

THE LANDSCAPE FOR IMPACT INVESTING IN WEST AFRICA

Understanding the current status, trends,
opportunities, and challenges



WITH SUPPORT FROM



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www.theimpactprogramme.org.uk

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GIIN Advisory Team

Amit Bouri, abouri@thegiin.org

Susan Balloch, sballoch@thegiin.org

Abhilash Mudaliar, amudaliar@thegiin.org

Hannah Schiff, hschiff@thegiin.org

Laura Gustafson, lgustafson@thegiin.org

Dalberg Editorial Team

Naoko Koyama, naoko.koyama@dalberg.com

Carlijn Nouwen, carlijn.nouwen@dalberg.com

Matthew MacDevette, matthew.macdevette@dalberg.com

Julia Shen, julia.shen@dalberg.com

John Bazley, john.bazley@dalberg.com

Mark Burke, mark.burke@dalberg.com



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FOREWORD

DEAR READERS,

The Global Impact Investing Network (GIIN) is pleased to publish *The Landscape for Impact Investing in West Africa*, in partnership with Dalberg Global Development Advisors and with support from UK aid from the UK Government through the Department for International Development's Impact Programme.

The third regional market landscape report developed by the GIIN, this report provides an analysis of the impact investing industry covering fifteen countries in the West Africa region, including dedicated chapters on Nigeria, Ghana, and Senegal. The GIIN previously published regional landscape reports on South Asia and East Africa, which can be found on thegiin.org. Through these landscaping studies, the GIIN aims to generate more data on impact investing in emerging economies.

Our partnership with Dalberg Global Development Advisors, a global advisory firm with a local presence in the region, enabled us to conduct a detailed analysis of the current state of impact investing in West Africa. The report examines the volume of capital deployed to date, the challenges facing investors as well as the opportunities, the needs of enterprises in the region and their barriers to accessing capital, and the regulatory ecosystem.

West Africa is the second fastest growing regional economy in Africa, fuelled by growth in Nigeria and Ghana. These two countries have received more than half of the impact investing capital deployed in the region. Additionally, Senegal and Cote d'Ivoire are likely to continue gaining investors' attention due to high levels of political stability and strong growth, respectively. However, the region remains underdeveloped, offering impact investors an opportunity to have significant impact through capital deployment. Investors noted a number of sectors that are attractive for investment, particularly energy, financial technologies, and agriculture.

We hope this report will accelerate interest, innovation, and investment in the region. There is substantial opportunity to make investments in West Africa that can generate returns and improve lives, such as investments that expand power generation or develop the agricultural sector. Other market actors can address the clear need for a strengthened support ecosystem—such as incubators, technical assistance providers, local industry associations, and others—to help businesses become investment ready.

Ultimately, by providing the much-needed information on the impact investing market in West Africa, we hope to strengthen flows of capital that will benefit the environment and the communities of this region.

Sincerely,



Amit Bouri

CEO, The Global Impact Investing Network

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LIST OF COMMON TERMS AND ACRONYMS

| | | | |
|----------------|--|----------------|--|
| ADEPME | Agence de Développement et d'Encadrement des Petites et Moyennes Entreprises | HDI | Human Development Index |
| AfDB | African Development Bank | HNWI | High-Net-Worth Individuals |
| AMSCO | African Management Services Company | HR | Human Resources |
| APC | All Progressives Congress | I&P | Investisseurs et Partenaires |
| APIX | Agence de Promotion des Investissements et des Grands Travaux | ICT | Information and Communications Technology |
| AUM | Assets Under Management | IEA | International Energy Agency |
| BCEAO | Banque Centrale des Etats de l'Afrique de l'Ouest | IFC | International Finance Corporation |
| BIO | Belgian Investment Company for Developing Countries | IFU | Danish Investment Fund for Developing Countries |
| BMN | Bureau de Mise à Niveau | IMF | International Monetary Fund |
| BOAD | Banque Ouest Africaine de Développement | IPO | Initial Public Offering |
| BoP | Base of the Pyramid | IPRES | Institution de Prévoyance Retraite du Sénégal |
| CACS | Commercial Agriculture Credit Scheme | IRR | Internal Rate of Return |
| CNCAS | Caisse Nationale de Crédit Agricole du Sénégal | LAN | Lagos Angel Network |
| CTIC | Conseil en Technologies de l'Information et de la Communication | MENA | Middle East and North Africa |
| DEG | German Investment and Development Corporation | MEST | Meltwater Entrepreneurial School of Technology |
| DFI | Development Finance Institution | MFI | Microfinance Institution |
| ECOWAS | Economic Community of West African States | MIS | Management Information System |
| ESG | Environment, Social, and Governance | NFSP | National Food Security Program |
| FCFA | Franc Communauté Financière Africaine | NGO | Non-Governmental Organization |
| FDI | Foreign Direct Investment | OHADA | Organization for the Harmonization of Business Law in Africa |
| FinTech | Financial Technology | OIC | Organization of the Islamic Conference |
| FMO | Netherlands Development Finance Company | OPIC | Overseas Private Investment Corporation |
| FONGIP | Fonds de Garantie des Investissements Prioritaires | PE | Private Equity |
| FONSIS | Fonds Souverain d'Investissement Stratégiques | PSE | Plan Sénégal Emergent |
| GAIN | Ghana Angel Investor Network | R&D | Research and Development |
| GDP | Gross Domestic Product | SME | Small and Medium-sized Enterprise |
| GIIN | Global Impact Investing Network | SMEDAN | Small and Medium Enterprises Development Agency of Nigeria |
| GIMPA | Ghana Institute of Management and Public Administration | SSA | Sub-Saharan Africa |
| GIPC | Ghana Investment Promotion Center | TA | Technical Assistance |
| GVEP | Global Village Energy Partnership | UNDP | United Nations Development Program |
| | | VC | Venture Capital |
| | | WAEMU | West African Economic and Monetary Union |

REGIONAL OVERVIEW



EXECUTIVE SUMMARY

ABOUT THIS REPORT

This report provides much-needed information on the impact investing market in West Africa. It contains four chapters—one outlining regional findings and three outlining specific findings in Nigeria, Ghana, and Senegal—each organized into four sections:

1. **“Overview”** provides a high-level outline of the political, economic, and investment climate of the region or country.
2. **“Supply”** outlines findings related to the volume of impact investing capital deployed to date—broken down by sector, instrument, and deal size. It describes the key barriers and opportunities identified by impact investors interviewed for this study and outlines impact measurement and reporting practices.
3. **“Demand”** describes the characteristics of impact investment recipients, as well as their needs for, and the perceived barriers to, accessing capital.
4. **“Ecosystem”** describes the regulatory environment for impact investing and the key actors involved in enterprise and investor support.

In addition to our primary countries of Nigeria, Ghana, and Senegal, information on four additional countries is included in boxes throughout the regional chapter (Sierra Leone, Cote d’Ivoire, Togo, and Benin).

The Landscape for Impact Investing in West Africa is the third in a series of regional market landscaping studies published by the Global Impact Investing Network (GIIN) that seek to address the lack of data available on impact investing in emerging economies. The first such report focused on South Asia, the second examined East Africa, while a forthcoming report will examine Southern Africa.

OVERVIEW OF THE REGION

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. They are bound together through the Economic Community of West African States (ECOWAS), with a further distinction between the eight states that belong to the West African Economic and Monetary Union (WAEMU)¹, which share a common currency pegged to the euro, and the seven states that do not.

Political stability varies between countries, but is improving. Senegal, Ghana, Benin, Burkina Faso, Cape Verde, The Gambia, and Togo have enjoyed relative political stability and freedom from violence over the past decade; Liberia, Sierra Leone, and Cote d’Ivoire are emerging from recent civil war; and Mali, Niger, Guinea, Guinea-Bissau, and Nigeria face ongoing security risks either from political violence or terrorism.

1 The eight WAEMU countries are Benin, Burkina Faso, Cote d’Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

West Africa is the second fastest growing regional economy in Africa, having experienced Gross Domestic Product (GDP) growth of 6% in 2014.² While Nigeria and Ghana have anchored this growth to date, countries such as Cote d'Ivoire, Burkina Faso, Niger, and Liberia are expected to play an increasingly important role, with Cote d'Ivoire expected to be the third fastest growing economy in Africa by 2016.³

West Africa is not an easy region in which to do business, but is improving in this regard. Large gaps in energy provision and infrastructure hamper mobility and productivity; human capital limitations make it difficult to hire qualified local staff; and high costs of living—especially in Nigeria—make maintaining a local presence costly. However, performance on key indicators related to ease of doing business has been improving over the last several years.⁴

SUPPLY OF IMPACT INVESTING CAPITAL

The impact investing industry in West Africa is small, but growing. Forty impact investors are active in the region, including 13 development finance institutions (DFIs)⁵ and 27 other investors. This study includes information on direct impact investments made by 11 DFIs and 26 non-DFIs in the region totaling USD 6.8 billion between 2005 and mid-2015 (Figures i and ii). This is small relative to East Africa, the only other African region for which impact investment data is currently available. East Africa received a total of USD 9.3 billion in impact investment over a similar period,⁶ despite the region's gross domestic product (GDP) being less than half that of West Africa.⁷ DFIs have deployed 97% of the total impact investing capital in West Africa. Since 2005, DFI investment has increased at a compound annual growth rate of 18%, from USD 190 million in 2005 to USD 852 million in 2014.

More than half (54%) of all impact capital deployed in the region is in Nigeria and Ghana. Nigeria, accounting for 80% of the region's GDP, has received the largest amount of impact capital (29%) as investors seek to service a large and growing addressable market. Ghana has received nearly as large a share of impact investment (25%) despite only accounting for 5% of West Africa's GDP, reflecting its business-friendly policies. Senegal and Cote d'Ivoire together account for a further 21% of impact capital deployed.

2 "African Economic Outlook 2015: Regional development and spatial inclusion," African Economic Outlook (2015). Available at: http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/PDF_Chapters/Overview_AEO2015_EN-web.pdf.

3 Statistics, African Economic Outlook (2015). Available at: <http://www.africaneconomicoutlook.org/en/statistics>.

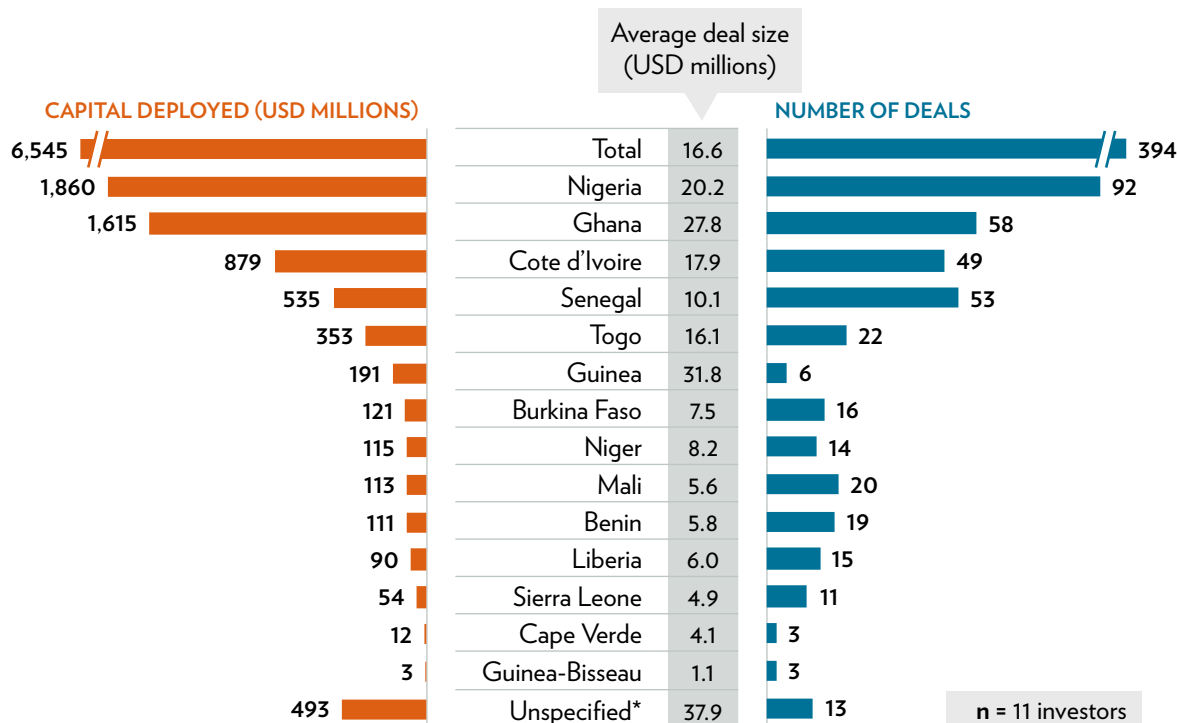
4 "Doing Business: Measuring Business Regulations," World Bank (2015). Available at: <http://www.doingbusiness.org/rankings>.

5 Due to the unique nature and large size of development finance institutions (DFIs), the authors of this report analyzed their activity separately from those of other types of impact investors ("non-DFI"), and present this separate analysis when appropriate.

6 "The impact investing landscape in East Africa," Global Impact Investing Network (2015). Available at: <http://www.thegiin.org/cgi-bin/iowa/resources/research/698.html>.

7 "World Development Indicators," World Bank (2015). Available at: <http://data.worldbank.org/data-catalog/world-development-indicators>.

FIGURE i: TOTAL DIRECT DFI INVESTMENT BY COUNTRY, JANUARY 2005-JULY 2015

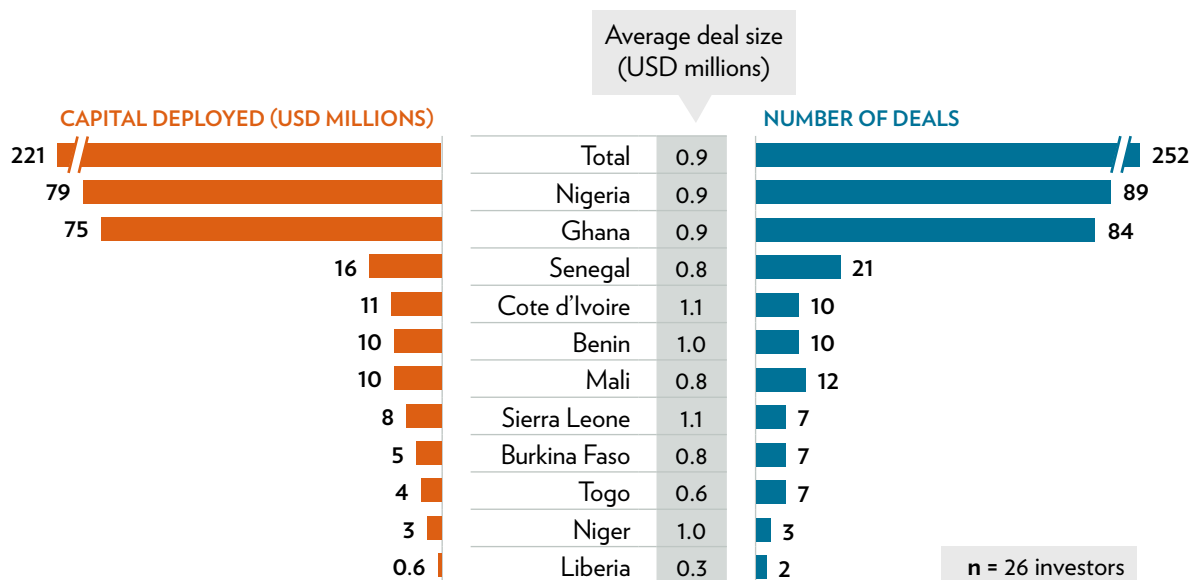


*Some DFI projects were labelled as “West Africa region” and did not specify country.

Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; DFI portfolio data

FIGURE ii: TOTAL DIRECT NON-DFI INVESTMENT BY COUNTRY, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Includes three deals of unknown size in Ghana.

Source: Dalberg analysis; non-DFI portfolio data

Energy, manufacturing, infrastructure, and financial services have attracted the most impact investing capital. DFIs have invested 65% of their portfolios in energy, manufacturing, and infrastructure. Non-DFIs have invested heavily in financial services, with most of this capital invested in microfinance institutions.

Both DFI and non-DFI investors invest most of their capital through debt, though non-DFIs use other instruments far more than DFIs. Eighty-four percent of DFI capital and 60% of non-DFI capital is deployed through debt. DFIs make roughly even use of equity and guarantees (6% and 7% of capital deployed, respectively) and use quasi-equity least (3% of capital deployed). Non-DFIs make significantly greater use of both equity and quasi-equity (23% and 13% of capital deployed, respectively).

The main perceived barriers to impact investment include a lack of investment readiness of companies, an unpredictable policy environment, difficulty raising capital (for fund managers), and macroeconomic and political instability. In addition, there is considerable skepticism around the term “impact investing” in West Africa—many investors view it as a new kind of philanthropy rather than as investing for financial return.

The main perceived opportunities are in the key sectors of energy, FinTech,⁸ and agriculture. Geographically, Nigeria is and will continue to be the primary market of interest, while Senegal and Cote d’Ivoire are gaining investors’ attention due to high levels of political stability and strong growth, respectively. Some investors also perceive opportunities in Ghana, while others expressed some skepticism regarding its prospects due to current economic volatility. Further opportunities lie in strengthening linkages between local and foreign investors and enterprises to draw in more funding, and in utilizing blended finance (combining subsidized funding and investment) to crowd in private investment.

Measurement of social impact remains a challenge, with little consistency in the region. DFIs and foundations tend to provide more detailed and consistent reporting, while other impact investors tend to be more ad hoc with their measurement.

DEMAND

West Africa is a fast-growing, yet underdeveloped region. Most countries in the region remain well below global averages on the Human Development Index and are characterized by widespread poverty and inequality.

There is a large need for financing among social enterprises (which tend to be small), as well as among small and medium-sized enterprises (SMEs) more generally. For the most part, enterprises lack awareness of financing options, struggle to meet bank and investor requirements, lack professional operational and governance mechanisms, and generally face high costs of operating that hamper profitability.

⁸ FinTech refers to innovative combinations of financial services and technology, such as mobile money.

ECOSYSTEM

While regulatory barriers are not the most serious concern for investors, there are some worth noting. Regulatory barriers include high levels of policy uncertainty, inadequate bankruptcy regulation, and restrictions on institutional investment into private equity.

The ecosystem of enterprise and investor support organizations is growing, but remains underdeveloped. While strong growth and investment in ecosystem actors such as incubators, accelerators, associations, and technical assistance providers is evident over recent years, the ecosystem is not at sufficient scale to service the needs of the region, and is hampered by a lack of awareness among both investors and enterprises of the value of ecosystem support. Investors cite underdeveloped enterprise business systems as a large barrier to deploying capital, so increasing the number of incubators, in particular, will be crucial to supporting the growth of the impact investing industry.

1. INTRODUCTION, DEFINITIONS, AND METHODOLOGY

Introduction

Impact investing is growing in popularity due to both its focus on meeting critical development challenges and its recognition that such challenges often represent significant investment opportunities in underserved markets.

West Africa is a perfect example of a region where challenges and opportunities collide. The region faces significant challenges related to poverty, health, education, and nutrition. Poverty rates in the region are more than three times the global average,⁹ while under-five mortality rates are almost double that of the global average.¹⁰ And yet, West Africa is also the second fastest-growing regional economy in Africa, after East Africa, with an annual GDP growth of 6% in 2014.¹¹

Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.

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WWW.THEGIIN.ORG**

9 An average of 46% percent of the population across West African countries lives on less than USD 1.25/day compared to a global average of 15%. Latest available data used for each country. "World Development Indicators," World Bank (2015). Available at: <http://data.worldbank.org/data-catalog/world-development-indicators>.

10 The West Africa under-five mortality rate is 93 per 1,000 live births compared to a global average of 46. "World Development Indicators," World Bank (2015). Available at: <http://data.worldbank.org/data-catalog/world-development-indicators>.

11 "African Economic Outlook 2015: Regional development and spatial inclusion," African Economic Outlook (2015). Available at: http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/PDF_Chapters/Overview_AEO2015_EN-web.pdf.

It is home to Africa's largest and most populous economy, Nigeria.¹² Further, gaps in areas such as energy, agricultural production, and infrastructure are creating large demands for investment and innovation.¹³

Given this combination of challenges and opportunities, West Africa represents an attractive target for impact investors looking to generate sustainable social and environmental impact alongside financial return. Still, it is difficult for such investors to deploy capital in the region. Some of the difficulty is structural—for example, major infrastructure and energy needs raise business operating costs while political uncertainty and regulatory barriers complicate the process of investing. But lack of information is also a major contributing factor. West Africa is not an easy place to understand, as cultural, religious, economic, and political dynamics vary widely between and within countries, and there is little data available on the current state and potential of impact investment in the region.

This report was written to address this lack of information. It provides much-needed data on how much impact investment is being deployed in West Africa, which countries and sectors it is targeting, and which instruments are being used to deploy it. Further, it outlines the challenges and opportunities faced by impact investors operating in the region, as well as the characteristics and perspectives of investees and actors involved in supporting the industry.

Definitions

SUPPLY SIDE

The GIIN defines impact investments as “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.”¹⁴ Additionally, impact investors are defined as those having the following three characteristics:

1. **Expectation of financial return:** Expectation of a positive financial return over the life of the investment.
2. **Intention to create impact:** Stated intention to create positive social or environmental impact.
3. **Commitment to measure impact:** Commitment to measure and track social and/or environmental impact.

Impact investments are made across a large variety of sectors and investment instruments. A broad range of investor types are active in the impact investing sector in West Africa, including DFIs,¹⁵ foundations, family offices, banks, institutional investors, and fund managers.

12 “World Development Indicators,” World Bank (2015). Available at: <http://data.worldbank.org/data-catalog/world-development-indicators>.

13 “Investing and Doing Business in West Africa: Key Drivers and Perspectives,” Ecobank (2012). Available at: <http://www.ecobank.com/upload/201310070945043375138jvpXfC2pg.pdf>.

14 The Global Impact Investing Network website, www.thegiin.org.

15 DFIs are defined as government-backed financial institutions that provide finance to the private (and in some cases public) sector for investments that promote development.

A NOTE ON DFI PORTFOLIOS

The definition of impact investing used in this study is based on investor intent to create positive impact. However, the authors recognize that intent can manifest itself in a range of different investment strategies. In particular, due to the unique nature and large size of DFIs, the authors of this report analyzed their activity separately from the activity of other types of impact investors (“non-DFI”), and present this separate analysis when appropriate. (As this report focuses on private sector development, finance provided directly to governments by DFIs is excluded.)

While there is value in attempting to segment DFI portfolios into “impact investments” and “other” types of investments, doing so was not feasible for this study. In the case of DFIs, there is continued evolution in how they are thinking about their portfolios. Some consider everything they do to be impact investing while others have begun to segment their activities into buckets. However, most do not publicly indicate which of their investments they consider impact investments and, given that there are many ways to achieve social and/or environmental impact, it would be inappropriate for the research team to segment portfolios for this study. Instead, we segment our analysis so readers are able to more easily interpret numbers in context.

Impact investors invest both directly into enterprises and projects and indirectly through financial intermediaries (e.g., fund managers). To avoid double counting, since an unknown proportion of indirect investment acts as a source of direct investment, and due to severe data limitations on the nature of indirect investments, this report focuses on **direct investments**. Indirect investments are, however, discussed in more detail in Section 3 of this chapter.

Only capital deployed has been considered for inclusion in this study. Funds that have been committed but not yet deployed have been excluded from the data. All references to “capital deployed” and “impact capital” refer to impact investment unless otherwise stipulated. Available data fall within the period 2005 to mid-2015; all references to “capital deployed to date” refer to this period.

DEMAND FOR IMPACT INVESTING CAPITAL

Impact investors target a range of enterprises, both large and small. DFIs tend to favor larger enterprises due to their ability to absorb the large amounts of capital DFIs are able to provide. This section focuses on two aspects of the demand landscape: social enterprises and the broader landscape of SMEs,¹⁶ the latter of which account for 90% of all businesses in the region.

¹⁶ Social enterprises in West Africa are almost exclusively SMEs.

For the purposes of this report, social enterprises are defined as those that:

- **articulate a core objective** of generating a positive social or environmental impact, and
- **seek to grow to financial viability** and sustainability.

The precise definition of small and medium-sized enterprises varies by country, but typically refers to enterprises with fewer than 250 employees.¹⁷ Interviewees did not specify revenue or employee numbers when discussing SMEs. Note that many social enterprises are also SMEs.

Both social enterprises and SMEs with no explicit social impact objectives are potential recipients of impact capital due to their role in creating employment and providing goods and services to underserved populations; however, they face significantly greater obstacles to accessing finance and driving growth than do large enterprises. The experiences of these enterprises therefore illustrate the main obstacles to accessing and deploying impact capital.

ECOSYSTEM ACTORS

For the purposes of this report, actors in the impact investing ecosystem are defined as those that are active in either **investor or enterprise support**. These include the following types of organizations:

- Incubators/accelerators¹⁸
- Technical assistance providers (including advisory service providers)
- Credit ratings services
- Industry associations and networks
- Research institutions
- Business plan competitions

Methodology

This research relies on more than 50 in-person and telephonic interviews with impact investors, ecosystem actors, entrepreneurs, and business managers operating in West Africa. In-person interviews were conducted in the primary focus countries of Nigeria, Ghana, and Senegal, while telephonic interviews were used with those either situated outside of the region or operating across other West African countries.¹⁹ A full list of interviewees is provided in the annex.

17 “Micro, Small, and Medium Enterprises Around the World: How Many Are There, and What Affects the Count?” International Finance Corporation (2010). Available at: <http://www.ifc.org/wps/wcm/connect/9ae1dd80495860d6a482b519583b6d16/MSME-CI-AnalysisNote.pdf?MOD=AJPERES>.

