms?
Fund outlook	<ul style="list-style-type: none"> Capital deployed – current allocations, shifts in recent years Forward-looking projections / expected future changes 	<ul style="list-style-type: none"> To what extent / how have you been affected by changing macroeconomic conditions (GDP growth, interest rates, forex)? How significant a shift have you seen since 2016? How has the change in the ease of doing business impacted your fund? How has your capital deployed evolved over time (countries, sectors, deal structures, etc.)? What has driven this? How do you anticipate your capital allocation to change going forward? Are there particular sectors you anticipate becoming more / less attractive?
Challenges and lessons learned	<ul style="list-style-type: none"> Challenges to operating as an impact investor Role of the investment ecosystem Lessons learned from prior impact investing transactions 	<ul style="list-style-type: none"> How easy has it been to fundraise for your fund and what challenges exist? What are the biggest challenges you face in placing capital into transactions? How receptive do you see businesses being to impact capital? To what extent do you believe the wider ecosystem (e.g., incubators, accelerators) adds value and is sufficient to meet the needs of investors? From the impact investing transactions you have been involved in in the past, what are your strongest lessons learned that underpin success
Investment policy environment	<ul style="list-style-type: none"> Impact of policies Regulation needs Barriers Opportunities 	<ul style="list-style-type: none"> What policies or regulations are most favorable to the impact investing sector? What are the most restrictive policies in your sector? Reviewing the investment policy framework, what areas do you see as the biggest opportunities to improve and why? – incl. demand vs. supply-side interventions Do you pursue any activities to improve the impact investing policy environment, and if so, what has your experience been of doing so?

Demand and ecosystem interviews focused on perceptions of impact capital and the role of ecosystem actors

Main theme	Sub-theme	Questions
Business outlook	<ul style="list-style-type: none"> • Social enterprise landscape • Growth opportunities • Ease of doing business • Responses to macroeconomic factors 	<ul style="list-style-type: none"> • What trends have you noticed in terms of growth or activity of social enterprises / inclusive businesses, and / or the private sector more generally? • In your opinion, what are the three most exciting or interesting opportunities in this country for entrepreneurs? Do you have a sense of the region more broadly? • What are the 3 biggest challenges to doing business in this country? Do you have a sense of the region more broadly? Are these challenges common / country-specific? • What do you see as the main barriers to the growth of enterprises in the country? • How have the changing economic conditions impacted businesses and financing?
Need and access to capital (including impact capital)	<ul style="list-style-type: none"> • Sources of funding • Nature of capital requirements • Interest in impact fund • Barriers to accessing capital 	<ul style="list-style-type: none"> • How is your organization / are your members organizations currently funded? • What is the nature of the need for additional capital (purpose, size, structure, etc.)? • What are the major unmet needs, and what type of funding would best serve the needs of enterprises within the region? • How is impact capital perceived? How do these perceptions compare with other sources of capital? • What has the experience been of working with capital providers in the past? • What are the most significant challenges to accessing capital?
Investment ecosystem	<ul style="list-style-type: none"> • Role of support programs 	<ul style="list-style-type: none"> • How do enterprises identify their sources of funding today? (word of mouth, forums/conferences, research, etc.) • To what extent do you believe the investment ecosystem (incubators, accelerators, technical assistance providers) add value? • Which services would make the biggest difference in unlocking investment? • Who are the principal funders of ecosystem actors and what motivates them?
Investment policy environment	<ul style="list-style-type: none"> • Support programs to foster entrepreneurship 	<ul style="list-style-type: none"> • What regulations are most favorable to creating investor ready businesses? • Are there specific policy areas that hold businesses back from (1) growth, and (2) accessing impact capital? • Reviewing the investment policy framework, what areas do you see as the biggest opportunities to improve and why? – incl. demand vs. supply-side interventions • To what extent has the policy environment improved since 2015?