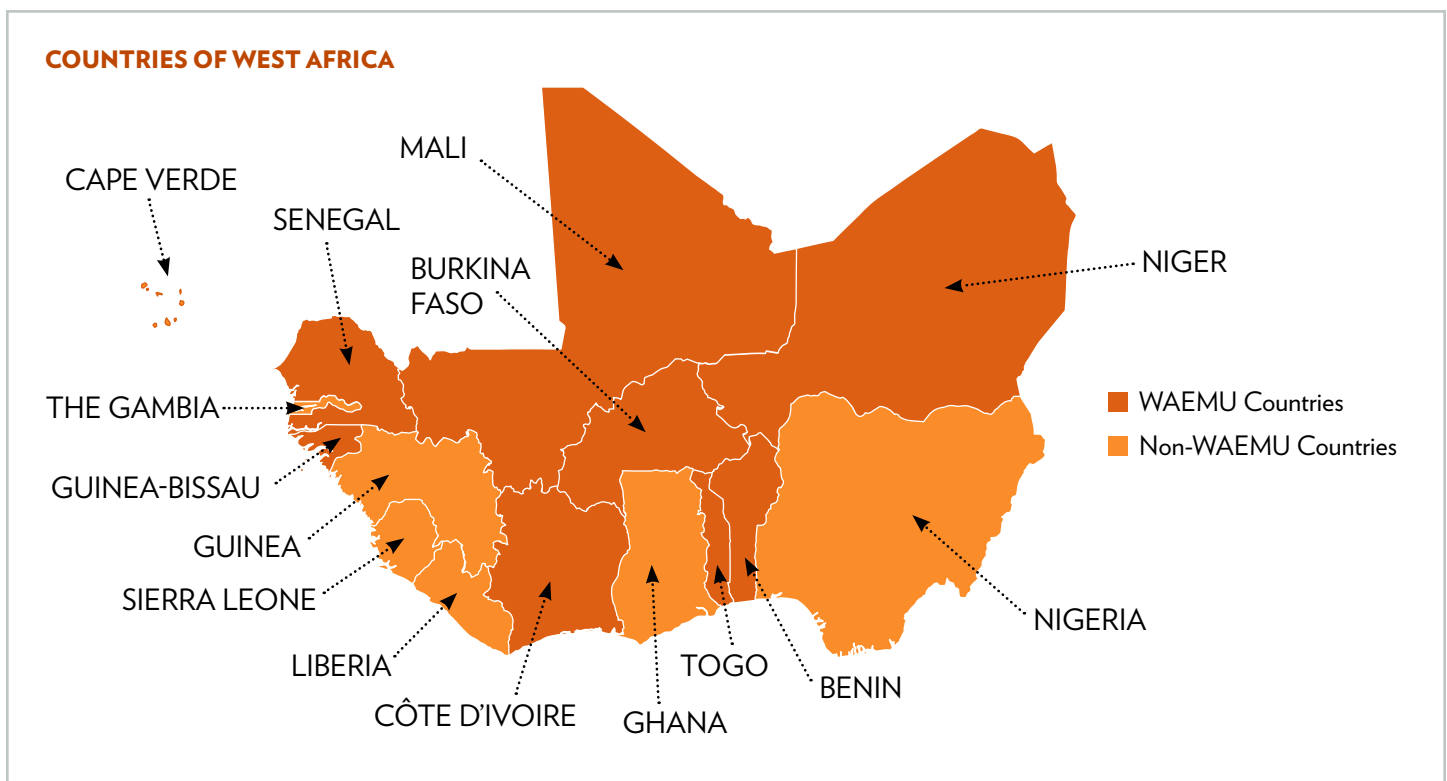
18 Incubators and accelerators help SMEs establish themselves and grow through a combination of business development services (e.g., mentoring, coaching, and training in accounts management), funding, and access to physical space and/or machinery. Incubators usually focus on seed- and early-stage SMEs, while accelerators usually focus on growth-stage SMEs.

19 Cote d'Ivoire, Liberia, Sierra Leone, Benin, Burkina Faso, Cape Verde, The Gambia, Guinea, Guinea Bissau, Mali, Niger, and Togo.

To supplement interview insights and ensure wide data coverage, desk research was conducted on impact investment portfolios and investment dynamics using academic studies, publicly available datasets, previous Dalberg projects, DFI and investor reports, government reports, and enterprise websites/publicity materials. In total, the data presented include transactions made by 13 DFIs and 27 non-DFI impact investors.

2. REGIONAL OVERVIEW

Brief Historical and Political Context



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. They are bound together through the Economic Community of West African States (ECOWAS), which facilitates trade and economic cooperation between member states. Within West Africa, there is a further distinction between the eight states that belong to the West African Economic and Monetary Union (WAEMU)²⁰ and the seven that do not. WAEMU countries share harmonized macroeconomic policies as well as a common currency, the West African CFA franc,

²⁰ The eight WAEMU countries are Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

which is pegged to the euro. Language is split roughly along WAEMU/non-WAEMU lines: WAEMU countries are primarily Francophone;²¹ non-WAEMU countries are primarily Anglophone.²²

West Africa contains an extremely diverse set of countries. Apart from divergent linguistic, religious, and cultural dynamics both between and within countries, political and security risks differ widely across the region. Senegal, Ghana, Benin, Burkina Faso, Cape Verde, The Gambia and Togo have enjoyed relative political stability and freedom from violence over the past decade. Liberia, Sierra Leone, and Cote d'Ivoire are emerging from recent civil wars. Mali, Togo, Niger, Guinea, Guinea-Bissau, and Nigeria face ongoing security risks either from political violence or terrorism.

West Africa faces large development challenges, and recent events have not made tackling these any easier. In 2014, West Africa suffered the largest Ebola epidemic in history. Guinea, Sierra Leone, and Liberia were particularly hard hit, contending with approximately 28,000 cases of Ebola and over 11,000 deaths.²³ While the epidemic has had devastating human costs and significantly impaired the ability of affected countries' already fragile health and governance systems to operate effectively, it has also catalyzed significant investment into the region. For example, a recent collaboration between NetHope—a consortium of international humanitarian organizations—and Facebook is focusing on building internet connectivity infrastructure to aid Ebola responders in Sierra Leone, Liberia, and Guinea.²⁴ In bringing to light the large service delivery gaps in the region and catalyzing solutions to solve them, the epidemic has offered an unlikely area of opportunity to build stronger, more resilient healthcare and technological infrastructure.

Economic Performance and Structure

Nigeria dominates West Africa's economy, accounting for almost 80% of the region's GDP. Of the remaining 20%, Ghana and Cote d'Ivoire account for 5.4% and 4.8% of regional GDP, respectively, while a variety of smaller economies account for between 2.2% of regional GDP (Senegal) and 0.11% (The Gambia).²⁵

The regional economy is driven by the services sector, which accounts for almost 60% of GDP (Figure 1). Agriculture does, however, feature heavily in the economies of many countries—Sierra Leone, Mali, Togo, and Guinea-Bissau, especially—and is the largest provider of employment.²⁶ Given the region's significant reliance on

21 Except for Guinea-Bissau, which speaks Portuguese.

22 Except for Cape Verde, which speaks Portuguese.

23 "2014 Ebola outbreak in West Africa: Case counts," Center for Disease Control (2015). Available at: <http://www.cdc.gov/vhf/ebola/outbreaks/2014-west-africa/case-counts.html>.

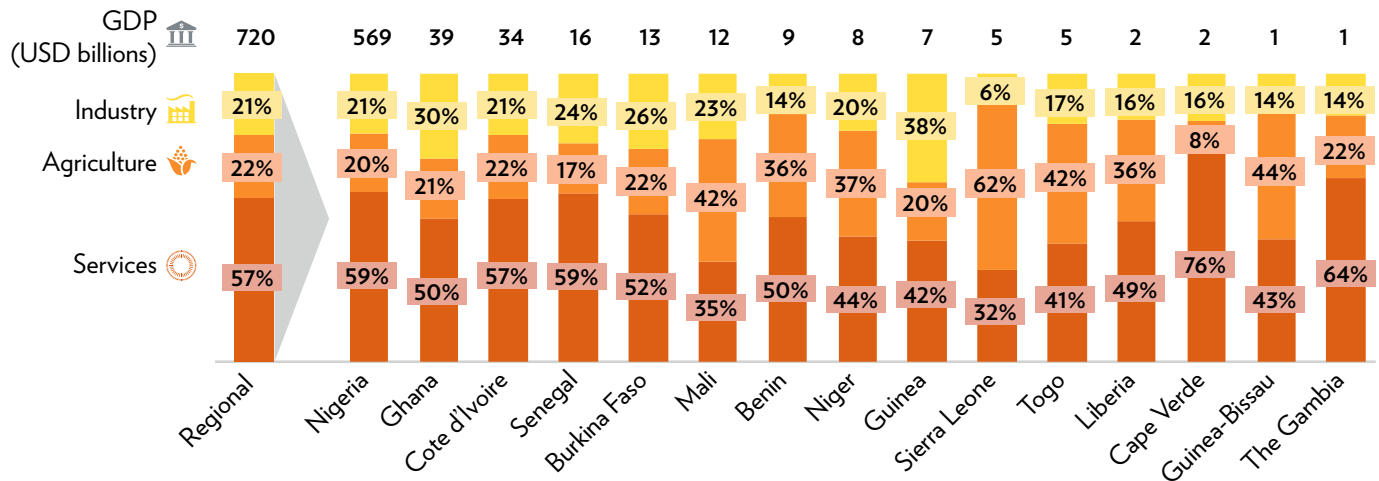
24 "Partnership expands ICT support for Ebola fight in West Africa," NetHope (2015). Available at: <http://nethope.org/media/press-room/partnership-expands-ict-support-for-ebola-fight-in-west-africa>.

25 "World Development Indicators," World Bank (2015). Available at: <http://data.worldbank.org/data-catalog/world-development-indicators>.

26 "Regional Agricultural Policy for West Africa," ECOWAS (2008). Available at: http://www.diplomatie.gouv.fr/fr/IMG/pdf/01_ANG-ComCEDEAO.pdf.

food imports—particularly rice—there is a pressing need to improve growth and productivity in this sector.²⁷ Apart from services and agriculture, the extractive industries continue to play an important role in countries such as Nigeria, Ghana, and Guinea—mining represents 26% of Guinea’s GDP, for example, and accounts for 95% of its export earnings.²⁸

FIGURE 1: WEST AFRICA GDP CONTRIBUTION BY SECTOR, 2014*



* 2014 data not always available: Gambia figures refer to 2013, Mali figures refer to 2012
Source: World Development Indicators, World Bank (2015)

West Africa is the second fastest-growing region in Africa, having experienced average annual GDP growth of 6.4% between 2006 and 2010 and 5.5% between 2011 and 2014 (6% in 2014, despite the effects of the Ebola epidemic).²⁹ While Nigeria and Ghana have anchored growth to date, countries such as Cote d’Ivoire, Burkina Faso, Niger, and Liberia are expected to play an increasingly important role, with Cote d’Ivoire expected to be the third fastest-growing economy in Africa by 2016.³⁰ Drivers of growth primarily include agriculture (in Nigeria, Cote d’Ivoire, and Sierra Leone), oil and gas production (in Ghana), services (in Nigeria and Cote d’Ivoire) and mineral exports (in Sierra Leone). While oil has been a key driver of Nigeria’s growth over the past several decades, the sector is currently shrinking due to pipeline theft, policy uncertainty, and low levels of investment.³¹

27 “Investing and Doing Business in West Africa: Key Drivers and Perspectives,” Ecobank (2012). Available at: <http://www.ecobank.com/upload/201310070945043375138jvpXfC2pg.pdf>.

28 “Guinea: Trade Policy Review,” WTO (2012). Available at: http://www.wto.org/english/tratop_e/tpr_e/s251_sum_e.pdf.

29 “African Economic Outlook 2015: Regional development and spatial inclusion,” African Economic Outlook (2015). Available at: http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/PDF_Chapters/Overview_AEO2015_EN-web.pdf.

30 “Statistics,” African Economic Outlook (2015). Available at: <http://www.africaneconomicoutlook.org/en/statistics/>.

31 “African Economic Outlook 2014: Global Value Chains and Africa’s Industrialization,” African Economic Outlook (2014). Available at: http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/E-Book_African_Economic_Outlook_2014.pdf.

It is important to note that a significant portion of West Africa's economy is informal,³² a facet that is not captured by the above data. While information on the sector is difficult to obtain, indications are that informal enterprises—both large and small—are at least as numerous as formal enterprises, and contribute a significant share of the region's productivity and employment.³³ In Senegal, for example, it is estimated that approximately 40% of the nation's GDP lies in the informal sector.³⁴

Investment Climate and Drivers of Foreign Direct Investment

West Africa accounts for a significant share of sub-Saharan Africa's (SSA's) foreign direct investment (FDI), attracting an average of 35% of FDI inflow in SSA between 2004 and 2013.³⁵ Nigeria accounts for approximately half of this, and is currently the third largest recipient of FDI in SSA (behind South Africa and Mauritius).³⁶

While FDI increased more than sixfold between 2004 and 2011,³⁷ from USD 3 billion to USD 19 billion, it has markedly declined since then—by 37% between 2011 and 2013, from USD 19 billion to USD 12 billion (Figure 2). Much of this decline is being driven by Nigeria's decrease in FDI inflows, though FDI in almost all countries in the region decreased between 2011 and 2013 (with the exception of Benin, Burkina Faso, Cote d'Ivoire, and Ghana).³⁸

32 The informal economy consists of businesses and economic activities that are not registered with or taxed by government.

33 "The Informal Sector in Francophone Africa: Firm size, productivity and institutions," World Bank (2012). Available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/9364/699350PUB0Publ067869B09780821395370.pdf?sequence=1>.

34 "Skills for Employability: The Informal Economy," Dalberg and Results for Development (2012). Available at <http://www.resultsfordevelopment.org/sites/resultsfordevelopment.org/files/resources/Skills%20for%20Employability%20in%20the%20Informal%20Economy.pdf>.

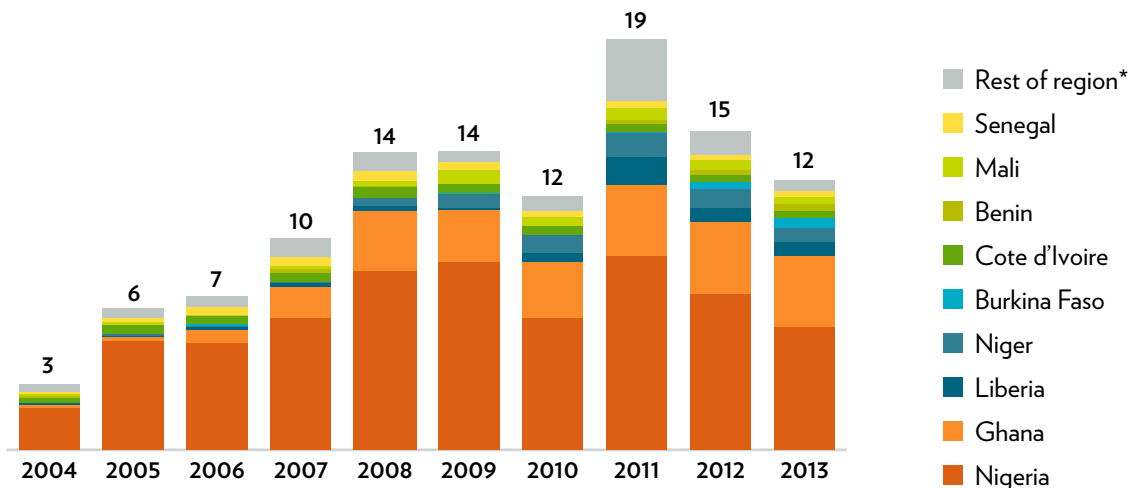
35 "World Development Indicators," World Bank (2015). Available at: <http://data.worldbank.org/data-catalog/world-development-indicators>.

36 Ibid. Latest data from 2013.

37 The dip in 2009 and 2010 can likely be attributed to the after-effects of the 2008 economic crisis.

38 "World Development Indicators," World Bank (2015). Available at: <http://data.worldbank.org/data-catalog/world-development-indicators>.

FIGURE 2: WEST AFRICA FDI INFLOWS BY COUNTRY, 2004-2013



* Includes Guinea-Bissau, The Gambia, Cape Verde, Togo, Guinea, and Sierra Leone
 Source: World Development Indicators, World Bank (2015)

Drivers of declining FDI inflows include declining oil productivity and investment in Nigeria,³⁹ falling commodity prices, and regional conflict.⁴⁰ The initiation of oil production for Ghana and Cote d'Ivoire and continued political stability and security for Benin and Burkina Faso contribute to their ability to increase FDI inflows at a time of regional decline.⁴¹

Interest Rates and Inflation

WAEMU countries have a common currency (West African CFA franc), which is pegged to the euro, as well as a common central bank (the Central Bank of West African States, the BCEAO). They thus operate within a macroeconomic environment that is markedly different from the other countries in the region. For instance, WAEMU countries face lower inflation and interest rates than do non-WAEMU countries.⁴²

The average inflation rate between 2009 and 2014 was approximately 1% for WAEMU countries and 9% for non-WAEMU countries. While variations between

39 "OECD Investment Policy Reviews: Nigeria 2015," Organization for Economic Cooperation and Development (2015). Available at: http://www.keepeek.com/Digital-Asset-Management/oecd/finance-and-investment/oecd-investment-policy-reviews-nigeria-2015_9789264208407-en#page1.

40 "World Investment Report 2015," United Nations Council on Trade and Development (2015). Available at: http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf.

41 "Foreign direct investment to Africa maintains momentum sustained by intra-African flows, UNCTAD Report reveals," United Nations Conference on Trade and Development (2014). Available at: <http://unctad.org/en/pages/PressRelease.aspx?OriginalVersionID=189>.

42 See the following for a discussion of the interrelationship between exchange rate pegs, inflation, and interest rates: "Does the Exchange Rate Matter for Inflation and Growth?" International Monetary Fund (1997). Available at: <http://www.imf.org/external/pubs/ft/issues2/>.

WAEMU countries are small, non-WAEMU countries' inflation rates vary widely—from a 2009-2014 average of 1.9% in Cape Verde to 13% in Guinea. Interest rates paint a similar picture.⁴³ The average WAEMU interbank rate between 2009 and 2014 was approximately 4%,⁴⁴ compared to 18% for non-WAEMU countries.⁴⁵

While it is difficult to generalize between countries, it is fair to say that, in general, WAEMU countries face a more consistent and stable macroeconomic climate but lower growth. Average real GDP growth between 2010 and 2014 ranged from 1.9% - 5% in WAEMU countries, for example, while the range was 1.2%-9.4% for non-WAEMU countries.⁴⁶

Ease of Doing Business

West Africa is not an easy region in which to do business. Large gaps in energy provision and infrastructure hamper mobility and productivity, human capital limitations make it difficult to hire qualified local staff, and high costs of living—especially in Nigeria—make maintaining a local presence expensive.

The region's average rank in the World Bank's *Doing Business* index, which ranks 189 countries along various categories related to ease of business operation, is 152. While Ghana ranks in the top 100 (70), the rest of the region's ranks range from 122 (Cape Verde) to 179 (Guinea-Bissau).⁴⁷ These poor results are primarily driven by problems in paying taxes (including high taxation rates and administrative burdens related to paying taxes), getting electricity, obtaining construction permits, and registering property. Interviewees also noted high levels of policy uncertainty and ambiguity, which make it difficult to know which regulations apply to investors or when they will change.

The region is, however, improving rapidly. Eight countries in the region have registered improvements in their ease of doing business score between 2013 and 2014,⁴⁸ with four of these improving their rank by more than ten places.⁴⁹ Four of sub-Saharan Africa's top five most improved countries are in West Africa (the fifth is Mozambique).⁵⁰

43 "World Development Indicators," World Bank (2015). Available at: <http://data.worldbank.org/data-catalog/world-development-indicators>.

44 "West African Economic and Monetary Union: Staff report on common policies for member countries," International Monetary Fund (2014). Available at: <https://www.imf.org/external/pubs/ft/scr/2014/cr1484.pdf>.

45 "World Development Indicators," World Bank (2015). Available at: <http://data.worldbank.org/data-catalog/world-development-indicators>.

46 Ibid.

47 "Doing Business: Measuring Business Regulations," World Bank (2015). Available at: <http://www.doingbusiness.org/rankings>.

48 The Gambia, Sierra Leone, Cote d'Ivoire, Togo, Benin, Senegal, Guinea, and Nigeria.

49 Cote d'Ivoire, Togo, Benin, and Senegal.

50 "Doing Business: Measuring Business Regulations," World Bank (2015). Available at: <http://www.doingbusiness.org/rankings>.

Initiatives such as the Organization for the Harmonization of Business Law in Africa (OHADA), which seeks to improve the regulatory environment for investors in West and Central Africa⁵¹ and includes nine West African states,⁵² as well as the large investments by DFIs aimed at tackling gaps in energy and infrastructure (discussed below), bode well for further improvement in the region.

3. SUPPLY OF IMPACT INVESTING CAPITAL

Estimate of Impact Capital Deployed

OVERVIEW AND GROWTH

There are 45 impact investors active in West Africa, including 14 DFIs and 31 non-DFIs. The research team was able to obtain information on direct impact investments made by 11 DFIs and 26 non-DFIs, which amount to approximately USD 6.8 billion in the region between 2005 and 2015. DFIs overwhelmingly drive the supply of impact capital, accounting for 97% of all capital deployed, indicating a distinct lack of private sector participation. Relative to East Africa, the only other African region for which impact investment data are currently available, the total impact investment market is small. East Africa received a total of USD 9.3 billion in impact investment over a similar period,⁵³ despite the region's GDP being less than half that of West Africa.⁵⁴ The reasons for the small size of this market will be explored in the following chapters, but in general are reflective of an immature and difficult investment environment.

Impact investment by both DFIs and non-DFIs in the region has, however, been growing. There has been a clear upward trend in direct DFI investments in the ten years up to 2014 (Figure 3). From USD 190 million in 2005, annual deployment of capital has grown to USD 852 million in 2014 (though it did dip in 2013), with a compound annual growth rate of 18% over the period.

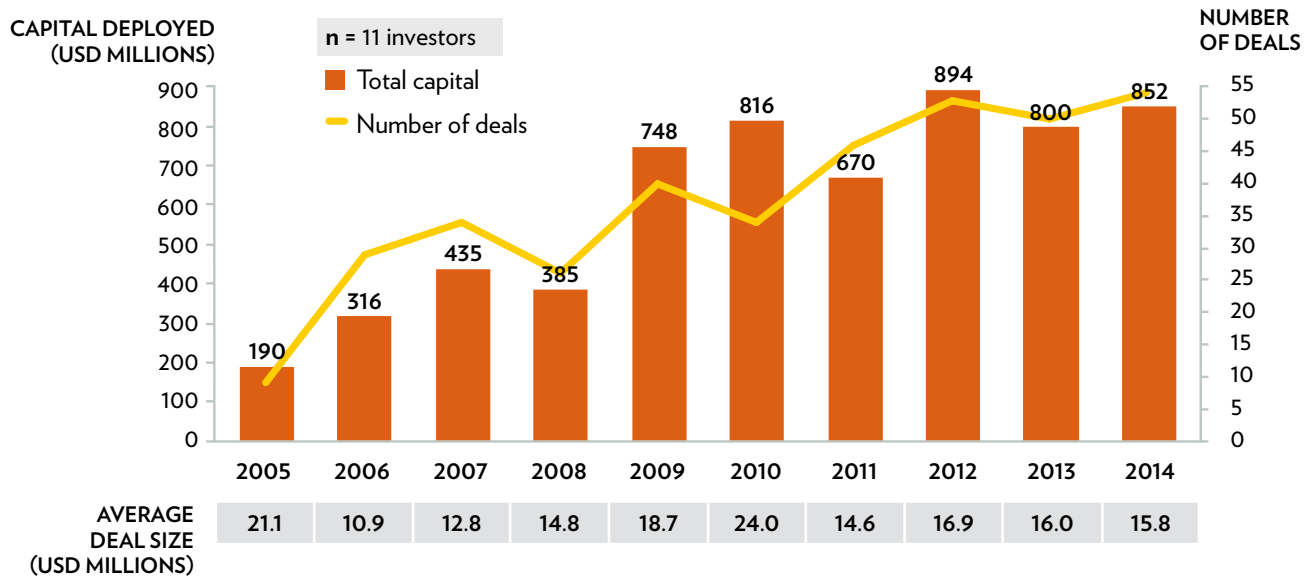
51 OHADA (2015). Available at: <http://ohada.org>.

52 Benin, Burkina Faso, Côte d'Ivoire, Guinea, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

53 "The Landscape for Impact Investing in East Africa," Global Impact Investing Network (2015). Available at: <http://www.thegiin.org/cgi-bin/iowa/resources/research/698.html>.

54 "World Development Indicators," World Bank (2015). Available at: <http://data.worldbank.org/data-catalog/world-development-indicators>.

FIGURE 3: DIRECT DFI INVESTMENTS IN WEST AFRICA BY YEAR, 2005-2014



Notes: Unknown investments (USD 408.6 million) and January-July 2015 investments (USD 20.5 million) excluded. Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.
 Source: DFI portfolio data; Dalberg analysis

Available data on non-DFI investments by year are limited, especially for recent deals that may not yet have been reported by investors. Still, available data do indicate a broad trend of growth—from USD 0.2 million deployed in 2008 to USD 17 million deployed in 2013⁵⁵—which aligns well with interviewee comments. The past five years have seen an emergence of fund managers in the region, most notably in Nigeria. Sahel Capital Partners and Doreo Partners are two such examples that have emerged since 2010; only Alitheia Capital has been active in West Africa for longer.

Another trend is the growing prominence of foundations as significant providers of impact capital. Interviewees reported that foundations are becoming more involved in the space in two ways. First, an increasing number of foundations are investing in West Africa. Second, existing foundations are playing an important role in demonstrating investment opportunities in markets perceived as high risk by mainstream investors. Many foundations are mandated to operate in fragile economies and are increasingly looking beyond grants to provide market-based solutions to local issues. As they increasingly include impact investing in their development toolkits, these foundations aim to reduce risk in markets perceived as dangerous or unviable by other investors. For example, the Lundin Foundation’s focus on underserved markets has driven its investments in Niger and Burkina Faso, while Cordaid’s mission to alleviate poverty in post-conflict and post-epidemic states has led it to invest in Sierra Leone and seek to

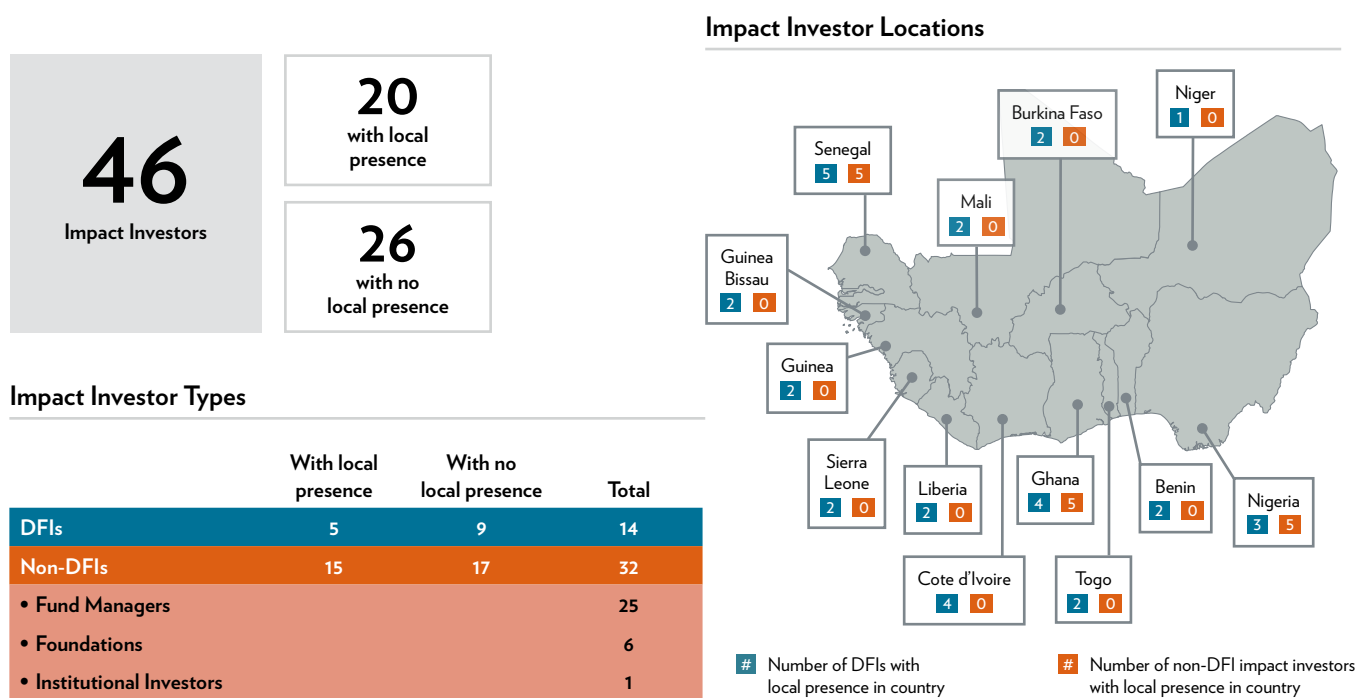
55 Data by year for 2014 and 2015 are severely limited. Though estimates indicate a decline in capital deployed from USD 18 million to USD 13 million in 2014, interviewees noted that this was not reflective of reality and that non-DFI impact investments had grown over the past two years.

expand into Liberia and Guinea. Beyond foundations, some other non-DFI actors are also committing to high-risk frontier markets. Broad Cove, an impact investor in Liberia and Ghana, seeks to build housing and associated infrastructure in line with its mandate of operating in “un-investable” markets.

LOCAL PRESENCE AND SOURCES OF FUNDING

In terms of local presence, impact investors cluster in Senegal (10 offices), Nigeria (eight offices), and Ghana (seven offices; see Figure 4). The Banque Ouest Africaine de Développement (BOAD)⁵⁶ and African Development Bank (AfDB) are the largest regional investors and maintain the most offices in West Africa, (seven and 12 country offices, respectively), but are headquartered instead in Togo (BOAD) and Cote d'Ivoire (AfDB). Twenty-six investors, nine of which are DFIs, have no permanent physical presence in the region.

FIGURE 4. IMPACT INVESTOR TYPES AND LOCAL PRESENCE IN WEST AFRICA, JULY 2015



Note: Country numbers will not equal totals as some investors have presence in multiple countries. Source: Dalberg analysis

As the overwhelming majority of investment comes from DFIs, the largest source of impact capital is foreign governments. Within the DFIs, the majority of direct capital deployed is from global and regional actors. The International Finance Corporation (IFC), BOAD, and AfDB combined account for USD 4.8 billion—74% of DFI investment in West Africa. Non-DFIs also rely on funds from abroad. Foundations, relying on capital from sources such as high-net-worth individuals (HNWIs) and

⁵⁶ West African Development Bank.

corporations, are primarily headquartered outside the region. Fund managers (which account for the majority of non-DFI investors) both based within and outside the region source capital primarily from investors in developed markets. As explored more fully below, fund managers based in West African countries report great difficulty in accessing local capital, and instead are reliant on DFIs, foundations, and other regional actors as sources of funding.

COUNTRY DISTRIBUTION

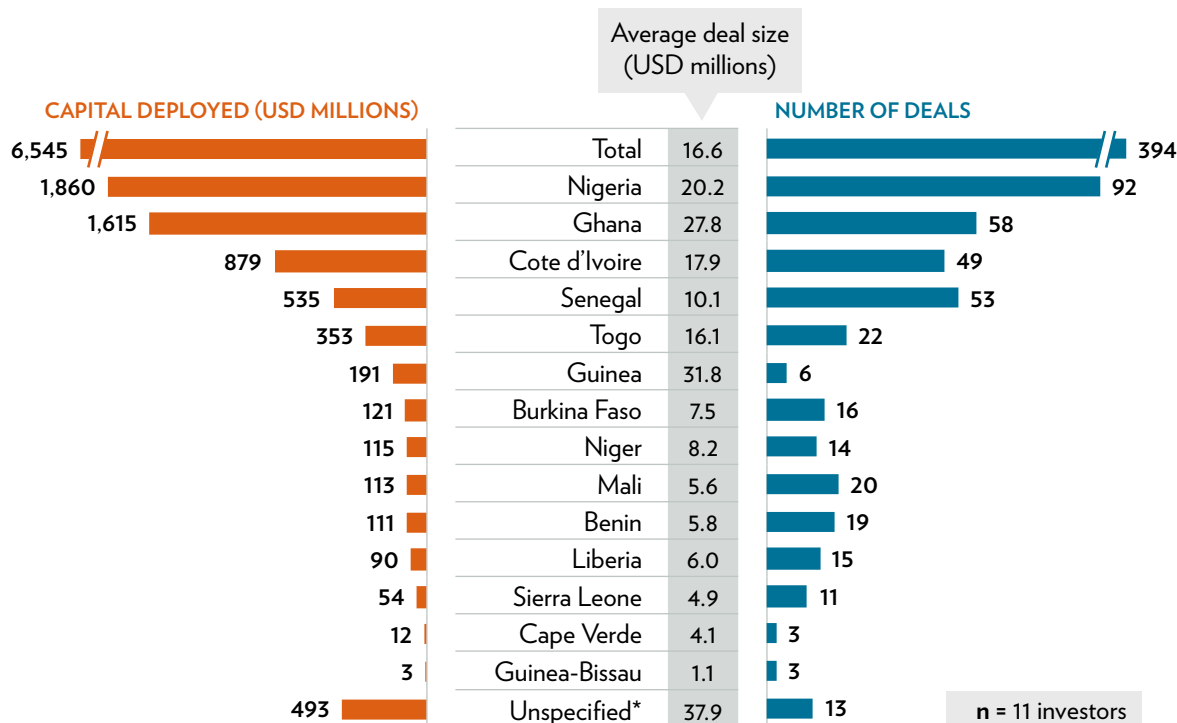
Within West Africa, impact investing is highly concentrated in Nigeria and Ghana, which together account for more than 50% of capital deployed in the region. Both DFIs and non-DFIs deploy the largest proportion of their capital in Nigeria (Figures 5 and 6). In terms of both DFI and non-DFI investment as a proportion of GDP, Ghana is by far the leading impact investment destination.

Of the USD 6.5 billion direct DFI capital deployed, Nigeria accounts for USD 1.9 billion (28% of total capital deployed) across 92 direct investments, with Ghana receiving USD 1.6 billion (25% of total capital deployed) across 58 direct investments. While Nigeria leads in terms of absolute impact investments, Ghana is the largest recipient relative to its GDP. Impact capital deployed in 2014 accounts for 0.07% of Nigeria's GDP and 0.27% of Ghana's. This is likely due to Ghana's positioning itself as politically stable and investor friendly.

The next highest recipients in the region are the two francophone powerhouses of Cote d'Ivoire and Senegal, which account for a combined 22% of DFI impact capital deployed. This reflects the large size and greater sophistication of these countries' economies relative to the rest of the region and, in the case of Senegal, its positioning as a convenient air and sea entry point to Francophone West Africa.

As mentioned, non-DFI direct impact investments are minor compared to DFI flows, accounting for just 3% of impact capital deployed. Interestingly, Ghana almost matches Nigeria in attracting this type of capital, with both receiving close to USD 80 million. The reasons for this result are more comprehensively covered in the country chapters, and relate to Ghana's significantly lower costs of doing business and more stable political climate.

FIGURE 5: TOTAL DIRECT DFI INVESTMENT BY COUNTRY, JANUARY 2005-JULY 2015

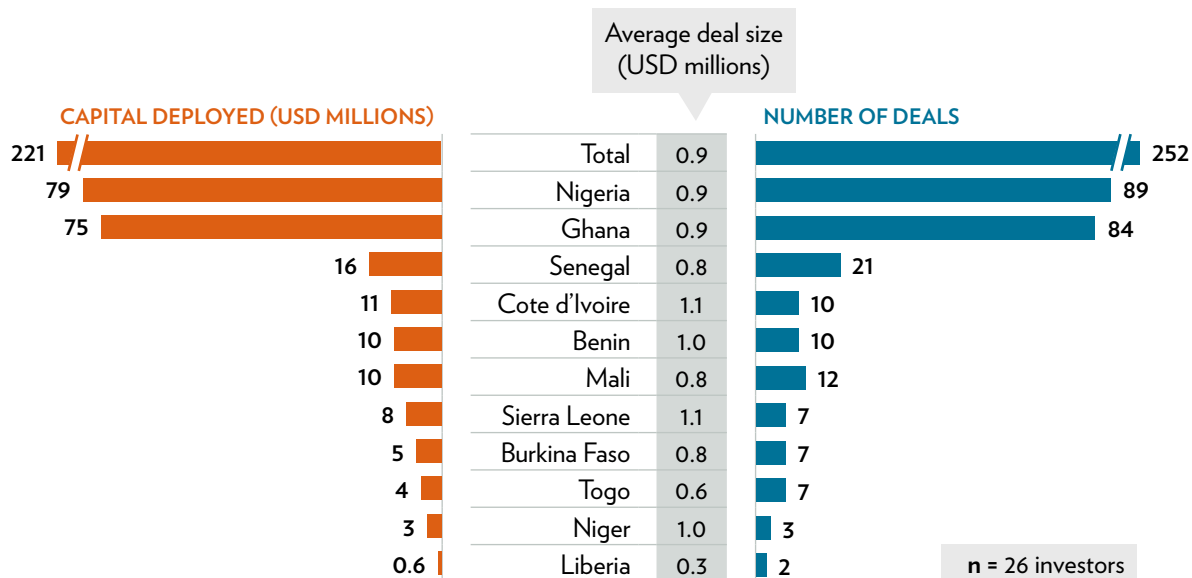


*Some DFI projects were labelled as “West Africa region” and did not specify country.

Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; DFI portfolio data

FIGURE 6: TOTAL DIRECT NON-DFI INVESTMENT BY COUNTRY, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Includes three deals of unknown size in Ghana.

Source: Dalberg analysis; non-DFI portfolio data

BOX 1. IMPACT INVESTING IN WAEMU AND NON-WAEMU COUNTRIES

Countries in the West African Economic and Monetary Union share harmonized macroeconomic policies as well as a common currency, the West African CFA franc, which is pegged to the euro. Given this and other differences in macroeconomic policy between WAEMU and non-WAEMU countries, it is interesting to compare the profile of impact investments between them.

There is significantly more impact investment activity in non-WAEMU countries, both in terms of investor numbers (33 compared to 22 in WAEMU countries) and capital deployed (USD 4.5 billion compared to USD 2.3 billion for WAEMU countries). This makes sense given the much larger size of the non-WAEMU market, largely owing to the presence of Nigeria. Non-WAEMU countries have a combined GDP more than six times that of WAEMU countries (USD 623 billion compared to USD 97 billion in WAEMU countries).

In both WAEMU and non-WAEMU countries, DFIs account for approximately 97% of impact capital deployed and invest in energy more than any other sector. Energy investments account for 36% and 27% of capital deployed in WAEMU and non-WAEMU countries, respectively. Infrastructure accounts for a larger share of DFI capital deployed in WAEMU countries (23% compared to 9% for non-WAEMU), while manufacturing accounts for a larger share in non-WAEMU countries (24% compared to 13% for WAEMU). Non-DFIs in both WAEMU and non-WAEMU countries focus on financial services, which accounts for 60% and 50% of capital deployed, respectively. Agricultural investment is also a common theme, though more so in WAEMU countries (25% of capital deployed) than in non-WAEMU countries (9% of capital deployed).

Both DFIs and non-DFIs in WAEMU countries deploy a greater share of their capital through debt, and a smaller share through equity, than those in non-WAEMU countries. This is likely due to the significantly higher interest rates in non-WAEMU countries, which encourage use of instruments other than debt.

WAEMU COUNTRIES

- Benin
- Burkina Faso
- Cote d'Ivoire
- Guinea-Bissau
- Mali
- Niger
- Senegal
- Togo

NON-WAEMU COUNTRIES

- Cape Verde
- Ghana
- Guinea
- Nigeria
- Liberia
- Sierra Leone
- The Gambia

PERCENTAGE OF CAPITAL DEPLOYED BY INSTRUMENT, WAEMU AND NON-WAEMU IMPACT INVESTORS

| | WAEMU | Non-WAEMU | WAEMU | Non-WAEMU |
|--------------|-------|-----------|---------|-----------|
| | DFI | | Non-DFI | |
| Debt | 92% | 80% | 78% | 54% |
| Equity | 5% | 6% | 12% | 27% |
| Quasi-equity | 3% | 3% | 8% | 14% |
| Guarantees | None | 11% | None | None |

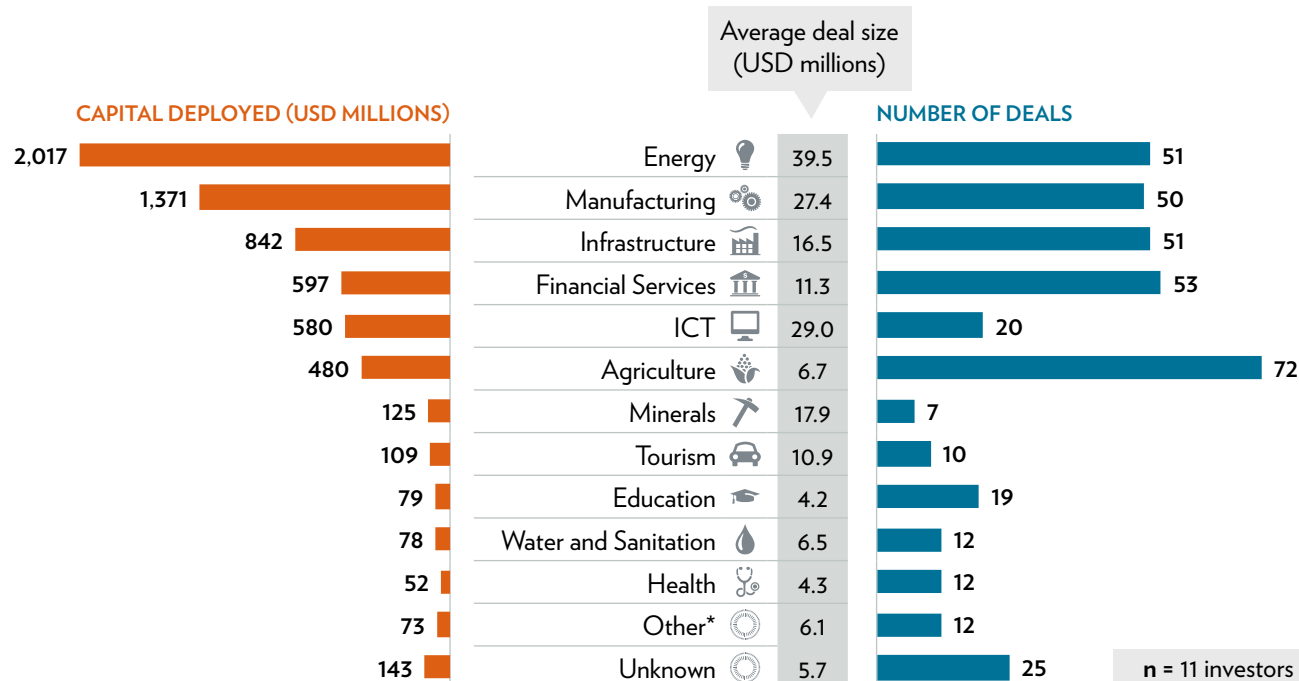
Note: Percentages may not add to 100% due to the exclusion of transactions with unknown instruments.

SECTOR

DFI investments focus on driving growth in large, fixed-capital-intensive industries such as energy, manufacturing, and infrastructure. Non-DFIs focus their investments on the relatively less capital-intensive sectors of financial services and agriculture.

DFIs invest primarily in energy, manufacturing, and infrastructure—traditionally underinvested sectors in West Africa (Figure 7).⁵⁷ The combined deployed capital in these sectors is USD 4.2 billion, or 65% of total DFI deployments. Deal sizes are largest in these sectors as well as Information and Communications Technology (ICT), where investments have focused on expanding mobile and fixed-line telecommunications infrastructure to accommodate the growing number of West Africans seeking telephonic and internet connectivity. The greatest number of deals is in agriculture, reflecting DFIs' recognition of the growth and employment potential of this sector.

FIGURE 7: TOTAL DIRECT DFI INVESTMENT BY SECTOR, JANUARY 2005-JULY 2015



* Other includes retail, construction/real estate, transport, and recycling.

Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

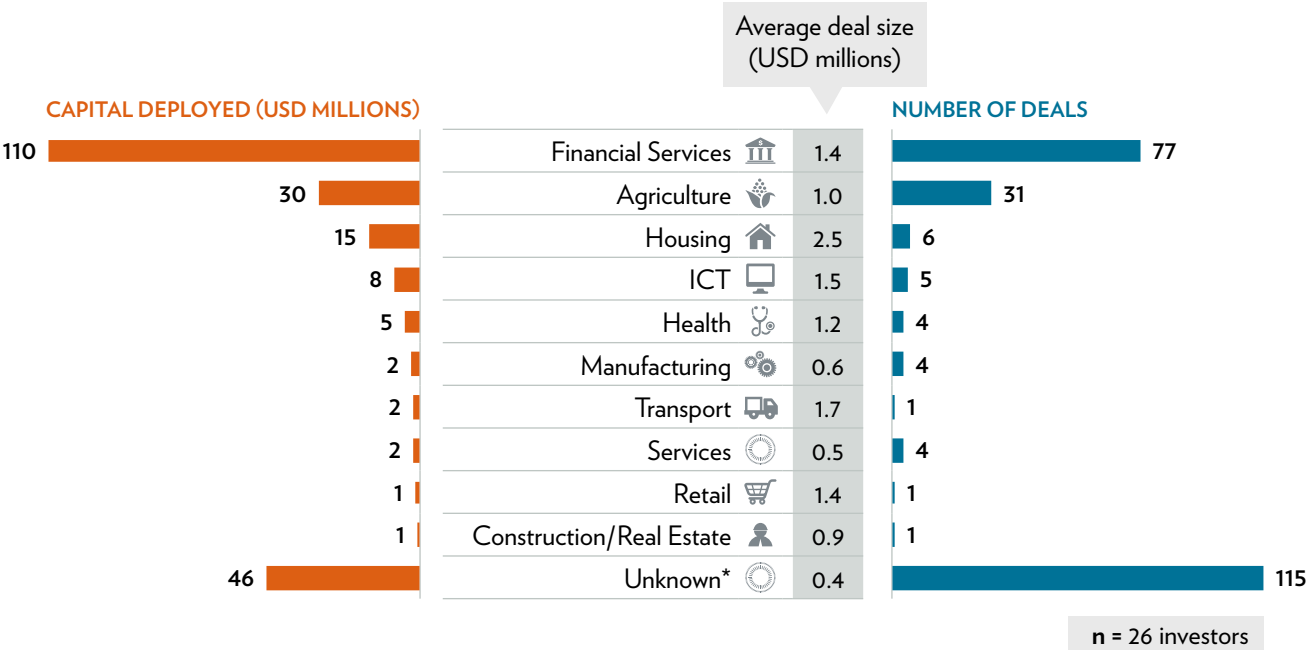
Source: Dalberg analysis; DFI portfolio data.

57 As mentioned in the Definitions section, there is some debate as to whether including all DFI investments is appropriate, given that DFIs invest in a variety of enterprises and projects that include those with no apparent impact focus, such as commercial banks, real estate projects, and mining entities. While we recognize the value in attempting to segment DFI portfolios into impact investments and other types of investments, DFIs do not currently indicate which of their investments they consider impact investments.

Non-DFI investors in West Africa are investing overwhelmingly in financial services, with 50% of capital deployed going into this sector (Figure 8). Investments into microfinance institutions represent the majority of investments, reflecting investor recognition of the large gaps in financial inclusion in the region. Interviewees indicated that investments in this sector have started to plateau due to an interest rate cap in WAEMU countries and significant currency volatility in Ghana. Housing (in Ghana), ICT (in Nigeria), and agriculture (in Nigeria, Ghana, Senegal, and Burkina Faso) are also emerging as strong areas of growth for investors.

After financial services, agriculture accounts for the largest number of non-DFI deals. Average deal sizes in this sector tend to be small. Most investees in agriculture are small enterprises, as large gaps in agricultural supply chains and low productivity make it difficult for farmers and agribusinesses to scale. Housing, by contrast, requires larger and longer-term fixed capital investment, reflected in its relatively high average deal size of USD 2.5 million.

FIGURE 8: TOTAL DIRECT NON-DFI INVESTMENT BY SECTOR, JANUARY 2005-JULY 2015



* These investments are in SMEs in the following sectors: education, manufacturing, healthcare, business services, transport, wholesale and retail, and agro-processing. However, disaggregating by sector has not been possible.

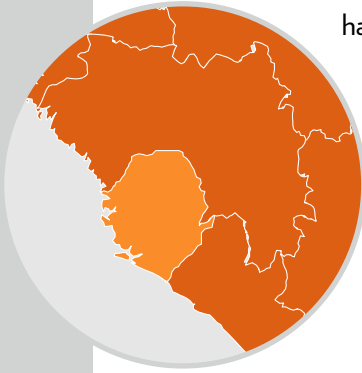
Notes: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Excludes three deals in energy with undisclosed investment amounts.

Source: Dalberg analysis; non-DFI portfolio data

BOX 2. SIERRA LEONE

In 2013, Sierra Leone was among the fastest-growing economies in the world. Barely ten years out of a bloody civil war, which ended in 2002, the political climate had stabilized and GDP growth was surging at 20%, largely driven by iron and ore exports, agriculture, and construction.¹ Its recovery had prompted a number of impact investors to invest in the country since around 2006, including four DFI and six non-DFI investors. DFIs focused on agriculture, energy, and manufacturing, while non-DFI investors focused on the growing microfinance industry. Although it received among the lowest levels of DFI investment in the region, Sierra Leone's non-DFI investments were significant relative to its size—for example, while Benin's GDP is approximately double that of Sierra Leone, the two countries received similar amounts of non-DFI investment (USD 10 million in Benin compared to USD 7.8 million in Sierra Leone).



In 2014, however, the country was at the epicenter of the Ebola epidemic, which took almost 4,000 lives during the course of a single year.² Economic costs were high. Declining tourist arrivals and lost productivity across all sectors have contributed to Sierra Leone's GDP falling from 20% growth in 2013 to a shrinkage of 2.5% in 2015. Interviews indicated that several investors were forced to stall their activities in the country. The economy is expected to recover, however, with growth projected at 2.8% in 2016.³ Further, investor attention is being refocused on Sierra Leone to help rebuild its fragile health systems—for example, in July 2015 donors pledged a combined USD 3.4 billion to aid recovery in Ebola affected countries, including Sierra Leone.⁴

1 "African Economic Outlook 2014: Global Value Chains and Africa's Industrialization," African Economic Outlook (2014). Available at: http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/E-Book_African_Economic_Outlook_2014.pdf.

2 "2014 Ebola outbreak in West Africa: Case counts," Center for Disease Control (2015). Available at: <http://www.cdc.gov/vhf/ebola/outbreaks/2014-west-africa/case-counts.html>.

3 "Statistics," African Economic Outlook (2015). Available at: <http://www.africaneconomicoutlook.org/en/statistics/>.

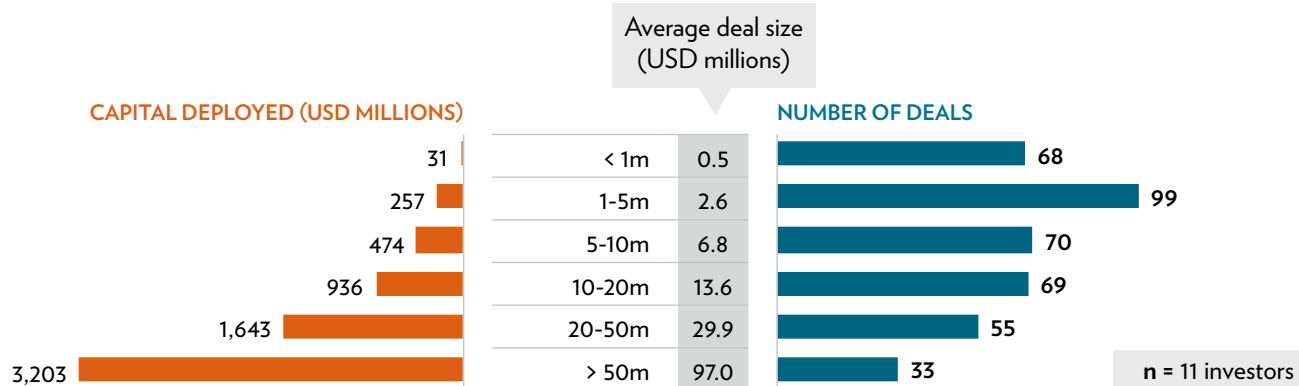
4 "Pledges of \$3.4 billion for Ebola recovery made at United Nations," Reuters (2015). Available at: <http://www.reuters.com/article/2015/07/11/us-health-ebola-un-idUSKCN0PL00B20150711>.

DEAL SIZE

DFI deals tend to be large, reflecting their focus on funding sizable energy, manufacturing, and infrastructure projects. Further, internal DFI processes and bureaucracy make the transaction costs of investment very high for smaller deals. Non-DFI deal sizes, by contrast, tend to be smaller, reflecting both their leaner organizational structures and the demand from their target market of SMEs.

DFIs invest nearly half of their capital in deals above USD 50 million (Figure 9). This corresponds with their target sectors of energy, manufacturing, and infrastructure, which typically require larger investments in fixed capital. The largest number of deals, however, falls into the range of USD 1-5 million. Within this range, agriculture has the highest number of deals (22), followed by financial services (15) and infrastructure (14). Smaller infrastructure deals reflect investments that form part of larger infrastructure projects, such as paving a section of road.

FIGURE 9. TOTAL DIRECT DFI INVESTMENTS BY DEAL SIZE, JANUARY 2005-JULY 2015

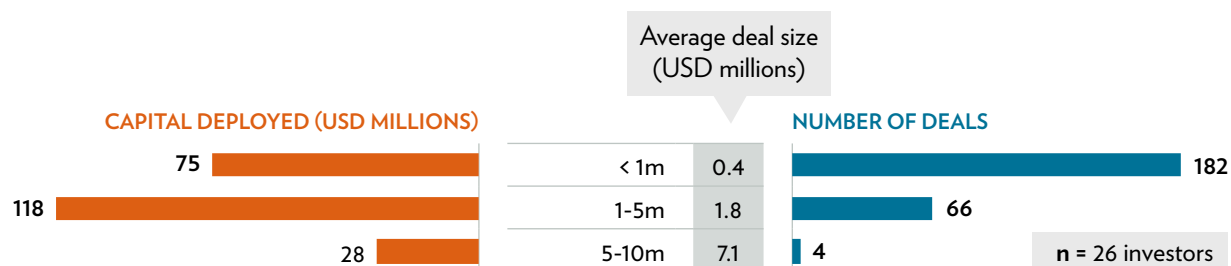


Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; DFI portfolio data

Non-DFIs invest in far smaller deals, a reflection of their leaner organizational structures and the demand from their target market of SMEs (Figure 10). Further, fund managers operating in West Africa use smaller deal sizes as a risk mitigation strategy, spreading their funds both over a larger number of smaller deals and through co-investing with other investors in larger deals. For foundations, smaller deal sizes reflect a preference for debt, which is often lent over short tenures (one to two years) and in smaller amounts.

FIGURE 10. TOTAL DIRECT NON-DFI INVESTMENTS BY DEAL SIZE, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; non-DFI portfolio data

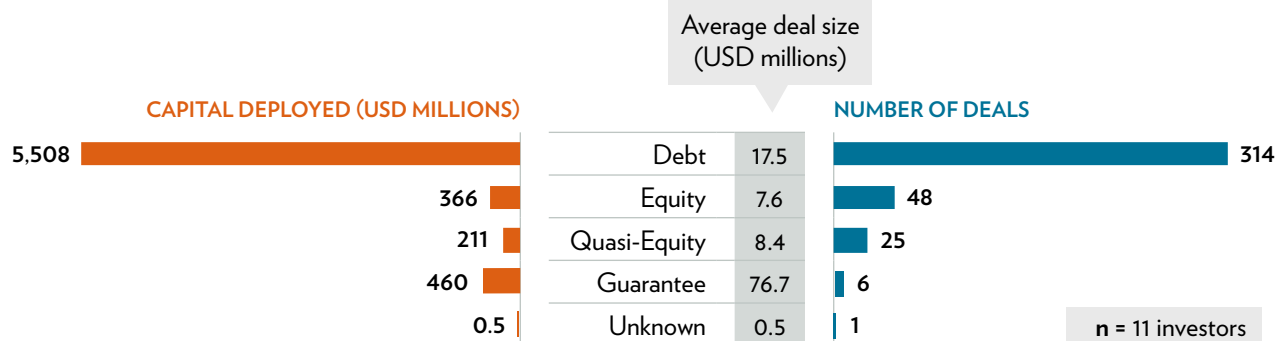
INVESTMENT INSTRUMENTS USED

DFIs favor debt as it is less risky, requires less active management, and provides a much clearer exit path. Non-DFI impact investors also favor debt, though they use a wider variety of instruments more frequently than do DFIs. Fund managers prefer a “hands-on” approach to managing their investments, favoring equity and quasi-equity instruments. Foundations tend to prefer debt and quasi-equity.

Nearly all direct DFI investments in the West African region are in the form of debt (Figure 11). They comprise 84% of all capital deployed, and primarily reflect large loans in the energy, manufacturing, and infrastructure sectors. Expected rates of return tend to fall between at-market and slightly below market, usually in the 13%-17% range. While data on loan tenures are limited, the size and nature of many DFI projects—including the construction of power plants and expansion of mobile telephony infrastructure—suggest that they are in the range of 10-15 years.⁵⁸ DFIs make roughly even use of equity and guarantees (6% and 7% of capital deployed, respectively) and use quasi-equity least (3% of capital deployed).

58 “Project focus: Takoradi, Ghana,” Private Infrastructure Development Group (PIDG) (2015). Available at: <http://www.pidg.org/news/project-focus-takoradi-ghana>; “Africa’s ICT Infrastructure: Building on the mobile revolution,” World Bank (2009). Available at: http://siteresources.worldbank.org/INFORMATIONANDCOMMUNICATIONANDTECHNOLOGIES/Resources/AfricasICTInfrastructure_Building_on_MobileRevolution_2011.pdf.

FIGURE 11. TOTAL DIRECT DFI INVESTMENTS BY INSTRUMENT, JANUARY 2005-JULY 2015

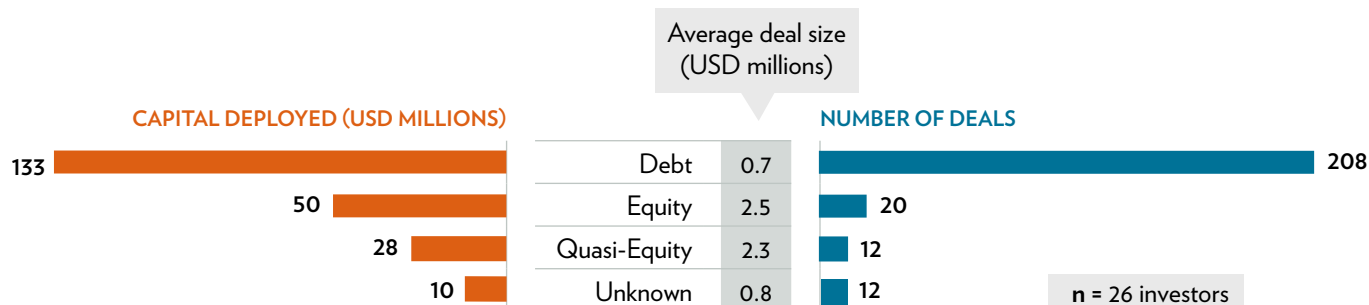


Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; DFI portfolio data

Non-DFIs also favor debt. Sixty percent of non-DFI impact capital deployed is in the form of debt, with equity making up 23% and quasi-equity 13% (Figure 12).⁵⁹ This partly reflects the aforementioned non-DFI focus on microfinance, as microfinance institutions (MFIs) have regular incomes—through repayments on their own loans—that are able to service debt repayments. Average deal sizes in debt tend to be much smaller at USD 0.7 million as opposed to an average of approximately USD 2.5 million for both equity and quasi-equity. This can be explained by the prevalence of shorter-term lending facilities provided by foundations commonly found in the MFI and agriculture sectors. The larger average deal sizes in equity and quasi-equity reflect the operations of fund managers requiring larger stakes in the companies they invest in to secure a degree of enterprise control. Expectation of return on equity varies, with most fund managers targeting market returns of approximately 20%-24% and a few settling for slightly below market returns of between 13%-17%.

FIGURE 12. TOTAL NON-DFI INVESTMENTS BY INSTRUMENT, JANUARY 2005-JULY 2015



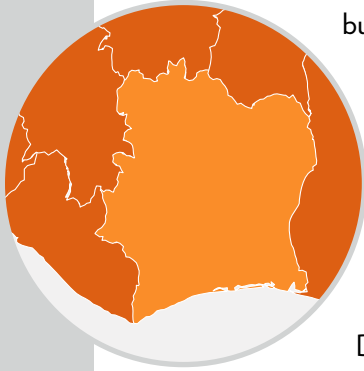
Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; non-DFI portfolio data

59 Approximately 4% of non-DFI capital is deployed through unknown instruments.

BOX 3. COTE D'IVOIRE

After over a decade of violent conflict, including two civil wars, Cote d'Ivoire is re-emerging as a key investment destination. Economic growth has surged, reaching approximately 8% in 2015, and the country is projected to be the third fastest growing economy in Africa by 2016.¹ The business climate is rapidly improving, with Cote d'Ivoire among the top ten countries in the world with the most improved scores on the World Bank's Doing Business index in 2015.² Political stability has increased, leading the African Development Bank to move its headquarters back to Abidjan, the nation's capital, in 2014. This move is expected to help position the country as a key political and investment hub for francophone West Africa.



Impact investors have taken note of Cote d'Ivoire's potential. The country is the third largest recipient of impact capital after Nigeria and Ghana, with seven DFI investors deploying USD 880 million and five non-DFI investors deploying USD 11 million in the country. DFIs direct most of their capital to large loans in the energy and infrastructure sectors, while non-DFIs focus primarily on a combination of debt and equity deals in agriculture and financial services. Interviews indicate that Cote d'Ivoire's impact investing industry will continue to grow and will remain the foremost impact investment destination in francophone West Africa.

1 "Statistics," African Economic Outlook (2015). Available at: <http://www.africaneconomicoutlook.org/en/statistics/>.

2 "Doing Business: Measuring Business Regulations," World Bank (2015). Available at: <http://www.doingbusiness.org/rankings>.

In addition to investments made with the expectation of financial return, both DFIs and non-DFI impact investors often included either technical assistance grants or subsidies as a part of their investment strategies, though non-DFIs were more likely to provide technical assistance informally through in-kind business support and guidance than as grants. Technical assistance is provided primarily to build the business systems and governance capacity of target investees, and is seen as a necessary part of investing in the region. In the words of one investor, “If I were to raise an impact investing fund without a technical assistance facility, I probably wouldn’t do it.”

EXITS

There is very limited information available on equity exits—where investor equity stakes in enterprises are sold in order to recoup investment—especially for non-DFI impact investors. While a total of 49 exits from deals worth an original USD 684 million were identified during the course of this study—46 DFI exits worth USD 665 million and 6 non-DFI exits worth USD 19 million—interviewees noted that this is likely to be a significant underestimate. Most DFI exits have taken place in Ghana and Nigeria in the manufacturing and financial services sectors, while non-DFI exits have all taken place in Ghana in the financial services and housing sectors.

INDIRECT INVESTMENTS

Indirect investments occur when investors deploy capital into intermediaries (e.g., fund managers and commercial banks) that then use the capital to invest directly in enterprises or projects. An unknown proportion of indirect investment acts as a source of capital for direct investment. Therefore, to avoid double counting (and due to severe data limitations on the nature of indirect investments), indirect investments have been excluded from the above analysis. Still, given that they account for a significant proportion of investment, especially for DFIs, it is helpful to examine them to the extent that data allow.

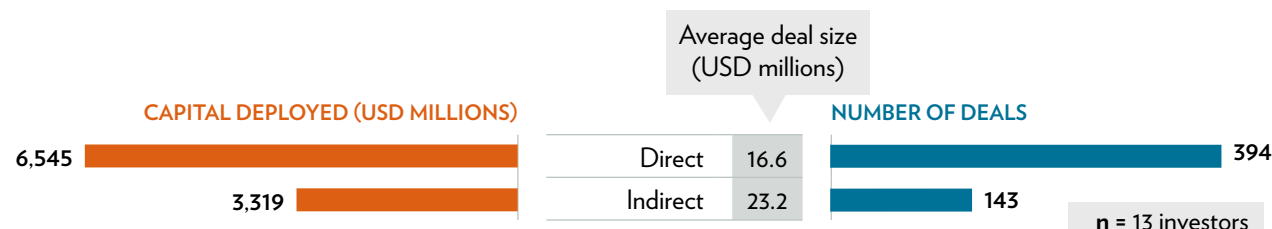
Indirect investments made by DFIs amount to USD 3.3 billion and account for 34% of total deployed capital (Figure 13). For non-DFIs, indirect investments amount to USD 29 million, representing 12% of total deployed capital (Figure 14). While data on indirect investments are limited, two trends are apparent:

- DFIs commonly focus indirect investments on commercial banks for the purposes of on-lending to SMEs, as well as on impact fund managers and private equity funds. The focus on commercial banks reflects DFI attempts to strengthen the commercial banking system and enhance its ability to on-lend to underserved customers (like SMEs). The presence of private equity firms in DFI investment portfolios, meanwhile, is partly due to the limited number of impact investment fund managers in the region. It is also due to DFIs’ recognition that, as the African Development Bank puts it, “Active and growing private equity players on the [African] continent will be a significant contributor to its economic and social development.”⁶⁰

60 “Private equity investments,” African Development Bank (AfDB) (2015). Available at: <http://www.afdb.org/en/topics-and-sectors/sectors/private-sector/areas-of-focus/private-equity-investments>.

- Non-DFIs focus indirect investments on rural banks offering a range of financial services to rural individuals and SMEs, though there is an example of a foundation investing in an impact fund manager and an impact fund manager investing in a private equity firm. Non-DFIs' preference for rural banks reflects their recognition of the significant gap in access to formal banking services in rural areas, as well as the match between investor supply of and rural bank demand for smaller deals.

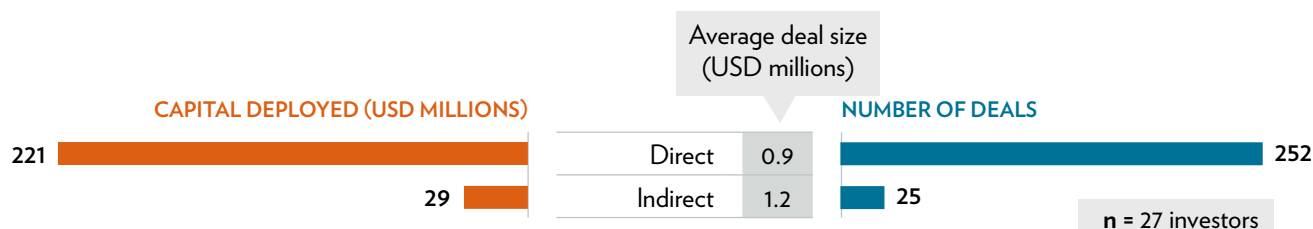
FIGURE 13. TOTAL DFI INDIRECT VERSUS DIRECT COMPARISON, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Includes three direct deals of unknown size.

Source: Dalberg analysis; non-DFI portfolio data

FIGURE 14. TOTAL NON-DFI INDIRECT VERSUS DIRECT COMPARISON, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Includes three direct deals of unknown size.

Source: Dalberg analysis; non-DFI portfolio data

There are a number of reasons impact investors invest indirectly, either through funds or financial institutions. The first is to establish a local presence by proxy. West African markets are highly nuanced and heterogeneous, and have many information asymmetries; as such, interviewees reported the need for local knowledge and a high degree of relationship building to secure investments. The second reason is to leverage existing networks of local commercial banks. An example of this can be found in the Medical Credit Fund (MCF), which focuses on providing funds to commercial banks to on-lend to SMEs in the health sector. By utilizing a number of local partners, MCF is able to reach a far broader set of target clients. In addition, by outsourcing the credit screening and disbursement processes to existing local banks, MCF is able to greatly reduce its costs of doing business and offer initial loan sizes as low as USD 5,000. The third reason for investment in funds is to reduce transaction costs. Many larger investors (such as DFIs and institutional investors) are not geared toward investing in small deals. Investing in funds enables them to effectively outsource investment decisions to local experts that can secure smaller deals, which is especially useful for DFIs seeking to lend to SMEs.

BOX 4. TOGO AND BENIN

TOGO

Togo's story is one of gradual improvement. After decades of dictatorial rule beginning in the late 1960s, and following a questionable presidential election in 2005, it held credible democratic elections in 2013 and 2015.¹ Economic growth has improved from around 4% in 2006 to almost 6% in 2015, with growth expected to remain strong into 2016.² The business climate is improving rapidly. Togo is among the top ten countries in the world with the most improved scores on the Doing Business index 2015,³ while the government is implementing a series of tax reforms that aim to tackle misadministration and corruption. Not all have shared in this progress; significant regional disparities exist in income and access to basic services, with the majority of Togo's poor residing in rural areas.



Togo is the largest recipient of DFI capital after Nigeria, Ghana, Cote d'Ivoire, and Senegal. Five DFIs deploy a total of USD 353 million—almost twice the next contender, Guinea (USD 190 million). DFIs focus their capital on energy and infrastructure, which together account for approximately 85% of capital deployed. DFIs invest mostly through debt (91% of capital deployed), though roughly a third of deals made are in equity. Non-DFI investments are small, at only USD 4 million, and focus almost exclusively on microfinance institutions.

BENIN

Benin has enjoyed considerable political stability since the 1990s, while economic growth has increased markedly since 2010 and is expected to hit 6% by 2015. Although considerable challenges in health, education, and poverty remain, Benin's government is implementing a 'structural investments program' to mobilize public and private investment to improve social outcomes in the country. Alongside this have come considerable improvements in the business climate: Benin is among the top ten countries in the world with the most improved scores on the Doing Business index 2015.⁴



Benin is the largest recipient of non-DFI capital after Nigeria, Ghana, Cote d'Ivoire, and Senegal. Five impact investors have deployed a total of USD 10 million in the country, with investments focusing on loans in financial services (86% of capital deployed) and agriculture (14% of capital deployed). Within these sectors, investors are seeing opportunities in microfinance, agro-processing, and technology-enabled access to agricultural markets.

1 "US Relations with Togo," US Department of State (2015). Available at: <http://www.state.gov/r/pa/ei/bgn/5430.htm>.

2 "Statistics," African Economic Outlook (2015). Available at: <http://www.africaneconomicoutlook.org/en/statistics/>.

3 "Doing Business: Measuring Business Regulations," World Bank (2015). Available at: <http://www.doingbusiness.org/rankings>.

4 *Ibid.*

Main Barriers and Opportunities in Deploying Impact Capital

MAIN PERCEIVED BARRIERS FOR DEPLOYING IMPACT CAPITAL

West Africa poses significant challenges for investors looking to deploy capital. The industry is nascent, with few impact investors operating at scale in the region. Major barriers include the following:

- **Investment readiness of target investees.** Numerous interviewees listed a lack of investment readiness among enterprises as a crucial constraint to investment. This includes several elements. First, governance and management skills are lacking. For example, interviewees reported observing the appointment of relatives of entrepreneurs to board and senior management positions rather than appropriately trained and skilled personnel. It is also difficult to source adequately skilled personnel, which leads to gaps in management. Second, enterprises lack robust business systems related to financial, human resource, and operational management, which makes it difficult for investors to gauge their profitability or sustainability. These shortcomings are more prevalent in smaller SMEs and in rural areas, and therefore impact investors targeting underserved rural communities face the largest gaps. Third, many enterprises are resistant to change, and are reluctant to alter their structures and practices to what they see as artificially imposed standards of investors.
- **Difficulty sourcing capital.** Relative to global standards, West Africa is characterized by shallow capital markets and low levels of domestic financing. Local fund managers reported raising domestic capital to be a significant challenge to their operations. Instead, they rely almost solely on foreign capital from DFIs and foundations, which can be more difficult to identify given that several international funders have no presence in the region (as discussed above). In addition, obtaining working capital funding from commercial banks was reported to be a challenge for their investees, even with strengthened balance sheets post-investment.
- **Difficulty exiting equity investments.** As is typical of frontier and emerging markets with shallow financial markets, exits remain an issue for equity and quasi-equity investors. Very few examples of successful equity investment exits were found during the course of this study, with the notable exception of ExpressLife in Ghana, which Leapfrog Investments sold to Prudential in 2013. As there are no secondary markets⁶¹ in most of West Africa, alternative solutions have been explored. In addition to management buyouts, interviewees were experimenting with royalty- or fee-based arrangements, where enterprises would pay either a percentage of annual revenue (royalty) or a set annual fee in return for investment.

61 Secondary markets involve the trading of existing investments into a given enterprise.

- **Macroeconomic and political instability.** West Africa has been subject to considerable economic and political instability over the last several decades. While much progress has been made and substantial political stability achieved, several issues remain. First, currency volatility, particularly in Ghana, has increased uncertainty. A tension has emerged between international investors' preference to lend in US dollars or euros and enterprises' desire for local currency funding to avoid devaluation and currency risks. Second, security issues remain a concern for investors, notably in Nigeria due to the ongoing conflict with Boko Haram in the country's northern regions. Last, fragility in post-epidemic economies poses challenges. As mentioned, the aftermath of the Ebola epidemic has had major effects on commerce in the region, significantly affecting the post-conflict countries of Sierra Leone and Liberia.
- **Unpredictable regulation.** For the most part, interviewees cited few serious regulatory barriers to investment in the region. Instead of prohibitive regulation, interviewees were more concerned about a general lack of clear, up-to-date legislation and about the difficulties in predicting policy direction. Liberia is characterized by competing political factions espousing different policies, while interviewees complained of Sierra Leone's outdated commercial laws from the 1960s, which lack alignment with modern business practices. Interviewees did, however, cite sector-specific regulatory barriers, particularly in reference to the microfinance industry in francophone West Africa. MFIs in this area are regulated like formal banks, placing onerous conditions on them and curbing industry growth. Further, the Central Bank of West Africa States (BCEAO) decreased the WAEMU interest rate cap from 27% to 24% in 2014. While restricting exploitative lending behavior, this cap also places strain on MFIs lending in high-risk, often rural areas.
- **Perception challenges.** Some locally based fund managers resisted the association with the term "impact investor," even though their funds complied with our criteria of intention to create impact and a commitment to measuring such impact. This was largely due to a perception that impact investment implies low financial returns,⁶² and is not significantly different from philanthropy. With skepticism currently surrounding new investment platforms—pension funds in the region are reluctant to invest in private equity, for example, partly due to a lack of understanding and trust in its potential and aims⁶³—impact investing is struggling to gain credibility. Notably, a number of regional non-DFI actors expressed concern that the expectation that impact investing will achieve market and above-market returns, which has been fostered in the industry, is further eroding trust. These actors felt that experiences of high returns from impact investing were heavily context specific and, given the challenges and high transaction costs associated with investing in the region, should not be expected as typical.

62 A recent study released by the GIIN and Cambridge Associates showed financial returns of 51 private equity impact investing funds to be largely in line with a comparative universe of private equity funds with no impact intent. See the report at: <http://www.thegiin.org/knowledge/publication/introducing-the-impact-investing-benchmark>.

63 "Pension Funds and Private Equity: Unlocking Africa's Potential," Emerging Markets Private Equity Association (EMPEA) (2014). Available at: <http://empea.org/newsroom/empea-news/pension-funds-and-private-equity-unlocking-africas-potential>.

MAIN PERCEIVED OPPORTUNITIES FOR DEPLOYING IMPACT CAPITAL

Despite these challenges, interviewees identified several opportunities for the growth and expansion of impact investing in West Africa. Specific perceived opportunities include the following:

- **Key sectors: energy, financial services, and agriculture.** As market failures in the provision of public goods, utilities, and financial access remain in the region, there are many opportunities for intervention by impact investors. Energy will remain a key focus for both DFIs and non-DFIs, with DFIs focusing on large projects underpinning national electrification and non-DFIs keenly interested in smaller scale, off-grid energy solutions. Investors are also becoming increasingly interested in innovative combinations of technology and financial services (‘FinTech’) such as mobile money. They are also interested in expanding ‘micro’ offerings into areas beyond microfinance—for example, micro-insurance that protects smallholder farmers against crop failure. Finally, agriculture remains a large, underexploited opportunity in the minds of investors. West Africa has large tracts of land available for agricultural production, but suffers major gaps in agricultural productivity. Agro-processing, in particular, is seen as a key opportunity to introduce mechanization and scale to the sector and broaden access to both domestic and international markets.
- **Geographies: Nigeria, Cote d’Ivoire, Senegal, Liberia, and Sierra Leone.** Nigeria remains a “sleeping giant” for investors that, though difficult to understand and work in, has potential for both impact and financial return that is unsurpassed on the continent. Paradoxically, and as mentioned, post-Ebola countries are expected to attract an increasing share of capital as development agencies seek to utilize impact investing in their toolkits for rebuilding healthcare, telecommunications, and governance infrastructure. While macroeconomic challenges in Ghana remain a concern for investors, Senegal and Cote d’Ivoire are increasingly receiving attention due to their improving fundamentals and strong growth. The African Development Bank returned to its headquarters in Abidjan, Cote d’Ivoire in 2014; its presence is expected to play a major role in increasing investor confidence and catalyzing development activity in that country.
- **Linking local and foreign actors.** Expanding partnerships between local and foreign actors will be key to growing impact investing in West Africa. For foreign enterprises, partnerships with local enterprises can unlock foreign capital. For example, Broad Cove is acting as a US partner to local organizations in Ghana and Liberia to access Overseas Private Investment Corporation (OPIC) funding. For foreign investors, partnerships with local investors can expand the reach of impact investments and lower transaction costs associated with sourcing deals (as discussed in the “Indirect Investments” section above).
- **Blended capital.** The tactical provision of blended capital—the complementary use of subsidized and market-rate-seeking funding—can crowd in private investment by reducing the high risks associated with fragile and frontier markets. Foundations that seek below-market returns can partner with investors seeking market-rate returns, for example, and use their lower return expectations to

incentivize more commercially minded investors to engage in deals they otherwise would have deemed overly risky. Further, blended capital can help to grow the supply of impact investing fund managers by supporting the costs of management fees. Interviewees noted that funds are generally not viable until they pass the USD 60-70 million mark, yet fund managers struggle to raise funding, as previously mentioned. Raising smaller funds, meanwhile, places pressure on fund managers charging a 2% management fee, and raising the management fee risks pushback from investors. Grant funding from foundations to cover management costs can bridge this gap and catalyze the formation of smaller funds.

IMPACT MEASUREMENT TOOLS AND APPROACHES

For DFIs, impact metrics and measurement frameworks differ widely between actors, but reporting is relatively consistent and conducted through publicly available annual reports. For example, the African Development Bank publishes an Annual Development Effectiveness Review, which summarizes its performance over a number of impact indicators that, since the first Review in 2011, have remained consistent over time.⁶⁴ DFIs have a preference for gathering impact data from fund managers rather than from enterprises, as this is perceived as considerably simpler.

Non-DFIs vary widely in their approach to measurement and reporting. Large international investors and foundations generally employ robust measuring and reporting. For example, Cordaid provides consistent reporting on its social impact using IRIS,⁶⁵ the catalogue of standardized metrics managed by the GIIN, while the Medical Credit Fund adheres to the SafeCare⁶⁶ basic healthcare standards framework, which measures outcomes of the SME health facilities it lends to and allows for comparison across geographies.

In contrast, local fund managers are less consistent, with impact measurement mostly ad hoc and driven by the individual requirements of their investors (e.g., DFIs). The smaller enterprises these fund managers invest in often do not have the capacity to track and report on social in addition to financial metrics, which makes it difficult to collect data. Compounding this, many fund managers lack capacity to collect and aggregate data on the large variety of sectors and enterprises in which they invest. As a result, only a basic set of indicators is usually tracked. Those most commonly cited include number of jobs created, number of clients served, and client incomes.

Improvements have, however, recently been made in non-DFIs' ability to track and report impact. Investors cited significant advances in management information systems (MIS)—software that aids in the collection, structuring, and reporting of data—over the last five years that are allowing organizations to better track internal metrics, including those on social impact. It is also important to note that some impact investors viewed measurement of social impact as duplicative for investments

64 “Development Effectiveness Reviews,” AfDB (2015). Available at: <http://www.afdb.org/en/topics-and-sectors/topics/quality-assurance-results/development-effectiveness-reviews>.

65 IRIS is the catalogue of generally accepted metrics managed by the Global Impact Investing Network, available at www.iris.thegiin.org.

66 SafeCare aims to support basic healthcare providers in resource-restricted settings. Available at: <http://www.safe-care.org/>.

where impact is inherent to core business activities, such as is the case with—in their opinion—social enterprises, mobile money, and micro-insurance. For such investments, basic tracking of financial indicators was deemed sufficient.

Beyond Impact Investing

Many interviewees noted that, in a region as underdeveloped as West Africa, many commercially minded investors with no stated intention to create social impact could arguably make investments that have impact due to their role in growing local businesses and increasing the flow of capital in the region. Interviewees pointed out that such investment far eclipses non-DFI impact investment. Private equity investment in West Africa, for example, amounted to USD 298 million in 2012 alone—as compared to USD 242 million in Southern Africa⁶⁷—and is growing rapidly: 84% of all private equity capital invested in the region since 2004 was invested between 2012 and 2014.⁶⁸

During the course of this study, the research team also encountered several investors that, while falling outside our definition of impact investing due to lack of impact intent and/or measurement, nonetheless can be expected to be driving significant impact in the region. There are several reasons for this. First, they often invest in enterprises that have strong social outcomes. Some, for example, invest in microfinance institutions that can tackle challenges of financial inclusion. Second, they often co-invest with other impact investors. Adlevo Capital, for example, is a co-investor with the Omidyar Network and the Acumen Fund⁶⁹ in the mobile money operator Paga in Nigeria. Third, they receive investment from impact investors—especially DFIs—that consider them important contributors to building a healthy investment climate in the region.

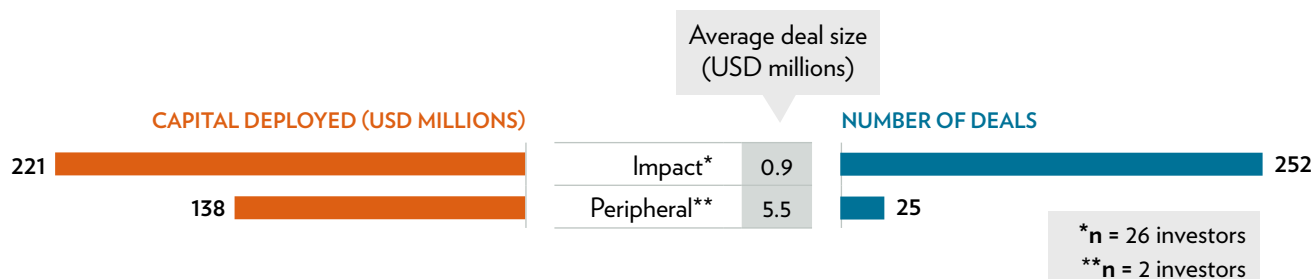
Available data suggest that the influence of these “peripheral impact investors” is considerable. The deployed capital of just two peripheral investors amounts to USD 138 million, while total non-DFI impact investor capital deployed is USD 221 million (Figure 15). Their investment profile has some overlap with that of non-DFI impact investors. Most investments are in the microfinance and ICT sectors, with quasi-equity the preferred instrument.

67 “East Africa private equity confidence survey,” Deloitte (2015). Available at: http://www2.deloitte.com/content/dam/Deloitte/za/Documents/finance/za_private_equity_confidence_survey_may2015.pdf.

68 Into Africa: the rise of private equity,” Freshfields Bruckhaus Deringer (2014). Available at: http://www.freshfields.com/uploadedFiles/SiteWide/News_Room/News_/01795_MKT_WWW_PE_Growth_In_Africa_INTERACTIVE_AW.PDF.

69 List of investors, Paga (2015). Available at: <https://www.mypaga.com/paga-web/customer/static/company/investors>.

FIGURE 15. TOTAL NON-DFI IMPACT INVESTOR AND PERIPHERAL INVESTOR INVESTMENT, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Includes three direct deals of unknown size.

Source: Dalberg analysis; non-DFI portfolio data

Such investors, while not impact investors per se, may prove to be valuable partners and allies in the quest to expand the number and size of impactful investments in West Africa in the years to come.

4. DEMAND FOR IMPACT INVESTING CAPITAL

Development Context

West Africa has seen impressive economic growth over the last five years; in 2014, despite the effects of the Ebola epidemic, the region achieved GDP growth of 6%.⁷⁰ Progress in human development has not, however, been nearly as impressive. West Africa's 2013 Human Development Index score of 0.426 is below the sub-Saharan African average of 0.502 and well below the global average of 0.702. Moreover, countries in the region have not improved significantly since 2012 (Table 1).⁷¹ The proportion of the population living below the USD 1.25/day poverty line is more than three times the global average—an average of 46% across West African countries compared to 15% globally—with Nigeria alone hosting approximately 100 million of those living in poverty.⁷²

70 "African Economic Outlook 2015: Regional development and spatial inclusion," African Economic Outlook (2015). Available at: http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/PDF_Chapters/Overview_AEO2015_EN-web.pdf.

71 "Human Development Reports," UNDP (2015). Available at: <http://hdr.undp.org/en/data>.

72 "World Development Indicators," World Bank (2015). Available at: <http://data.worldbank.org/data-catalog/world-development-indicators>.

TABLE 1. WEST AFRICA HUMAN DEVELOPMENT INDEX SCORES, 2013

| Country* | HDI score, 2013 | HDI rank, 2013 | Change in rank from 2012 |
|---------------|-----------------|----------------|--------------------------|
| Nigeria | 0.504 | 152 | 1 |
| Senegal | 0.485 | 163 | -3 |
| Benin | 0.476 | 165 | 0 |
| Togo | 0.473 | 166 | 1 |
| Côte d'Ivoire | 0.452 | 171 | 0 |
| The Gambia | 0.441 | 172 | 0 |
| Liberia | 0.412 | 175 | 0 |
| Mali | 0.407 | 176 | 0 |
| Guinea-Bissau | 0.396 | 177 | 0 |
| Guinea | 0.392 | 179 | -1 |
| Burkina Faso | 0.388 | 181 | 0 |
| Sierra Leone | 0.374 | 183 | 1 |
| Niger | 0.337 | 187 | -1 |

* Data not available for Cape Verde and Togo. Source: Human Development Index, 2013

West Africa has among the lowest literacy rates in the world. Of the 10 countries with the world's lowest recorded adult literacy rates in 2009, seven were in West Africa: Benin, Burkina Faso, Guinea, Mali, Niger, Senegal, and Sierra Leone.⁷³ In terms of healthcare, the region has recorded declines over the last two decades in under-five mortality rates—from 197 per 1,000 live births in 1990 to 132 in 2011—but is still falling short of the Millennium Development Goal of reducing child mortality by two thirds by 2015.⁷⁴ Improvements in hospital infrastructure and availability are sorely needed; there is less than one hospital bed per 1,000 citizens across the region, compared to more than 11 in developed countries.⁷⁵ As mentioned, the Ebola epidemic has dealt a large blow to the region's healthcare systems, but also represents a unique opportunity to rebuild them to be stronger and more resilient in the years to come.

73 More recent data not available. "West Africa Literacy Rates," IRIN (2009). Available at: <http://www.irinnews.org/report/84052/west-africa-combating-world-s-lowest-literacy-rates>.

74 "African Leadership for Child Survival," USAID. Available at: <http://www.usaid.gov/sites/default/files/documents/1860/Africa%20Key%20Facts%20and%20Figures.pdf>.

75 The World Factbook, CIA. Available at: <https://www.cia.gov/library/publications/the-world-factbook/fields/2227.html>.

Types and Distribution of Demand Actors

As mentioned in the Definitions section, this report focuses on two sets of actors in the demand landscape: social enterprises and commercial SMEs. Both sets of actors are potential recipients of impact capital due to their role in creating employment and providing goods and services to underserved populations. Both face significantly greater obstacles to accessing finance and driving growth than do large enterprises. For this reason, they shed light on the main obstacles that stand in the way of channeling impact investment to where it is most needed.

Social enterprises, defined for the purpose of this study as those that both seek to become financially self-sustaining and have an explicit intention to create social/environmental impact, seem ideal targets for impact investment. However, there are few such enterprises in West Africa. Examples identified through interviews include Laiterie du Berger and Nest for All in Senegal, Paga and Andela in Nigeria, Toyola in Ghana (though Toyola also operates in six other West African countries), and Liberty and Justice Apparel in Liberia. A recent landscape of social enterprises in Ghana using a narrower definition of the term (“businesses that exist to address social and environment needs, and focus on reinvesting earnings into the business and/or the community”) identified an additional 24 such enterprises mainly focused on agriculture, education, health, and clean technology.⁷⁶ The small number of identified social enterprises is partly due to limitations in the available data, but is also related to the fact that the concept of a “social enterprise” is not well known in West Africa. Many enterprises that deliver goods and services similar to social enterprises do not label themselves as such.

Evidence from Ghana indicates that impact investors have yet to play a major role in funding social enterprises. The study mentioned above found that the majority are funded through a combination of donor/foundation grants and contributions from family and friends.⁷⁷ Interview evidence corroborates this. For example, the founder of an incubator focused on social enterprises in Nigeria remarked that none of the enterprises he had encountered knew what impact investing was, nor that any impact investors existed in the country. Further, a social enterprise founder in Ghana noted that, while he did eventually secure impact investment from an American impact investor, he found this investor only after five years of exploring alternative options: “I was a poor man who wanted to serve poor people and employ poor people to do it... so nobody wanted to give me money.” While well-known and well-publicized social enterprises (e.g., Paga) do attract impact investment, others are either unknown to impact investors or are not considered sufficiently robust to receive investment.

With few social enterprises in the region, commercial SMEs are a large target of impact investment due to their important role in driving economic growth and job creation. In West Africa, SMEs account for approximately 90% of all business and

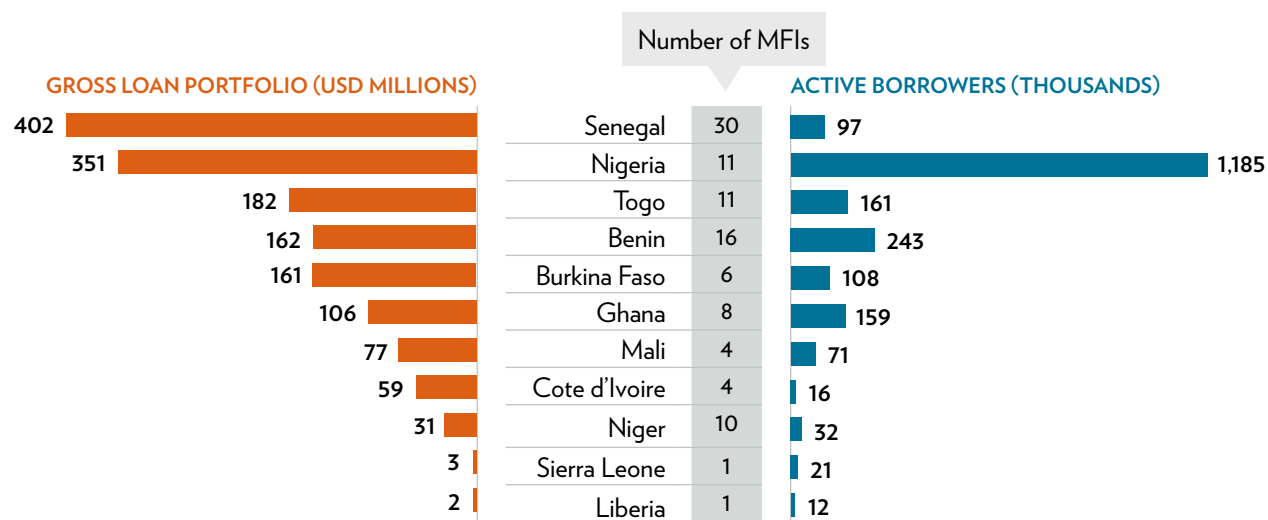
76 “Social enterprise landscape of Ghana,” Overseas Development Institute (2014). Available at: http://www.britishcouncil.org/sites/britishcouncil.uk2/files/social_enterprise_landscape_in_ghana_report_final.pdf.

77 Ibid.

contribute approximately 30% to GDP,⁷⁸ though this varies by country. In Ghana, for example, SMEs account for about 92% of all businesses and provide 80% of employment.⁷⁹ Most SMEs in the region are concentrated in Nigeria and Ghana⁸⁰ and focus on the financial services, agriculture, and services sectors.⁸¹

MFIs, many of which are SMEs and/or social enterprises, are worth mentioning, as they make up a significant target of impact investment. In 2013, there were 112 MFIs in West Africa reporting data to the MIX Market, which collates data on microfinance activities across the world.⁸² Together, they have a cumulative gross loan portfolio of USD 1.5 billion spread across 2.1 million active customers (Figure 16). Based on these data, Senegal has the highest number of MFIs (30) and leads the way in terms of gross loan portfolio (USD 402 million), closely followed by Nigeria (USD 351 million). The majority of active customers (56%) are in Nigeria, whose 11 MFIs extend loans to approximately 1.2 million people.⁸³ Average loan sizes vary widely in the region, from approximately USD 150 in Sierra Leone to USD 4,000 in Senegal. This is likely due to MFIs in some countries providing a greater proportion of SME or informal enterprise finance as opposed to loans for personal consumption.

FIGURE 16. MICROFINANCE INSTITUTIONS BY NUMBER, ACTIVE CUSTOMERS, AND GROSS LOAN PORTFOLIO, 2013



Note: Data reflects only those microfinance institutions reporting data to MIX market in 2013. Source: MIX Market (mixmarket.org)

78 “La Finance au Service de l’Afrique,” AfDB (2012). Available at: http://www.mfw4a.org/fileadmin/data_storage/documents/MFW4A-documents/Soutien_MFW4A_Developpement_PME_dans_LUEMOA_Fr_Final.pdf.

79 “Growing the Global Economy Through SMEs,” Edinburgh Group (2012). Available at: http://www.edinburgh-group.org/media/2776/edinburgh_group_research_-_growing_the_global_economy_through_smes.pdf.

80 “Document de Stratégie d’Intégration Nationale, Pour l’Afrique de l’Ouest 2011-2015,” AfDB (2011). Available at: <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/DSIR%20pour%20l’Afrique%20de%20l’Ouest%20-%20REV%202.pdf>.

81 Ibid.

82 Latest data as of 2013.

83 “Africa market profile,” MIX Market (2015). Available at: http://mixmarket.org/mfi/region/Africa?order=series_multimedien_3&sort=desc.

Challenges Faced by Demand Actors

Despite large variation across countries, interviewees identified a relatively common set of challenges that cut across the region. These include:

- **Lack of financing options apart from commercial banks.** Angel investor, venture capital, and private equity markets are still very small in West Africa. As mentioned above, so, too, is the pool of impact investors active in the region. Given this, enterprises struggle to identify formal sources of financing beyond commercial banks. Where alternative sources do exist, awareness of these is low—especially in smaller countries such as Burkina Faso and Sierra Leone, which have very little market analysis data available. Few enterprises are even aware of the existence of impact investment, even where such investors do exist and are actively looking to broaden their pipeline of investable enterprises. As a result, enterprises view access to capital as largely synonymous with access to commercial bank loans.
- **High collateral requirements for loans.** Banks in West Africa are very risk averse, and do not tailor their products or services to meet SME or social enterprise needs. They generally grant loans only to clients who can provide large amounts of collateral in the form of assets and savings—which many SMEs and social enterprises do not have. These stringent collateral requirements make it difficult for enterprises to access finance.
- **Capacity gaps.** Enterprises face large challenges maintaining robust business systems related to financial record keeping, human resource management, governance, and marketing. This makes it difficult for them to meet investor requirements—even in basic areas such as the presentation of sales and revenue figures. Moreover, enterprises find it difficult to source qualified personnel to assist in running and managing operations. One organization active in the region, the African Management Services Company (AMSCO), was set up specifically to address this problem.⁸⁴
- **High cost of doing business.** Poorly developed infrastructure in the region makes it difficult to bring products to market. Gaps in road infrastructure, for example, make it difficult to transport goods, while poor telecommunications infrastructure hampers communication and customer outreach. This adds an additional layer of complication for enterprises already struggling to secure customers and expand business, and hampers their ability to generate the profits required to attract investor interest.
- **Difficulty conforming to differing investor requirements.** Where investors are identified and their interest drawn, they have differing and sometimes cumbersome requirements to satisfy their due diligence activities. While this was not noted as a major barrier, it does raise the cost of seeking investment.

84 AMSCO website: <http://www.amsco.org>.

5. ECOSYSTEM FOR IMPACT INVESTING

Policies and Regulations

While some governments in West Africa, such as Nigeria and Ghana, actively promote investment and provide incentives such as “tax holidays” and exemptions on import duties for certain sectors, and while regulatory barriers did not feature prominently in interviews, impact investors did identify the following challenges:

- **Limitations on local institutional investors.** Regulations in many West African countries restrict institutional investors in those countries such as banks and pension funds from investing in private equity, which has been a strong driver of enterprise strengthening and growth in developed markets.⁸⁵ Nigeria has recently made progress in allowing pension funds to invest 5% of their assets under management (AUM) in “alternative asset classes” including private equity, but other countries in the region have yet to follow suit.
- **Inconsistent regulation.** Apart from Nigeria, many other countries in West Africa are quite small. As a result, many international impact investors invest in multiple countries within the region. However, these investors indicate that regulations and business environments differ widely between countries, making it difficult to maintain a diversified investment portfolio. While the nine OHADA countries⁸⁶ are making progress toward harmonizing business laws, there is little consistency among non-OHADA countries. Policy uncertainty—even within a given country—was noted as a further complicating factor.
- **Inadequate and outdated insolvency regulation.** Resolving insolvency is a major challenge in West Africa, largely due to deficiencies in bankruptcy laws and the processes involved in implementing them. Such laws are needed to clarify and enforce the processes of repaying creditors and managing assets once an enterprise becomes insolvent. The Resolving Insolvency score in the Doing Business index measures country performance in this important area. West Africa’s performance is poor; the region’s average rank is 136 out of 189 countries. Guinea Bissau and Cape Verde rank last and second-to-last, respectively, and it can take up to five years to resolve insolvency in Niger. Sierra Leone has, however, recently eased the process of solving insolvency by enacting a new Companies Act and implementing a fast-track commercial court in an effort to expedite commercial cases, including insolvency proceedings.⁸⁷

85 “Pension Funds and Private Equity: Unlocking Africa’s Potential,” EMPEA (2014). *Available at:* <http://empea.org/newsroom/empea-news/pension-funds-and-private-equity-unlocking-africas-potential>.

86 Benin, Burkina Faso, Côte d’Ivoire, Guinea, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

87 “Doing Business Regional Profile: ECOWAS,” IFC (2014). *Available at:* <http://www.ihk-krefeld.de/de/media/pdf/international/doing-business/westafrika-doing-business-in-the-economic-community-of-west-african-states-2014.pdf>.

Efforts to Support the Impact Investment Market

TYPES OF ACTORS

Across the region, there are few enterprise and investor support actors, with most clustered in Ghana, Nigeria, and Senegal. There are several categories of actors to consider, as depicted in Figure 17.

FIGURE 17. ECOSYSTEM ACTORS IN WEST AFRICA, JULY 2015



*Also present in other West African countries

Source: Desk research; interviews

Incubators and technical assistance providers are the most numerous. Incubators have recently increased in number to accommodate the growing number of SMEs that require support. The majority—such as the Co-creation Hub and iDEA in Nigeria and the Meltwater Entrepreneurial School of Technology (MEST) in Ghana—focus on technology. This reflects the growing role of technology—particularly mobile technology—in many aspects of West African life that, along with the low capital costs associated with many technology-based services, is encouraging a surge in tech-focused SMEs in urban centers.

Technical assistance providers are also relatively well represented; they are largely split between government support agencies focused on SME development and investment promotion, and private consulting firms engaged in enterprise and investor advisory. Encouragingly, a small number of networks focused on building the small but growing private equity and angel investor communities have emerged over the past several years. Interviews with these networks indicate that there is a strong willingness among such investors to find new and better ways of collaborating.

Two research organizations were identified: the Ghana Institute of Management and Public Administration (GIMPA) Center for Impact Investing and the Enterprise Development Center (EDC) at Pan Atlantic University in Nigeria. The GIMPA Center aims to provide information on, drive awareness of, and advocate for impact investors in Ghana, and has published several reports on the state of the sector.⁸⁸ The EDC, meanwhile, conducts research on the enterprise development ecosystem in Nigeria, provides enterprise capacity building, and organizes networking activities to bring investors and enterprises together.

Main Constraints and Opportunities

The impact investment ecosystem in the region is still emerging; as a result, actors from research bodies to incubators are limited both in size and scale. Interviewees identified the following challenges:

- **Concentration of ecosystem.** Actors tend to be located in the major urban centers of Lagos, Accra, and Dakar. This makes sense for investor support organizations, since local investors are mainly situated in such urban centers, while international investors can travel more easily to them. However, there is a dire need for a greater geographic distribution of enterprise support, especially in rural areas. Moreover, there is a need to expand business incubation beyond its current focus on technology.
- **Lack of investor awareness of the potential of ecosystem support.** As the enterprise and investor support landscape is still developing, it has yet to develop a track record of success in West Africa. This makes it difficult for these actors to gain the credibility needed to act as a robust support structure. For example, one incubator noted that it struggled to engage investors and get them interested in the potential of incubation to generate a pipeline of investable enterprises. An

⁸⁸ See <http://gci.gimpa.edu.gh> for more details.

investor support agency, meanwhile, bemoaned the fact that few investors—either local or foreign—were aware of the investment incentives that it publicized. Interviews also indicated that awareness of enterprise support programs—both public and private—is low among enterprises.

- **Resource constraints.** Given the lack of business systems and professional governance among enterprises, incubating and supporting them is a time-consuming and costly process. Because of this, incubators are only able to take in a limited number of enterprises at a time—a tiny proportion, they note, of those that require some form of support.

Despite these barriers, ecosystem actors were optimistic about the region’s impact investment trajectory. They were careful to note that, as the impact investing industry is still very young, it is natural to encounter gaps and “teething pains.” Like investors, they noted the opportunities in sectors such as agriculture, energy, technology, and financial services. Further, they noted that, as private equity and venture capital markets develop in the region, a virtuous cycle may emerge in the industry—increasing investment incentivizes enterprises to build business systems to meet investor requirements; better business systems make it easier for enterprises to attract capital and investors to find investees, and more investment drives growth and further inflows of capital.

CONCLUSION: OPPORTUNITIES FOR INTERVENTION

While several interviewees were optimistic about the future growth prospects of the impact investing industry in West Africa, others were not. As mentioned, there is considerable skepticism regarding the ability of impact investors to generate significant financial return. Moreover, with many in the region viewing “impact” as residing in any form of investment that builds national capacity—even in areas such as oil and gas—impact investors’ commitment to social/environmental impact becomes less of a differentiator.

Given this context, it is important that impact investors and supporting organizations be proactive in building the impact investing industry. Interviews revealed the following as promising interventions:

- **Raise awareness of impact investment.** Many investors in West Africa either do not know what impact investing is or see it as a new kind of philanthropy—in both cases, the term “impact investment” is not greeted with excitement for those looking to commit money to the region. Raising awareness would help this. This could come in the form of publishing and disseminating more research, developing stronger networks among impact investors to build collective visibility, and outreach by impact investors to commercial investors.

- **Capitalize on African high net-worth individuals and corporations.** Related to the above, it is particularly important to reach out to and engage African HNWLs as new sources of funding. Interviews indicated that there are several African HNWLs looking to direct their wealth to more impactful ends.⁸⁹ Now is the time to engage them on the potential of impact investing to represent a new wave of African philanthropy that is at once impactful and financially sustainable. At the same time, there are many large corporations emerging in the region that could utilize impact investments to develop their supply chains. Interviewees mentioned that, like HNWLs, such corporations lack awareness and understanding of impact investing.
- **Strengthen the ecosystem of incubators and accelerators.** One of the most consistent messages from investors was that it was extremely difficult to find investable enterprises, while one of the most consistent messages from incubators was that they struggled to engage investors. This is peculiar, since incubators provide the very types of business support that would help build a healthy pipeline of investable enterprises for investors. Clearly, there is a gap in collaboration. In order to bridge this gap, two things need to happen: the incubator ecosystem needs to grow and linkages between investors and incubators need to strengthen. To accomplish these goals, impact investors can:
 - Develop relationships with individual incubators to help them understand the types of enterprises they are looking for, the indicators that are most important in deciding whether to invest, and likely future investment pipeline needs.
 - Invest in incubators so that incubator numbers and capacities grow.
 - Work with incubators to build a stronger network of support associations that link investors and investees and engage governments.
- **Educate and engage enterprises on the value of equity through local partnerships.** Investors were generally of the opinion that equity investments were more effective at driving enterprise growth than debt, since equity allowed investors to take a more “hands-on” approach and use their expertise to guide the business—often through taking a board seat. However, West African enterprises are hesitant to accept equity investments due to a fear of losing control of their businesses. One of the ways to counteract this is to establish a local presence. Interviews indicated that business owners and managers value in-person contact, and are far more likely to trust investors that are both present in and known to their communities. For investors not able to do this, finding local partners or investing indirectly through local fund managers is also a viable option. Those that already have a local presence should, of course, continue to emphasize their role as partners to the enterprises around them.

⁸⁹ See the following for an interesting debate on the issue: “Are Africa’s wealthiest doing enough to help the continent?” The Africa Report. Available at: <http://www.theafricareport.com/The-Question/are-africas-wealthiest-doing-enough-to-help-the-continent.html>.

Develop a track record of success through more consistent measurement. It is difficult for investors to align on a common set of metrics and impact indicators, not least because they deal with a variety of different enterprises with different impact profiles. Still, better and more consistent internal measurement, coupled with external reporting, can help to identify drivers of both success and failure, ultimately equipping the industry with a clearer growth path. Greater use of MIS could ease the process of tracking internal metrics and make it easier to publicize results.

It is an interesting time for West Africa. A track record of fast economic growth, coupled with the expectation that such growth will continue, has placed it firmly on the agenda of many international and local investors. Impact investors have recently started to turn their attention to the region; though the industry is currently small, there are large opportunities for it to expand. For these opportunities to be realized, however, timely and coordinated effort is needed across the impacting investing industry.

NIGERIA



1. COUNTRY OVERVIEW

Brief Historical and Political Context

In March of 2015, Nigeria's first democratic transfer of political power took place with the election of the All Progressives Congress (APC), led by Muhammadu Buhari. This affirms the progress that Nigeria has made since transitioning from military rule in 1999 and is symbolic of its shift from a relatively marginal regional actor into Africa's largest economy.

Nigeria has experienced rapid growth over the past decade and has made concerted steps towards liberalization and modernization of its key sectors. For example, recent privatization initiatives in the energy sector have seen the national power utility split into 20 entities across the generation, transmission, and distribution of electricity. Elsewhere, proactive state policies have seen considerable resources channeled into the development of agricultural markets—the National Food Security Program (NFSP) of 2008, for example, aims to improve storage, processing, and access to markets for several priority crops¹ while the Agricultural Transformation Agenda of 2011 is driving reforms in the distribution of fertilizer subsidies.²

Despite its impressive growth, Nigeria remains a difficult market in which to operate, with chronic infrastructure shortages and the high cost of living representing large challenges for both foreign and domestic businesses, as well as a relatively protracted period of uncertainty deriving from delays in the government in appointing new ministers and defining new policies. Regional political volatility and security issues, most notably from the continued threat of terrorist group Boko Haram in the northern regions, further complicate the investment and operating environment.

For investors willing to bear with its risks and challenges, Nigeria holds enormous promise. Its sheer size and strong growth prospects position it well to continue its role as a leading economic powerhouse on the African continent. Moreover, the large proportion of its citizens underserved by basic goods and services provide a wide variety of opportunities for both financial and social/environmental impact. Human capital potential is yet another positive factor, both for unskilled and semi-skilled jobs, as well as skilled labor particularly in small and medium enterprises.

1 "Nigeria's agricultural policy: Seeking coherence within strategic frameworks," Inter-réseaux Développement Rural (2013). Available at: <http://www.inter-reseaux.org/publications/revue-grain-desel/51-special-issue-nigeria/article/nigeria-s-agricultural-policy>.

2 "Nigeria Input Subsidy Assessment: The case of fertilizer," International Food Policy Research Institute (2012). Available at: http://fsg.afre.msu.edu/outreach/9.Hiro_Takeshima_Nigeria.pdf.

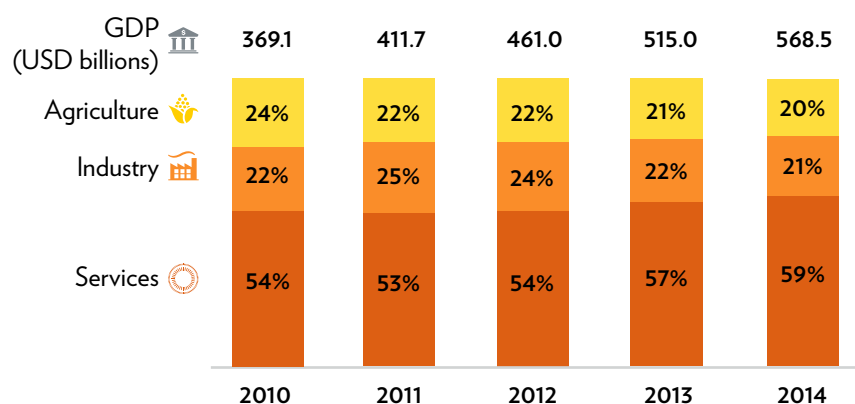
Economic Performance and Structure

GROSS DOMESTIC PRODUCT (GDP) INDICATORS

In 2014, Nigeria rebased its economy to account for key sectors that had previously been excluded in GDP calculations. With a newly estimated GDP of USD 569 billion, Nigeria accounts for almost 80% of West Africa’s GDP³ and has surpassed South Africa as the largest economy in Africa.

The economy is dominated by the services sector—financial services, real estate, and trade in particular⁴—though agriculture and industry also represent significant shares (Figure 1). Economic performance has been strong over the last decade, with GDP growth consistently in excess of 5% since 2003. Importantly, the country has been able to diversify away from its reliance on oil production; while real growth in the oil sector has been negative since 2012, non-oil real growth has surged, reaching 8.2% in 2012 and 6.2% in 2014.⁵

FIGURE 1. NIGERIAN GDP CONTRIBUTION BY SECTOR, 2010-2014



Source: World Development Indicators, World Bank (2015)

3 “World Development Indicators,” World Bank (2015). Available at <http://data.worldbank.org/data-catalog/world-development-indicators>.

4 “Nigeria country profile,” African Development Bank (AfDB) (2014). Available at: http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Nigeria_EN.pdf.

5 “Nigeria in 2014: Economic Review and 2015–2017 Outlook,” National Bureau of Statistics (2015). Available at: <http://www.nigerianstat.gov.ng/pages/download/263>.

Investment Climate and Drivers of Foreign Direct Investment (FDI)

TRENDS IN FDI

Nigeria's recent economic success has been due in part to its ability to attract significant FDI inflows. FDI has grown at an average rate of 16% over the past decade, though it declined steadily between 2011 and 2013. In 2013 Nigeria received 15% of sub-Saharan Africa's FDI inflows—second behind South Africa.⁶ The oil sector, which has traditionally driven inflows of FDI from European nations and the United States, has stalled since 2008. This is largely due to uncertainty regarding the outcome of the Petroleum Industry Bill, which seeks to significantly overhaul the ownership and regulatory structure of the country's oil industry.⁷ FDI is currently driven mainly by the manufacturing and services sectors.⁸

INFLATION AND EXCHANGE RATES

Nigeria's cost of lending is high by international standards, but low when compared to other countries in West Africa, largely owing to its more developed financial sector. In July 2015, 90-day and 180-day treasury bill rates were 10.3% and 13.5%,⁹ respectively, while average rates for Ghanaian treasury bills, by contrast, were 27%.¹⁰

Inflation rates, having historically been stable but high relative to other countries in West Africa, have begun to decline. While they were consistently above 10% prior to 2013, they fell to 9% in 2013 and stabilized at approximately 8% in 2014. They are expected to remain at around 8% in the short to medium term, though the recent depreciation¹¹ of the local currency, the naira, may push them up, given Nigeria's reliance on imports.

Ease of Doing Business

Although Nigeria's large market holds much potential for investors, it is among the most difficult countries in the world in which to operate. Congested and poorly maintained infrastructure, an inefficient civil service and bureaucracy, and high levels of corruption hamper growth, while the high living and operational costs place a significant burden on businesses.

6 "World Development Indicators," World Bank (2015). Available at <http://data.worldbank.org/data-catalog/world-development-indicators>.

7 OECD Investment Policy Reviews: Nigeria 2015, Organization for Economic Co-operation and Development (2015). Available at: http://www.keepeek.com/Digital-Asset-Management/oecd/finance-and-investment/oecd-investment-policy-reviews-nigeria-2015_9789264208407-en#page1.

8 *Ibid.*

9 "Government Securities Summary," Central Bank of Nigeria (as of 15/07/2015). Available at <http://www.cenbank.org/rates/govtsecurities.asp>.

10 Central Bank of Ghana website (2015). Available at: <http://www.bog.gov.gh/>.

11 By 22% against the US dollar in 2015, largely due to reduced earnings from crude oil exports.

Nigeria ranks 170 out of 189 countries on the 2014 World Bank Doing Business index.¹² Despite improving from 175 in 2013, its rank remains poor compared to the West African average of 152. This unimpressive performance is largely driven by delays in getting electricity (an average 260-day wait for new connectivity) and problems dealing with construction permits, registering property, and paying taxes.¹³ In terms of corruption, Transparency International gives Nigeria a score of 27/100 in its Corruption Perceptions Index, which translates into a rank of 136 out of 175 countries.¹⁴

On the whole, the costs of doing business in Nigeria—both financially and in terms of the time and effort required to operate effectively—are very high even relative to other countries in the region. Despite the fact that Nigeria is the largest economy in Africa, it is difficult for new investors to enter the market.

2. SUPPLY OF IMPACT INVESTING CAPITAL

Estimate of Impact Capital Deployed

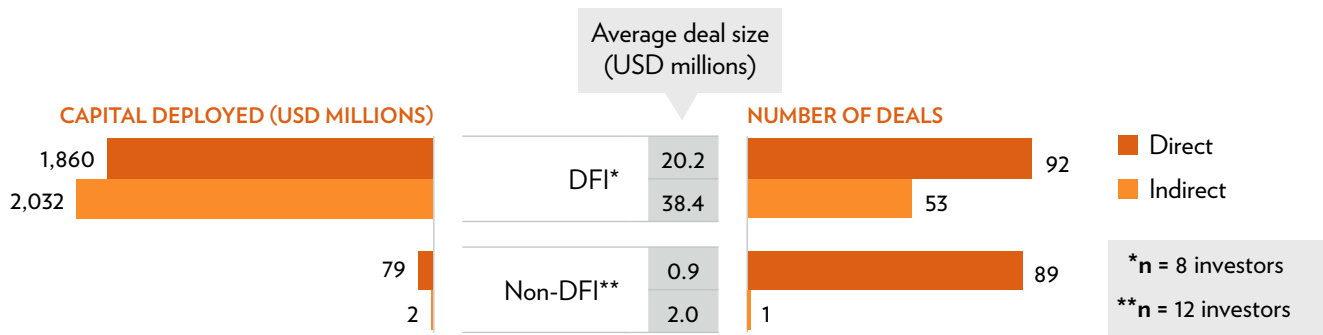
Unsurprisingly given its size, Nigeria leads the way in impact investing in West Africa. All in all, 28 impact investors are active in the country, including 20 non-DFI and 8 DFI investors. Identified impact investments (which include deals made by all DFIs and 12 non-DFIs) amount to USD 1.9 billion in deployed capital across 181 direct investments since 2005 (Figure 2). In addition, impact investors have deployed approximately USD 2 billion in indirect investments through funds and intermediaries. The study focuses on direct investments to avoid double counting—an unknown proportion of indirect investment acts as a source of direct investment—and due to severe data limitations on the nature of indirect investments. Indirect investments are, however, discussed in more detail in the regional chapter. In sum, they are driven almost exclusively by DFIs and focus on commercial banks, impact fund managers, and private equity funds, reflecting DFI attempts to both support impact investing and build shallow commercial banking and private equity markets.

12 “Doing Business: Measuring Business Regulations,” World Bank (2015). Available at: <http://www.doingbusiness.org/rankings>.

13 *Ibid.*

14 “Corruption Perceptions Index 2014: Results,” Transparency International (2014). Available at: <http://www.transparency.org/cpi2014/results>.

FIGURE 2. TOTAL IDENTIFIED IMPACT INVESTMENTS IN NIGERIA, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.
Source: Dalberg analysis; DFI and non-DFI portfolio data

DFIs make up an overwhelming majority of direct investment, accounting for USD 1.9 billion across 92 deals, or 96% of total capital deployed. Non-DFIs, meanwhile, account for USD 79 million across 89 deals. As expected, average deal size for the two sets of actors differs dramatically: USD 20.2 million for the relatively larger DFIs as opposed to USD 0.9 million for non-DFIs.

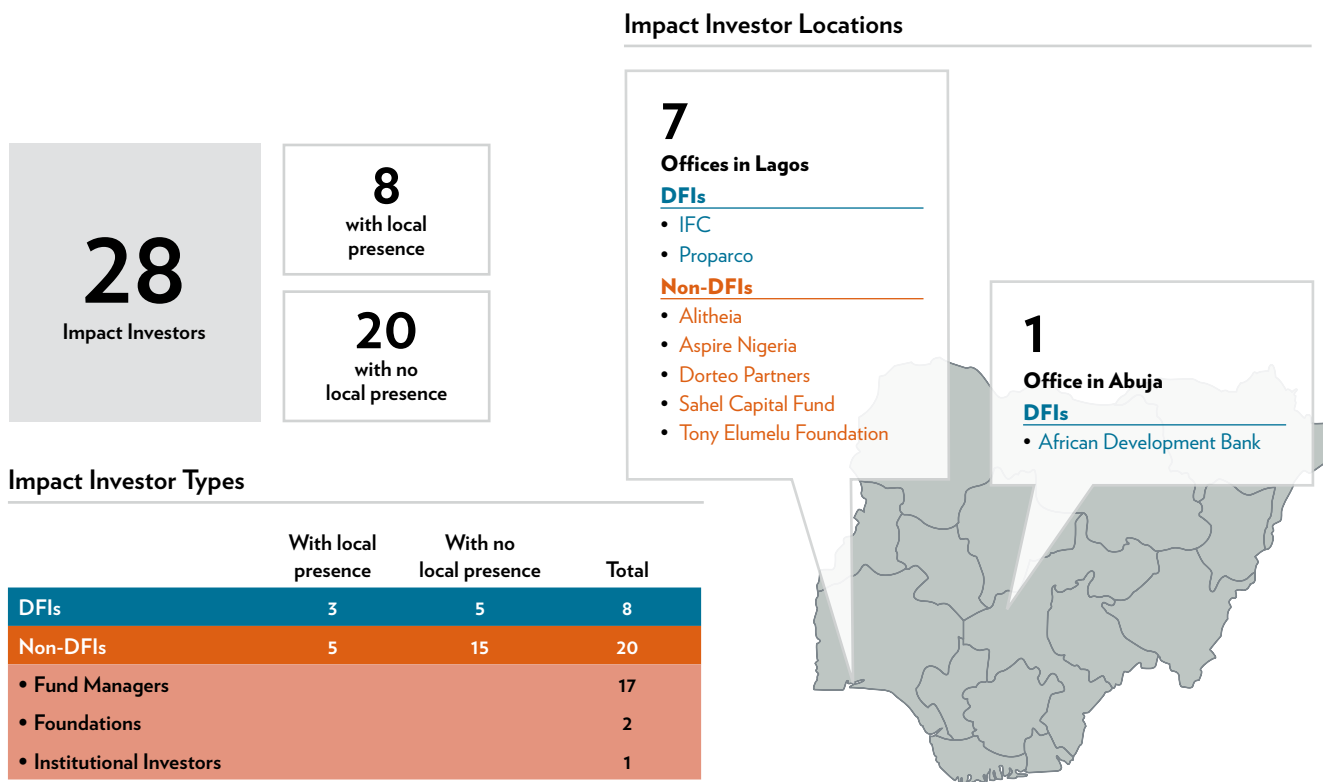
Still, while the impact investing sector in Nigeria outpaces other countries in the region, the community of investors is small relative to the size of the market—Ethiopia, for example, is less than a quarter the size of Nigeria in terms of GDP, but has almost triple (58) the number of non-DFI impact investors.¹⁵ We discuss potential reasons for this in more detail below.

While DFI and non-DFI investors alike target a large range of sectors, deal sizes, and instruments, there are certain common features that could be said to describe a “typical” impact investor in Nigeria. First, the investor would likely not be *in* Nigeria—only seven of the 28 identified impact investors had a local presence at the time of writing, due in large part to the high cost of living and operating businesses in the country (Figure 3). Second, the investor would not be *from* Nigeria—the research team identified only four impact investment firms founded in Nigeria.¹⁶ Third, they would invest early and patiently—with the exception of DFIs targeting larger and more mature enterprises, most impact investors target venture- to growth-stage enterprises, invest for between four and 10 years, and expect returns of between 13% and 17% Internal Rate of Return (IRR) in their equity and quasi-equity deals. Fourth, they would be hands-on; the majority of investors play an active role in supporting and guiding enterprises, DFIs through formal technical assistance and non-DFIs through informal in-kind support. Last, if they were a non-DFI investor they would most likely be a fund manager—the research team identified only two foundations and one institutional investor making direct investments.

15 “The Landscape for Impact Investing in East Africa,” GIIN (2015). Available at: <http://www.thegiin.org/cgi-bin/iowa/resources/research/698.html>.

16 Alitheia, Doreo Partners, Sahel Capital Partners, and Tony Elumelu Foundation.

FIGURE 3. IMPACT INVESTOR TYPES AND LOCAL PRESENCE IN NIGERIA, JULY 2015



Source: Dalberg analysis

Most impact investors operating in Nigeria are headquartered outside the country, and most funding for impact investors originates from foreign sources. The majority of identified DFIs involved in Nigeria are headquartered in the U.S. and Europe. While the precise breakdown of funding for many investors is sensitive information, interviews indicated that non-DFI investors rely almost exclusively on a combination of these DFIs, family foundations, and high-net-worth individuals (HNWIs) from outside the country. The Tony Elumelu Foundation—funded through the personal wealth of a Nigerian national, Tony Elumelu—was the only identified impact investor that relied significantly on local sources of capital. As will be discussed in more detail below, this is likely due to how unfamiliar and, at times, skeptical local investors are when it comes to impact investing.

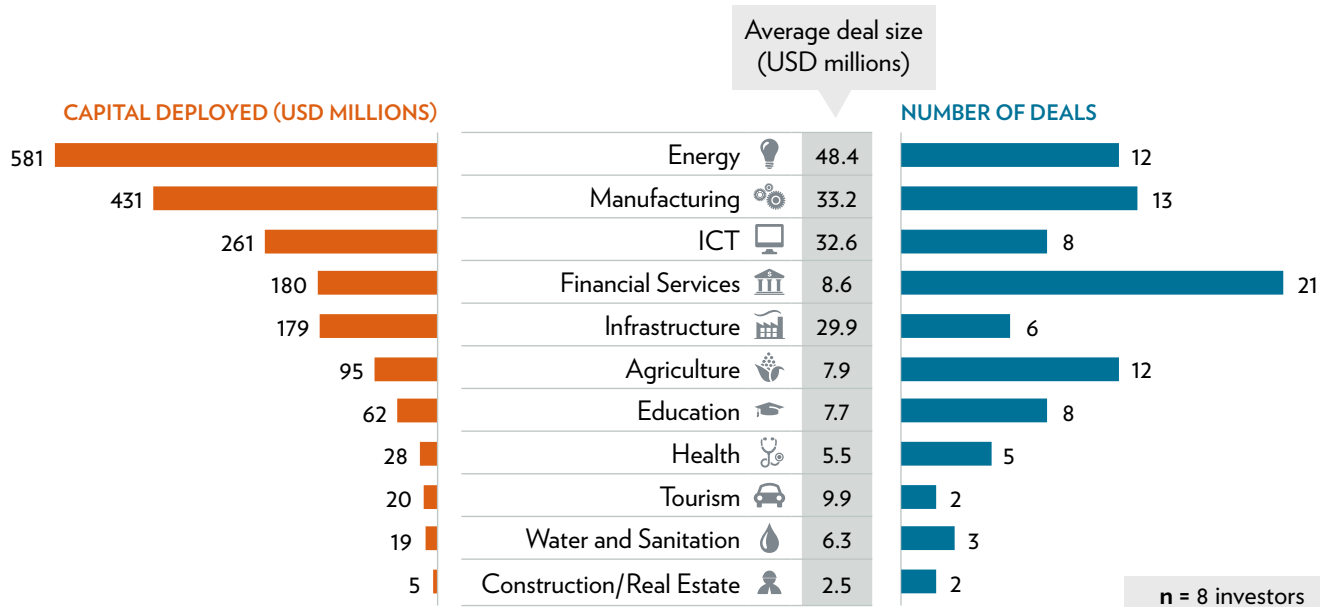
SECTOR

DFIs focus their investments on large deals in energy, manufacturing, and information and communications technology (ICT), reflecting the country's large needs in these areas. Non-DFI investors, meanwhile, strongly favor financial services—microfinance, in particular—through small deals of less than USD 5 million.

DFIs invest most of their capital in energy, manufacturing, and ICT, with deals in these sectors representing a combined total of approximately USD 1.3 billion or 68% of total DFI capital deployed. These investments focus on power generation; petrochemicals, bottling, paper, and agricultural inputs manufacturing; and ICT tower infrastructure. The largest number of deals are made in financial services, manufacturing, agriculture, and energy.

Considering average deal sizes, it seems that DFIs are funneling most of their capital into large enterprises that provide the power, commodities, and connectivity required for any market economy to function (Figure 4). However, they are also driving a healthy number of deals in sectors dominated by smaller enterprises (indicated by small deal sizes). In the financial services sector, for example, DFIs are investing primarily in microfinance institutions (MFIs). This finding was also supported by interview evidence: while the internal structure of DFIs makes it easier for them to push larger investments, DFIs remain excited about smaller opportunities and pursue them where possible.

FIGURE 4: SECTOR DISTRIBUTION OF DIRECT DFI INVESTMENTS, JANUARY 2005-JULY 2015



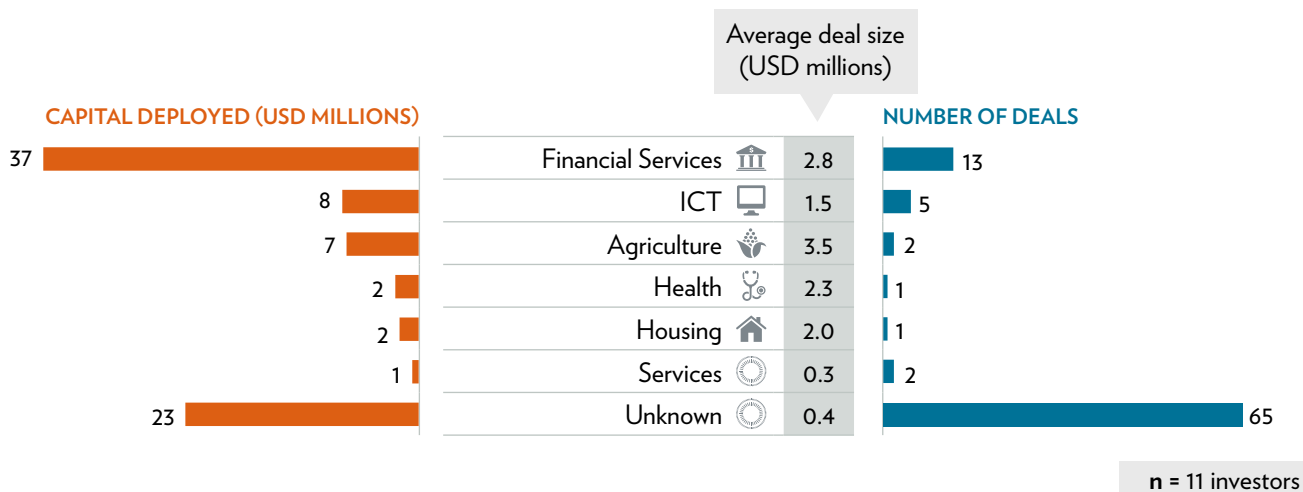
Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; DFI portfolio data

Non-DFI investments, in contrast, tend to be focused on financial services, ICT, and agriculture, with investments in these sectors accounting for USD 51 million or 65% of capital deployed (Figure 5). Microfinance appears frequently in financial services investments, making up approximately 50% of capital deployed in financial services, while investments in agriculture are focused on a combination of smallholder and commercial farming. Investments in ICT focus on technology as an enabler of other services—for example, tourism and mobile payment platforms—reflecting investor optimism as to the increasingly important role of technology in various aspects of Nigerian life.

Average deal sizes across sectors in the non-DFI space are, understandably, far smaller than for DFIs, which is consistent with the stated intent of many of these investors to target SMEs. The relatively small deal size in the ICT space is reflective of the many early-stage investment opportunities in this young sector. The research identified more seed- and venture-stage investments in ICT than in any other sector. Deal sizes in the agriculture sector vary widely between larger deals in agribusinesses (e.g., food processing firms) and smaller deals in smallholder farmer finance.

FIGURE 5: SECTOR DISTRIBUTION OF DIRECT NON-DFI INVESTMENTS, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; DFI portfolio data

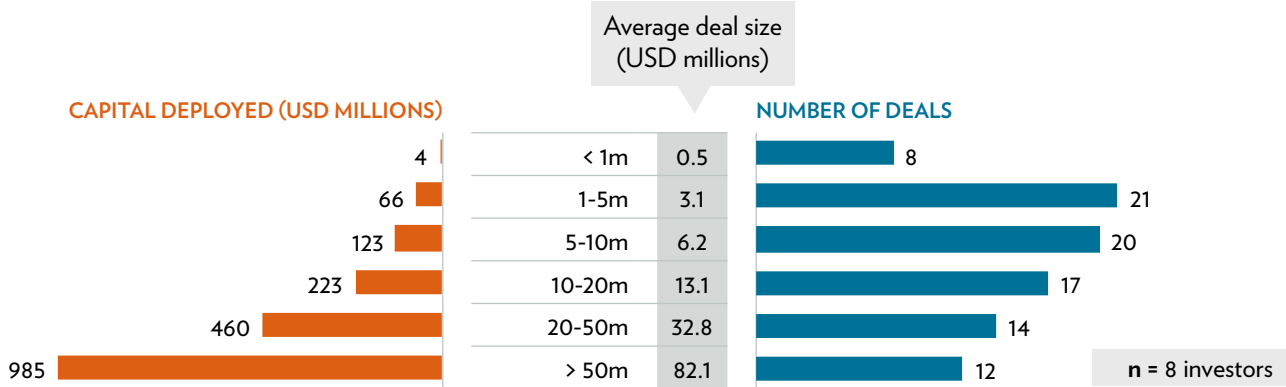
DEAL SIZE

DFIs overwhelmingly favor large deals, with deals over USD 50 million accounting for 60% of total capital deployed. Non-DFIs focus on smaller deals, with over half of all capital deployed and deals made in the USD 1-5 million range.

DFIs have deployed most of their capital through large deals that, as mentioned, focus on energy, manufacturing, and ICT. Deals of more than USD 50 million account over half of total capital deployed. Most deals are, however, considerably smaller—more than half the number of deals made are below USD 10 million (Figure 6). All DFIs engage in these smaller deals, though they take up a particularly large proportion of the portfolio of the Danish Investment Fund for Developing Countries (IFU)—only one of its identified deals was above USD 10 million.

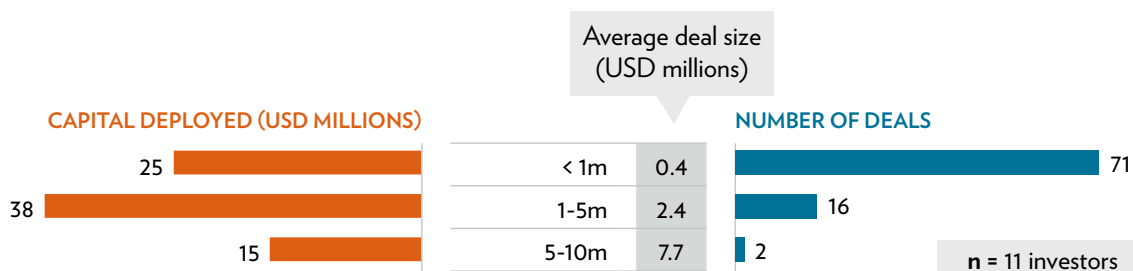
Non-DFI capital is concentrated in the USD 1-5 million range, which accounts for almost half of capital deployed (Figure 7). By far the majority of deals, however, are less than USD 1 million, though these are almost all made by a single investor. We found no impact investments above USD 10 million for non-DFI investors. This is partly due to internal fund manager policies prohibiting investments above a certain percentage of funds under management. For investments above those thresholds, investors reported seeking co-investors in the market to spread the risk.

FIGURE 6. DIRECT DFI INVESTMENTS BY DEAL SIZE, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.
 Source: Dalberg analysis; DFI portfolio data

FIGURE 7. DIRECT NON-DFI INVESTMENTS BY DEAL SIZE, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

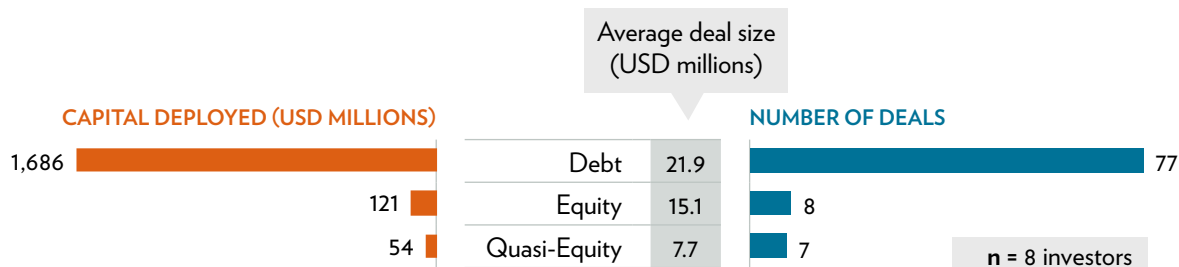
Source: Dalberg analysis; DFI portfolio data

INVESTMENT INSTRUMENTS USED

DFIs deploy almost all of their investments through debt, with large loans for energy and manufacturing projects making up a significant portion of this. Non-DFIs favor equity and quasi-equity, which reflects a hands-on approach to growing early- and growth-stage SMEs.

Nearly all DFI investments in Nigeria have been made through debt (Figure 8). The relatively small number of deals making use of either equity or quasi-equity likely reflects both the young and undeveloped private equity industry and the high burden of such investments on DFIs. Debt is less risky for DFIs investing public money, requires less active management, and provides a much clearer exit path.

FIGURE 8. DIRECT DFI INVESTMENTS BY INSTRUMENT, JANUARY 2005-JULY 2015

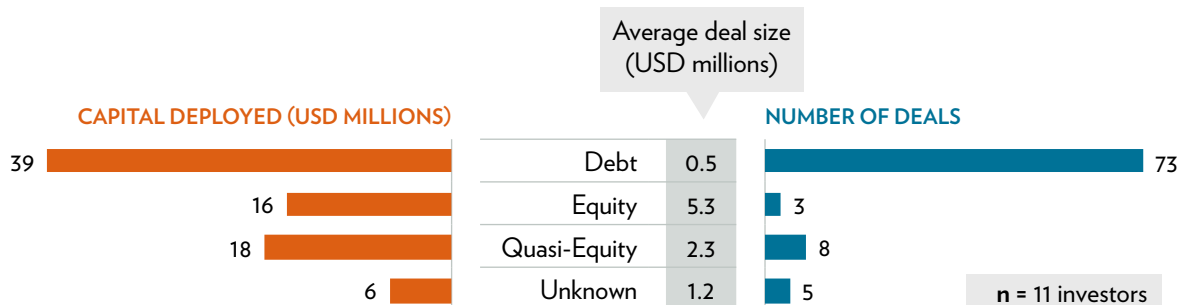


Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; DFI portfolio data

Non-DFIs, too, make significant use of debt, though interviewees expressed a strong preference for equity and quasi-equity instruments that allow investors to benefit from potential enterprise growth in return for absorbing risk (Figure 9). The prevalence of quasi-equity, in particular, is indicative of the high number of smaller early-, growth-, or venture-stage enterprises being funded by investors. Quasi-equity both guards against the risks associated with early-stage enterprises and allows investors to take advantage of rapid growth (debt can be converted into equity). The small share of debt instruments also reflects a focus on earlier-stage enterprises. More mature enterprises can more easily secure debt and, in Nigeria, prefer it to equity due to a fear of ‘losing control’ of their businesses (discussed in more detail below).

FIGURE 9. DIRECT NON-DFI INVESTMENTS BY INSTRUMENT, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; DFI portfolio data

Barriers and Opportunities

MAIN BARRIERS ENCOUNTERED TO DEPLOYING CAPITAL

As mentioned, the size of the non-DFI impact investing community in Nigeria is small relative to the size of its economy. Further, few impact investors—either DFI or non-DFI—are located within the country. Investors interviewed offered some interesting perspectives on why the industry may be struggling to gain traction. Major barriers include the following:

- **Lack of investable enterprises.** Building a pipeline of investment-ready enterprises is the most common concern for non-DFI investors, though DFIs noted this was not a major issue due to their steady supply of large projects in sectors such as energy, manufacturing, and ICT. It is difficult to identify enterprises with sufficiently robust business systems, financial accounts, and governance arrangements. Investors noted that, even where profitability and growth prospects appear strong, due diligence often uncovers large gaps in reporting and professional management that prevent deals from closing. For this reason, several investors offer technical assistance, either informally through hands-on guidance or formally through technical assistance funds.¹⁷
- **Enterprise reluctance to offer equity.** It is often difficult to convince enterprises to agree to equity investments. Target firms are rarely acquainted with venture capital (VC) / private equity (PE) investing and tend to view giving up equity as losing control of their businesses. Several investors noted that there is a need to deliver the message that “it is better to own 50% of something than 100% of nothing.”
- **Difficulty maintaining a local presence.** Due to the high costs of living and operating businesses in Nigeria, it is difficult for impact investors headquartered outside the country to maintain a local presence. This makes it challenging for investors to keep up to date with developments in sectors or regions of interest to them.
- **Difficulty finding exits.** Finding means of exiting investments is a major barrier to investment, as financial markets are shallow—for example, the value of stocks traded as a percentage of GDP is 1% in Nigeria compared to 28% in sub-Saharan Africa and 69% globally¹⁸—and few secondary markets exist for investors to recoup their investments. While we identified no exits among the impact investors interviewed, possibilities for exit currently seem to lie in owner or management buyouts. Over time, and as Nigeria’s financial markets develop, investors would like to see initial public offerings (IPOs) as a frequently used and viable means of exit.
- **Difficulty raising capital.** Fundraising was often highlighted as a significant challenge for fund managers. Interviewees placed particular emphasis on the

¹⁷ Technical assistance funds may either be disbursed directly to enterprises to engage in capacity building or to advisory firms that assist enterprises.

¹⁸ “World Development Indicators,” World Bank (2015). Available at <http://data.worldbank.org/data-catalog/world-development-indicators>.

difficulty of sourcing capital from domestic investors. This seems largely driven by general skepticism of impact investing and its aims. Several interviewees noted a strong reluctance on the part of domestic investors to be associated with the term “impact investment,” which in their view implied a drastic compromise on financial returns.

Part of this can be explained by the low awareness in the country of the true aims of impact investing. Many do not see the practice as significantly different from philanthropy. However, interviewees also raised legitimate concerns over the ability of impact investors to generate acceptable financial returns. The industry has yet to develop a track record of successful exits, they pointed out, and may be creating unrealistic expectations about how close to “market returns” impact investments can really get. While evidence of impressive returns may come as the industry develops, there is currently skepticism over whether this will happen—especially given the risky sectors (smallholder agriculture, for example) impact investors are involved in. This skepticism has led to the belief, among some actors, that the country is experiencing an “impact investing bubble.”

MAIN PERCEIVED OPPORTUNITIES FOR DEPLOYING CAPITAL

Despite the various challenges encountered by impact investors in Nigeria, there remains considerable excitement over the country’s investment prospects. While interviewees did mention ways in which the process of investing could be improved—for example, through greater coordination between impact investors—their overwhelming focus was on high-potential sectors (listed in no particular order):

- **Microfinance and other financial services.** Microfinance continues to be a focal point for impact investors with developed business models and knowledge of the industry. The low-income and rural populations continue to be underserved by existing financial institutions, leaving ample space both for the establishment of new microfinance entrants and the expansion of existing ones. There are also opportunities to further financial inclusion through expanding the services of commercial banks and other financial institutions to different market segments that do not currently have access.
- **Agriculture.** Agriculture, and agro-processing in particular, is widely viewed as a sector with high potential for social and financial return, due to its ability to drive job creation and increased food security, as well as its strong growth prospects. While the sector remains underdeveloped, with fragmented supply chains and limited support from commercial lenders, agricultural enterprises have the opportunity to benefit from high food prices, increased governmental support, and technical assistance from development agencies. Interviewees noted that, for investors willing to make the effort to understand agricultural value chains and the types of finance needed to strengthen them, agriculture offers exciting prospects.
- **FinTech (financial technology).** The success of the Lagos-based mobile money enterprise Paga has driven renewed confidence in the combination of technology and financial services—a trend buoyed by the Central Bank’s ambitious “cashless Nigeria” initiative, which aims to reduce the use of cash in the economy by

supporting alternative payment systems.¹⁹ Electronic payment platforms such as CashEnvoy, Quickteller, eTranzact, and ReadyCash are paving the way in providing individuals and businesses with innovative means of buying and selling both online and through mobile devices.²⁰

- **Infrastructure and energy.** Nigeria faces chronic infrastructure problems and energy shortages that, while presenting challenges to the country's development, provide a large opportunity for investment. The Government of Nigeria's recent efforts to privatize the electricity sector, which saw majority ownership of the state electricity company pass to private buyers in 2013, bode well for private investors interested in the space.²¹ With the aim of providing a demonstration effect to crowd in private investment, the Lagos State Electricity Board also partners with the UK Department for International Development to provide solar power for clinics and schools.²² For DFIs able to invest in large deals, investments such as those in power plants, roads, and ports represent a critical intervention to build and support the economy. For non-DFIs, smaller-scale energy solutions such as off-grid and renewable energy provide an intriguing opportunity.

Impact Measurement and Tracking

Metrics used to measure social and environmental impact vary for each DFI, making it difficult to compare data between actors. Reporting is, however, relatively consistent, as data are regularly published (usually annually) in publicly available reports by each DFI. The African Development Bank, for example, publishes an Annual Development Effectiveness Review that summarizes its performance over a number of impact indicators that, since the first Review in 2011, have remained consistent over time.²³

Measurement and reporting of social and environmental impact among non-DFI impact investors, however, is more ad hoc and inconsistent. A multitude of frameworks, mostly internally defined, are applied across different industries and firms—even by the same investor. There are two primary reasons for this. First, non-DFI investors tailor their reporting to the needs of their particular investors (DFIs, for example). Second, in terms of their own impact tracking, the enterprises non-DFI actors invest in often do not have the capacity to track and report on social metrics in addition to the financial metrics investors require. At the same time, non-DFI investors lack the capacity to conduct their own impact tracking across the large variety of sectors and enterprises in which they invest. As a compromise,

19 Central Bank of Nigeria Website: <http://www.cenbank.org/cashless/>.

20 Bertram, Niro. "FinTech: Here are Nigeria's top five financial technology startups," TechAfrica (2014). Available at: <http://techafri.ca/fintech-here-are-nigerias-top-5-financial-technology-startups/863/>.

21 Brock, Joe. "Nigeria hands state power assets to private buyers," Reuters (30/9/2013). Available at: <http://www.reuters.com/article/2013/09/30/nigeria-power-privatisation-idUSL6N0HQ2AF20130930>.

22 Lagos State Electricity Board Website: <http://www.lseb.gov.ng/content/news/governor-fashola-kicks%E2%80%93solar-power-projects-public-schools-phcs>

23 "Development Effectiveness Reviews," AfDB (2015). Available at: <http://www.afdb.org/en/topics-and-sectors/topics/quality-assurance-results/development-effectiveness-reviews>.

enterprises are often required only to report on a basic set of metrics defined through a collaborative process between enterprises and non-DFI investors. Those most commonly mentioned include number of jobs created, number of clients served, and client incomes.

In terms of broader approaches to impact tracking, some impact investors viewed measurement of social impact as duplicative for investments in social enterprises where impact is inherent to core business activities, such as they believe is the case with certain microfinance organizations. Many feel that, for those organizations that have explicit intent to create positive social/environmental impact, tracking can be limited to basic financial and operational indicators.

3. DEMAND FOR IMPACT INVESTING CAPITAL

Development Context

Nigeria is Africa's most populous nation, with a population of 174 million set to grow to 270 million by 2030 and 440 million by 2050.²⁴ These large numbers, coupled with a young population—the median age is 17.7 years—provide much potential for the country to harness its human capital for productive deployment.

Still, though classified as a lower-middle-income country, Nigeria ranks 157 out of 187 countries in the UNDP's Human Development Index (HDI) and is classified in the “low development” category.²⁵ Its score of 0.504, though better than the regional average of 0.446, is on par with the sub-Saharan African average of 0.502. Given its position as the largest economy in Africa, there is considerable room for improvement in this regard.

Types and Distribution of Demand Actors

We focus on two sets of actors in the demand landscape: social enterprises and commercial SMEs. Both are potential recipients of impact capital due to their role in creating employment and providing goods and services to underserved populations; however, they face significantly greater obstacles to accessing finance and driving growth than large enterprises. Their experiences, therefore, illustrate the main obstacles that stand in the way of channeling impact investment to where it is most needed.

24 “Generation 2030 / Africa,” UNICEF (2014). Available at http://www.unicef.org/publications/index_74751.html.

25 “National Human Development Report Nigeria,” UNDP (2014). Available at <http://hdr.undp.org/en/content/national-human-development-report-nigeria>.

Social enterprises²⁶ seem ideal targets for impact investment, as they, too, focus on both social and financial returns. The number of social enterprises in Nigeria, however, remains small. Indeed, our research identified just two organizations that self-identify as social enterprises: Paga and Andela. They are both focused in the technology space and are located in Lagos, the economic center of Nigeria.

With few social enterprises in the country, commercial SMEs are a large target of impact investment due to their important role in driving economic growth and job creation. With SMEs comprising 96% of all Nigerian businesses—and given Nigeria’s strong entrepreneurial culture²⁷—investors see SMEs as key drivers of economic growth and job creation. The section below, thus, largely refers to challenges faced by these SMEs. Microfinance institutions, many of which are SMEs and/or likely to qualify as ‘social enterprises,’ are worth highlighting, as they constitute a significant target for impact investment. There are 11 identified microfinance organizations in Nigeria that seek to serve the estimated 63.7% of the adult population—approximately 59.6 million—excluded from the formal banking sector.²⁸ These MFIs have a cumulative gross loan portfolio of USD 351 million spread across 1.2 million active customers, and account for 56% of all active customers and 23% of the total MFI gross loan portfolio in West Africa.²⁹

Challenges Faced by Demand Actors in Securing Investment

Due to the small number of social enterprises in Nigeria, incubators served as the primary source of information concerning enterprise challenges and needs for this report. Through their interactions with enterprises as well as investors, these actors were well positioned to offer an overview of common themes. Interviewees identified the following critical challenges holding back progress for small enterprises in Nigeria:

- **Difficulty securing financing.** Enterprises find it difficult to access financing from commercial lenders, who often have onerous collateral requirements that enterprises cannot meet. Where financing is available, it is often too expensive for enterprises to bear. As much of the demand for financing is for working capital, this significantly hampers enterprises’ abilities to conduct their day-to-day operations.
- **Lack of available financing options.** There are very few angel investors or venture capitalists in Nigeria. Further, as mentioned, the supply of impact investors is very small given the size of the economy. This translates into a dire lack of available

26 Defined as those that have articulated a core objective to generate a positive social or environmental impact and that seek to grow to financial viability and sustainability.

27 “GEM Nigeria - Supporting Africa’s Young Entrepreneurs,” Global Entrepreneurship Monitor (2015). Available at: <http://www.gemconsortium.org/country-profile/93>.

28 “Access to Financial Services in Nigeria 2014 Survey,” Enhancing Financial Innovation & Access (EFInA) (2014). Available at: <http://www.efina.org.ng/our-work/research/access-to-financial-services-in-nigeria-survey/efina-access-to-financial-services-in-nigeria-2014-survey>.

29 “Africa market profile,” MIX Market (2015). Available at: http://mixmarket.org/mfi/region/Africa?order=series_multimediam_3&sort=desc.

funding for small enterprise establishment and growth. Currently, business incubators (discussed in more detail below) are filling the gap, with one incubator regularly offering loans of USD 5,000 as part of its service offering.

- **Limited awareness of financing options other than commercial banks.** Interviewees indicated that when enterprises talk about access to finance, they almost exclusively refer to commercial lenders. Where alternative sources of financing such as foundations and other impact investors do exist, enterprises do not know who they are or how to go about sourcing capital from them. Part of the reason for this is that enterprises often lack the skills, networks, and time to actively seek connections with potential investors, limiting their exposure to new sources of financing.
- **Capacity gaps.** Enterprises lack robust systems to ensure accurate financial record keeping, professional management, effective governance, and product development. This makes it difficult for them to meet investor requirements—which adds to their difficulties securing financing—and to grow their businesses effectively.
- **Stigma related to social impact mission (social enterprises only).** For the few social enterprises that are attempting to establish themselves, it appears that their status as “social enterprises” makes it difficult to convince investors of their viability as investment prospects. As previously mentioned, local investors tend to view impact investing as a type of philanthropy, and assume that enterprises that seek social and environmental impact are not actively seeking financial return.

4. ECOSYSTEM FOR IMPACT INVESTING

Regulatory Environment

Interviewees highlighted two key policy-related barriers:

- **Political intervention.** In certain sectors, state incentives and policies make it difficult for private investors to operate. In agriculture, for example, interviewees pointed out that subsidies and cheap single-digit loans³⁰—such as those offered by the Commercial Agriculture Credit Scheme (CACS)—were crowding out private investors. While interviewees maintained that there remains significant potential in agriculture, state intervention makes it more difficult to realize.
- **Policy uncertainty.** Interviewees expressed concern that it was often difficult to know when existing policies or incentive structures would change, given shifting political priorities and unpredictable implementation schedules. The International Energy Agency (IEA), for example, has warned that policy uncertainty is a threat

³⁰ Those below 10% annual interest.

to the development of Nigeria's renewable energy sector.³¹ Interviewees noted that infrastructure and agriculture were also significantly affected. However, some believe that with upcoming political appointments at the federal level and city levels, policy uncertainty will decrease going forward.

Efforts to Support Development of the Impact Investment Market

TYPES OF ACTORS

The investment and enterprise ecosystem in Nigeria remains very small relative to the size of the overall economy. There have, however, been some encouraging efforts over the past few years to build the sector—particularly in terms of business incubation (Figure 10).

There are six predominantly tech-focused incubators operating in Lagos; these receive a combination of private and public funding. For example, Co-creation Hub is a privately funded non-profit that explicitly focuses on incubating social enterprises, while iDEA is fully funded by the Nigerian government and offers a two-year incubation program to develop enterprises from concept stage to market entry. Both were formed in 2013 and reflect the youth of the incubator landscape.

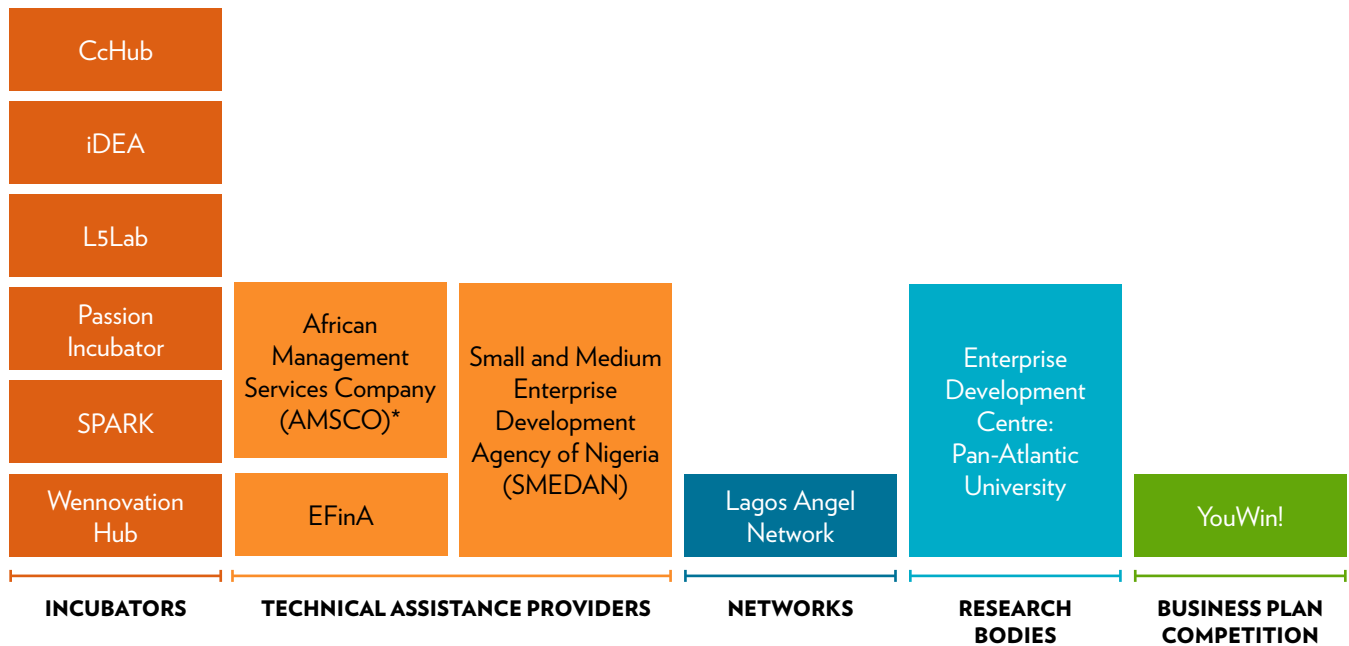
As there is little in the way of a venture capital or angel investor industry in Nigeria, incubators have largely taken up their role—i.e., providing a combination of seed-stage capital and enterprise guidance to help businesses grow. One incubator, for example, provides up to USD 5,000 to its incubatees in exchange for a 7% equity stake, with a view to providing an additional USD 25,000 for a further 7% equity stake if the business is growing quickly. While it is too early to gauge whether incubation is proving successful in Nigeria, several interviewees, including investors, noted the importance of business incubation and expressed optimism regarding its effect on business growth.

As with other countries in the region, Nigeria has attempted to provide direct support to SMEs. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) offers training and indirect funding through financial institutions to provide loans at less than 10% annual interest. In addition, the government-sponsored YouWin! business plan competition has provided 3,900 SMEs with N 1 million-N 10 million (~USD 6,000-60,000 based on average exchange rate) grants over the past three years.

To tackle the aforementioned lack of angel investors in the country, the Lagos Angel Network (LAN) was formed in 2012 to connect investors and entrepreneurs and is actively involved with a number of incubators and accelerators. The LAN has 15 members that together have deployed approximately USD 100,000 over four deals in the country, all of which focus on early-stage technology-focused enterprises.

31 "Policy uncertainty threatens renewable energy development, International Center for Energy," Obasi, S. (2015). Available at: <http://www.vanguardngr.com/2014/09/policy-uncertainty-threatens-renewable-energy-development/>.

FIGURE 10. NIGERIAN ECOSYSTEM ACTORS, JULY 2015



*Also present in other West African countries
 Source: Desk research; interviews

Main Opportunities and Constraints

Interviewees identified the following constraints holding back progress in the impact investing ecosystem in Nigeria:

- **Sourcing entrepreneurs.** For incubators, sourcing promising, dedicated entrepreneurs has been difficult. Particularly in the technology space, many entrepreneurs with promising ideas are very young—often fresh out of university—and expect quicker success than incubators can credibly give them.
- **Lack of awareness of support programs.** While there have been concerted efforts by government to build the SME space, there remains a lack of awareness of such assistance. A recent survey found that 82% of young potential Nigerian entrepreneurs were unaware of any government-sponsored SME programs.³² Interviewees noted that enterprises also lack awareness of the existence of business incubation services, whether publicly or privately funded.
- **Concentration of ecosystem.** Ecosystem actors tend to be located in Lagos and concentrated in the ICT and financial services sectors. Specifically, most incubators and accelerators are located in the suburb of Yaba on mainland

32 “GEM Nigeria - Supporting Africa’s Young Entrepreneurs,” Global Entrepreneurship Monitor (2015). Available at: <http://www.gemconsortium.org/country-profile/93>.

Lagos, and target tech start-ups. A broadening of support to other sectors and geographies will be key in the short to medium term.

In addition to high-potential sectors such as agriculture and technology, the main opportunity identified by ecosystem actors involved creating greater linkages between themselves and investors. In particular, incubators stressed the match between their mandates to build more robust enterprises and investor complaints regarding the lack of investment-ready firms. A forum for investors to coordinate with a broader range of ecosystem actors would do much to identify areas of mutual interest and potential collaboration.

GHANA



1. COUNTRY OVERVIEW

Brief Historical and Political Context

In 1957, Ghana became the first colonized country in Africa to gain its independence. After a series of coups, a new constitution restoring multiparty politics was approved in 1992. Since then, Ghana has proved itself a solid investment destination, with political stability and economic growth among the most impressive in the region.

While Ghana has attracted foreign investment and sustained high levels of economic growth over the last 10 years, the country is currently facing significant economic volatility and instability. Real gross domestic product (GDP) growth has been in steady decline since 2012, dropping from a peak of 14% in 2011 to 4% in 2014,¹ largely owing to sharp currency depreciation, rising inflation, high levels of government debt, and slowing growth in key sectors (explained in more detail below). As a result, its position as one of the leading African investment destinations is under threat.

To address the country's issues, the Ghanaian state is taking a more proactive stance to restore investor confidence in the country. In 2013, for example, it established the Ghana Investment Promotion Center (GIPC), which is tasked with promoting foreign investment through a range of functions that include investment advisory and the recommendation of investment-friendly policies and incentives. These efforts, coupled with a long history of political stability and economic openness, position Ghana well for recovery.

Economic Performance and Structure

GDP INDICATORS

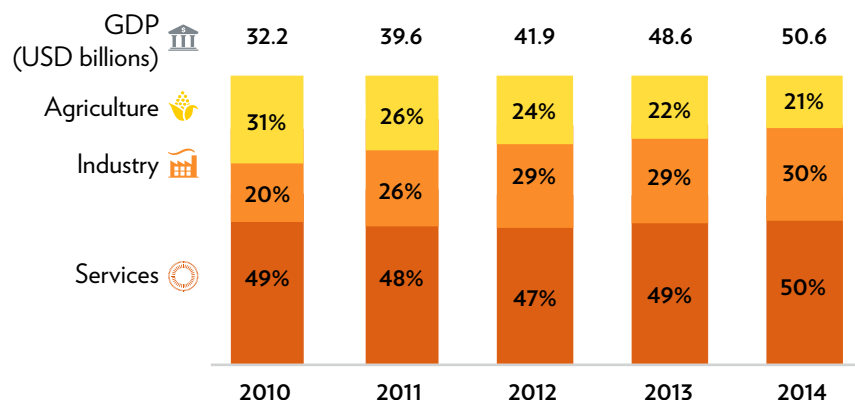
Ghana's largest sector is services—in particular transport, public administration, defense, and financial services—which accounts for 50% of GDP.² Employment, meanwhile, is driven by agriculture. While it accounts for only 21% of GDP and has been steadily shrinking as a proportion of GDP since 2010, the agriculture sector employs more than 50% of the workforce, mainly through smallholder farming (Figure 1).³

1 "African Economic Outlook: Ghana Report," African Development Bank (AfDB) (2015). Available at: http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/CN_data/CN_Long_EN/Ghana_GB_2015.pdf.

2 *Ibid.*

3 "GDP statistics," Ghana Statistical Service (2015). Available at: <http://www.statsghana.gov.gh/gdp.html>; "World Development Indicators," World Bank (2015) Available at: <http://data.worldbank.org/data-catalog/world-development-indicators>.

FIGURE 1. GHANA'S GDP CONTRIBUTION BY SECTOR, 2010-2014



Source: World Development Indicators, World Bank (2015)

In general, economic growth has been impressive over the past ten years, with annual GDP growth averaging 7.4% between 2006 and 2013.⁴ In 2014, however, growth dropped to 4.2%—down from 7.3% in 2013 and a ten-year peak of 14% in 2011.⁵ Contributing factors include sharp currency depreciation, rising inflation, high levels of government debt, slow agricultural growth, and gas supply volatility in Nigeria (which led to electricity shortages in Ghana). As a result, the national government signed a USD 920 million extended credit facility with the International Monetary Fund (IMF) in April 2015 to aid in driving recovery.⁶

Despite these setbacks, Ghana's growth prospects appear positive over the next several years. GDP growth is expected to recover to 6% in 2016⁷ and 7.8% in 2017⁸ due to a combination of IMF reforms and improvements in oil and gas production, private sector investment, and public infrastructure.⁹ Achieving this promise growth will, however, depend on adherence to the IMF reforms and stable commodity prices.

4 "Statistics," African Economic Outlook (2015). Available at: <http://www.africaneconomicoutlook.org/en/statistics>.

5 "African Economic Outlook: Ghana Report," AfDB (2015). Available at: http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/CN_data/CN_Long_EN/Ghana_GB_2015.pdf.

6 "Request for a Three-Year Arrangement under the Extended Credit Facility." International Monetary Fund (2015). Available at: <https://www.imf.org/external/pubs/ft/scr/2015/cr15103.pdf>.

7 *Ibid.*

8 "Ghana Country Profile," World Bank (2015). Available at: <http://www.worldbank.org/en/country/ghana/overview>.

9 "African Economic Outlook: Ghana Report," AfDB (2015). Available at: http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/CN_data/CN_Long_EN/Ghana_GB_2015.pdf.

Investment Climate and Drivers of Foreign Direct Investment

TRENDS IN FOREIGN DIRECT INVESTMENT (FDI)

Ghana accounts for around 20% of total foreign direct investment (FDI) inflows to the Economic Community of West African States (ECOWAS),¹⁰ and has maintained its position as a strong attractor of foreign investment during a time when regional FDI performance has suffered. While regional FDI inflows declined by 9% from USD 14 billion in 2007 to USD 12.8 billion in 2015, Ghana's increased from USD 855 million to USD 3.2 billion over the same period. In 2014, 310 of the 417 registered investments with foreign participation were wholly foreign-owned, with the other 107 being joint ventures with Ghanaian partners.¹¹

INFLATION AND EXCHANGE RATES

Ghana is currently experiencing a period of exceptionally high inflation—13.5% and 17% in 2013 and 2014, respectively—in part due to price adjustments in petroleum and utilities following government removal of subsidies. As a result, the Ghanaian cedi has depreciated sharply over the past several years—between 2013 and 2015, it suffered a cumulative depreciation of 45.7% against the US dollar.¹²

As a response to the increasing inflation, interest rates in Ghana have spiked significantly. The Central Bank's benchmark interest rate in Ghana was 22% as of July 2015, compared to 16% in 2013. This has led to a significant increase in the costs of lending, with annual rates of 30 – 50% not uncommon for individual and enterprise borrowers. While high interest rates may, in time, encourage appreciation of the cedi through enhanced foreign investment—Ghana treasury bills were yielding an average return of close to 27% as of July 2015, for example—the interim costs are high for those in need of capital.¹³

In response to Ghana's economic instability, a three-year aid program with the IMF, begun in April 2015, is aiming to restore economic stability through tightened fiscal discipline, increased tax collection, and fiscal consolidation. While it is too early to gauge the effects, the program does have the potential to set Ghana on a much-needed path to recovery.

10 "African Economic Outlook: Ghana Report," AfDB (2014). Available at: http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Ghana_ENG.pdf.

11 "Ghana targets 20% FDI Increase in 2014," Oxford Business Group (2014). Available at: <http://www.oxfordbusinessgroup.com/news/ghana-targets-20-fdi-increase-2014>.

12 Laary, Dasmani. "Ghana Inflation at four year high," The Africa Report (2014). Available at: <http://www.theafricareport.com/West-Africa/ghana-inflation-rate-at-a-four-year-high.html>.

13 Central Bank of Ghana website. Available at: <http://www.bog.gov.gh>.

EASE OF DOING BUSINESS

Relative to the rest of the region, Ghana is an exceptionally easy place to do business. It scored an impressive ranking of 70 in the 2014 World Bank's *Doing Business* index—by far the best score in West Africa, and considerably above the regional average of 152.¹⁴ On the more comprehensive Global Competitiveness Index, Ghana ranks lower at 111 of 144 countries, though it is still higher than the other countries in West Africa.¹⁵

A lack of consistent electricity supply is, however, a major issue currently affecting the business climate, and is significantly hampering the ability of Ghana's core sectors to operate efficiently and effectively.¹⁶ In early 2015, Ghana was generating less than half of its installed capacity—1,200 megawatts out of a potential 2,800.¹⁷ Though the state is making an active effort to encourage alternative sources of electricity generation, these efforts will likely take some time to bear fruit.¹⁸

2. SUPPLY OF IMPACT INVESTING CAPITAL

Estimate of Impact Capital Deployed

Just as Ghana is the second largest economy in the region after Nigeria, it also enjoys the second largest share of impact investments. All in all, 32 impact investors are active in Ghana, including 8 DFI and 24 non-DFI investors. Data presented in this chapter includes investments made by all 8 DFIs and 20 of the 24 non-DFIs for which the research team could obtain transaction-level data. This amounts to approximately USD 1.7 billion in direct investments into enterprises and projects across 142 deals since 2005 (Figure 2).

Impact investors in Ghana have deployed approximately USD 430 million in indirect investments through funds and intermediaries. To avoid double counting—an unknown proportion of indirect investment acts as a source of direct investment—and due to severe data limitations on the nature of indirect investments, we focus here on direct investments. Indirect investments are, however, discussed in more detail in the regional chapter of this report. In sum, they are driven almost exclusively by

14 “Doing Business: Measuring Business Regulations,” World Bank (2015). Available at: <http://www.doingbusiness.org/rankings>.

15 Schwab, Klaus. “The Global Competitiveness Report 2014-2015.” World Economic Forum (2014).

16 “CIA World Fact Book, Ghana Report,” CIA (2015). Available at: https://www.cia.gov/library/PUBLICATIONS/the-world-factbook/geos/print_gh.html.

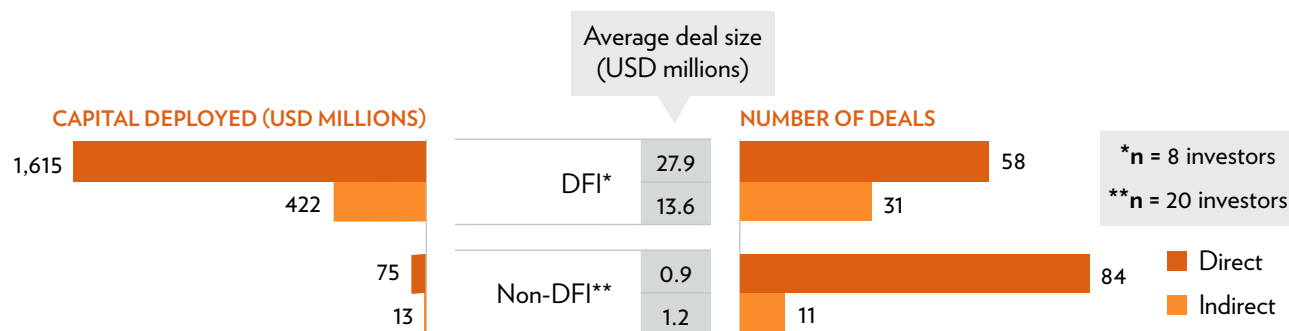
17 Laary, Dasmani. “Electricity: Ghana's power crisis deepens,” The Africa Report (2015). Available at: <http://www.theafricareport.com/West-Africa/electricity-ghanas-power-crisis-deepens.html>.

18 “Ghana receives resounding endorsement of investment plan to transform its renewable energy sector,” AfDB (2015). Available at: <http://www.afdb.org/en/news-and-events/article/ghana-receives-resounding-endorsement-of-investment-plan-to-transform-its-renewable-energy-sector-14234/>.

DFIs and focus on commercial banks, impact fund managers, and private equity funds, reflecting DFI attempts to both support impact investing and build shallow commercial banking and private equity markets.

As in the rest of the region, DFIs make up an overwhelming majority of direct impact investment in Ghana, accounting for USD 1.6 billion or 96% of total capital deployed across 58 deals. Non-DFIs, meanwhile, account for USD 75 million across 84 deals.

FIGURE 2. TOTAL IDENTIFIED IMPACT INVESTMENTS IN GHANA, JANUARY 2005–JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Includes three non-DFI deals of unknown size.

Source: Dalberg analysis; DFI and non-DFI portfolio data

The 24 non-DFI investors include 21 fund managers and three foundations (Figure 3). Of the identified impact investors in Ghana, eight have a local presence—four DFIs and four non-DFIs—one of which (JCS Investments) was founded in the country. While DFIs target a range of large enterprises and projects, mainly using debt, non-DFI impact investors focus on equity investments in SMEs in the startup and growth stages and invest for approximately five to seven years in each deal before exiting. Both DFIs and non-DFIs expect returns of around 18-25% (Internal Rate of Return, IRR) for their equity investments, which is high compared to the 13-17% expected in Nigeria. This can be attributed to the high interest rates currently prevailing in Ghana; with low risk investments such as treasury bills bringing in returns in the mid-20s, investors require additional incentives to bear the risks associated with enterprise investment. In terms of investor type, as in the rest of the region, fund managers dominate the non-DFI impact investment space, accounting for almost all non-DFI investors. Foundations also feature (Figure 3).

FIGURE 3. IMPACT INVESTOR TYPES AND LOCAL PRESENCE IN GHANA, JULY 2015

Impact Investor Locations

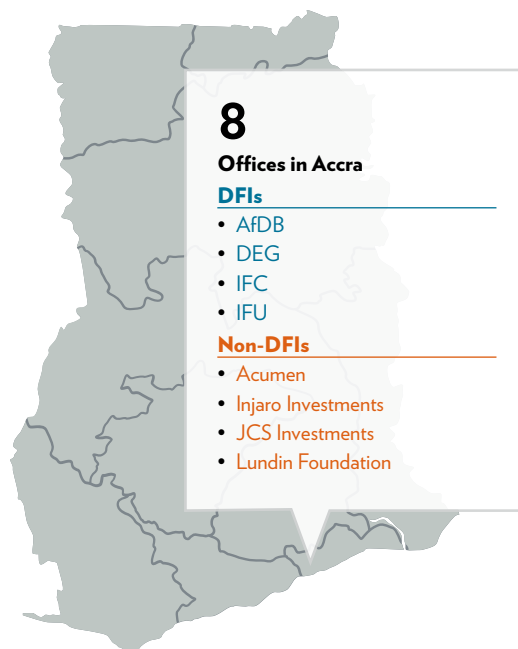
32
Impact Investors

8
with local presence

24
with no local presence

Impact Investor Types

| | With local presence | With no local presence | Total |
|-----------------|---------------------|------------------------|-------|
| DFIs | 4 | 4 | 8 |
| Non-DFIs | 4 | 20 | 24 |
| • Fund Managers | | | 21 |
| • Foundations | | | 3 |



Source: Dalberg analysis

In Ghana, as in Nigeria, impact investors rely almost exclusively on foreign sources of capital to fund their activities. Most DFIs originate in Europe, while impact fund managers rely on a combination of these DFIs, family foundations, and high-net-worth individuals (HNWIs) from outside the country. The difficulty impact investors have in sourcing capital from local investors is discussed in more detail below.

SECTOR

DFIs invest most heavily in energy, manufacturing, and information and communication technology (ICT) through large deals of approximately USD 50-60 million, while non-DFIs favor financial services, housing, and agriculture through much smaller deals of USD 1-2 million.

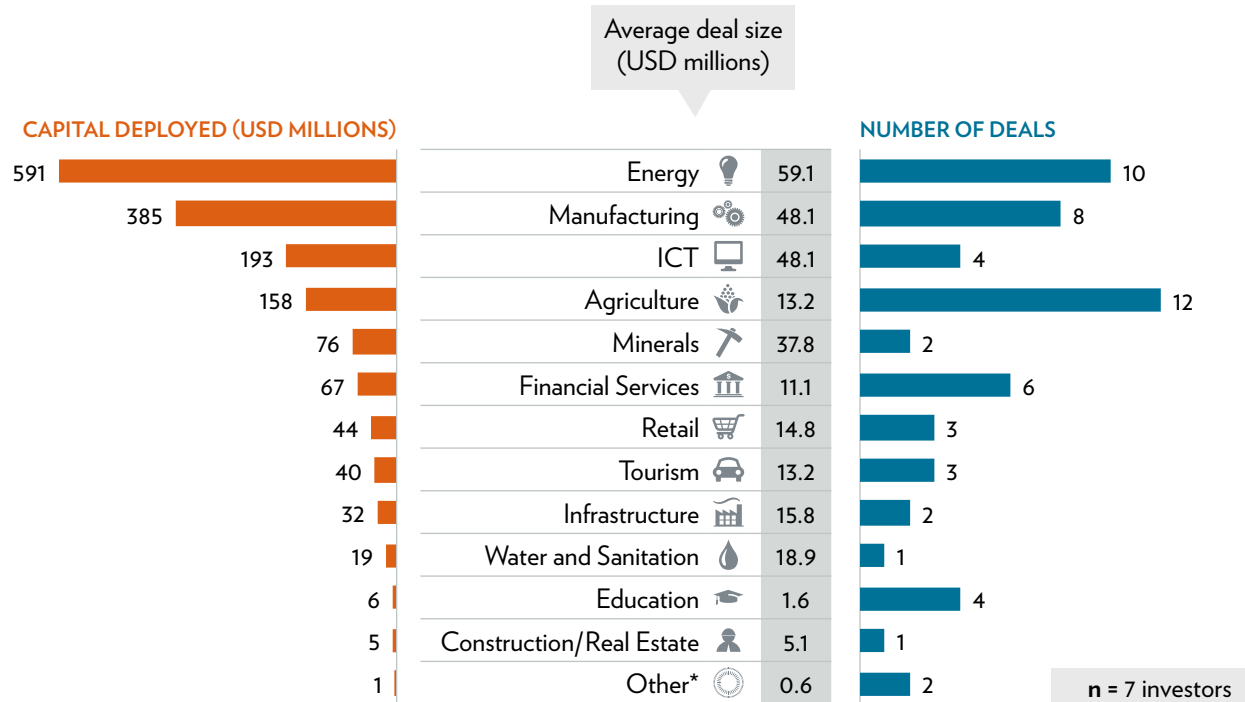
DFIs invest the largest proportion of their capital in energy,¹⁹ with large deals in this sector representing approximately USD 600 million or almost 40% of total DFI capital deployed (Figure 4). As one interviewee noted—just after a power outage interrupted her comments—such energy investments are sorely needed in Ghana, and DFIs have a strong focus on solving the country’s energy challenges. Interestingly, infrastructure represents a fairly small proportion of DFI portfolios in Ghana. This

19 Includes projects involving the construction and expansion of power plants, which some analysts may consider infrastructure spending.

reflects the fact that Ghana has made substantial leaps forward in infrastructural development over the past several decades and, over the last ten years,²⁰ has had fewer infrastructural needs than in other countries in the region. Manufacturing is the second largest sector by share of capital deployed, followed by ICT, where investments focus on strengthening mobile telephony infrastructure to accommodate Ghana’s rapidly growing pool of mobile phone users.

Agriculture and energy lead the way in terms of number of deals, representing 21% (12 deals) and 17% (10 deals) of those concluded, respectively. The focus on agriculture, which also accounts for the fourth largest share of capital deployed, reflects DFIs’ recognition of the sector as an important driver of economic growth and job creation. Manufacturing and financial services also receive a significant proportion of deals, with the large deal size in manufacturing driven by three sizable guarantees provided by the International Finance Corporation (IFC). The other manufacturing deals—made by the Danish Investment Fund for Developing Countries (IFU),²¹ the Netherlands Development Finance Company (FMO),²² and the Overseas Private Investment Corporation (OPIC)—are all below USD 10 million.

FIGURE 4. SECTOR DISTRIBUTION OF DIRECT DFI INVESTMENTS, JANUARY 2005-JULY 2015



*Other includes one deal in recycling (USD 0.84 million) and one in health (USD 0.27 million).

Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; DFI portfolio data

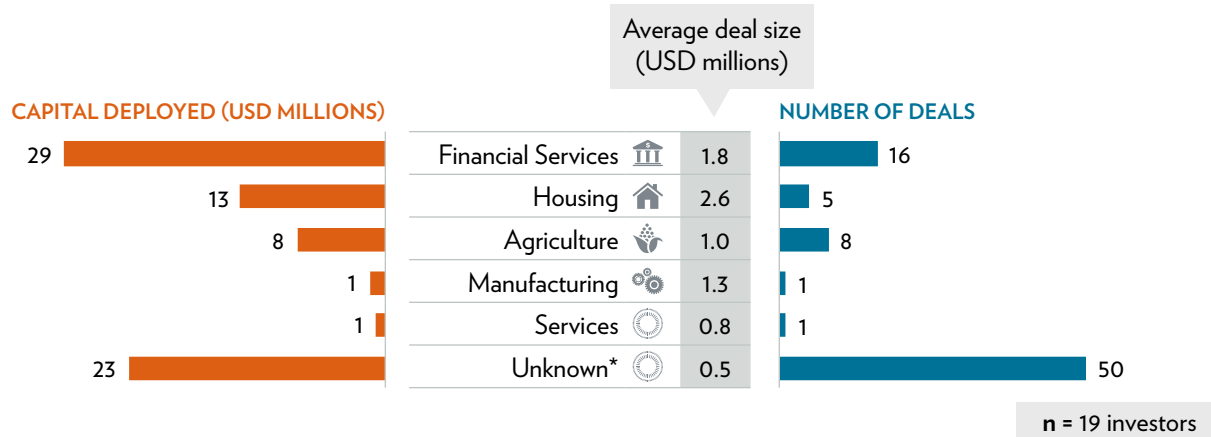
20 Our data include investments from 2005.

21 Acronym refers to the Danish name Investeringssonden For Udviklingslande.

22 Acronym refers to the Dutch name Financierings-Maatschappij voor Ontwikkelingslanden.

Non-DFI investments, in contrast, focus on a very narrow range of sectors (Figure 5). Financial services makes up the bulk of investment, with USD 29 million deployed to date in the sector, representing approximately 40% of total capital deployed. These investments tend to focus on microfinance institutions (MFIs) and, to a lesser extent, rural banks serving individuals and SMEs, reflecting investors’ recognition of the large financing gap for both individuals and enterprises in Ghana, as well as the strong “culture of accountability” underpinning low default rates, even among low-income populations. Housing²³ and agriculture also represent significant sectors of interest, with many investors viewing agro-processing—for example, in the shea butter industry—as a particularly promising investment opportunity.

FIGURE 5. SECTOR DISTRIBUTION OF DIRECT NON-DFI INVESTMENTS, JANUARY 2005-JULY 2015



*These investments are in SMEs in the following sectors: education, manufacturing, healthcare, business services, transport, wholesale and retail, and agro-processing. However, disaggregating by sector has not been possible. Excludes three energy deals of unknown amount.

Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; non-DFI portfolio data

DEAL SIZE

DFIs favor large deals of above USD 20 million, while non-DFIs focus on much smaller deals below USD 5 million. This reflects both DFIs’ considerably larger resource pools and their mandate to address critical challenges to national development—for example, by investing in large energy projects.

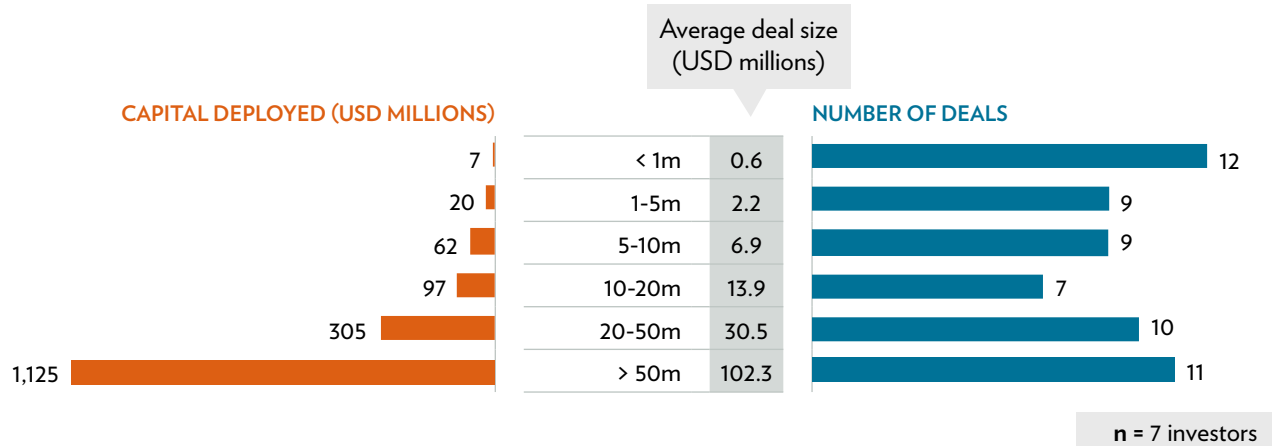
DFIs in Ghana are channeling most of their capital through large deals—deals of more than USD 20 million account for almost 90% of total capital deployed

23 Information on individual housing deals is limited, though both the provision of home loan services and legal services for land rights are features of them.

(Figure 6). These reflect DFI investments into large enterprises in energy, manufacturing, ICT, and, to a lesser extent, agriculture—mainly on the part of the IFC, the African Development Bank (AfDB), and IFU. Most capital is concentrated in deals over USD 50 million, which account for 70% of DFI capital deployed.

Smaller deal sizes do, however, account for a significant number of deals—21 DFI deals (36%) are less than USD 5 million. These are primarily directed at SMEs in agriculture, manufacturing, and education, and driven by AfDB, IFU, and IFC.

FIGURE 6. DIRECT DFI INVESTMENTS BY DEAL SIZE, JANUARY 2005-JULY 2015

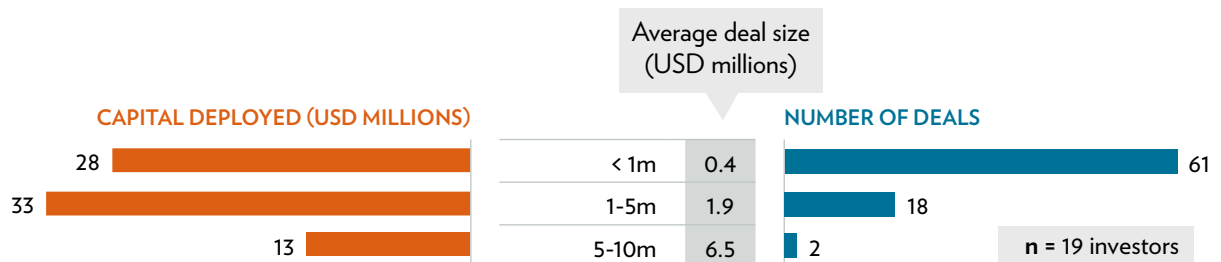


Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; DFI portfolio data

Non-DFI deals, on the other hand, are considerably smaller, with the majority of capital deployed in the USD 1–5m range (Figure 7) through investments in MFIs, rural banks, and agro-processing firms. By far the greatest number of deals, however, are below USD 1 million (64 deals or 76% of all those made), though the sector breakdown of these particular deals is unknown.

FIGURE 7. DIRECT NON-DFI INVESTMENTS BY DEAL SIZE, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Excludes three deals of unknown size.

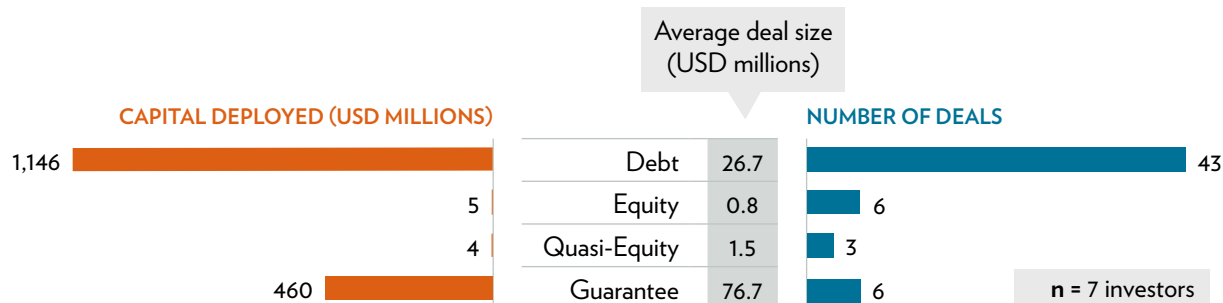
Source: Dalberg analysis; non-DFI portfolio data

INVESTMENT INSTRUMENTS USED

DFIs focus almost exclusively on debt and debt guarantees, while non-DFI investors balance their portfolios more evenly between debt and equity. The high use of debt by Ghanaian non-DFIs, relative to similar investors in the region, is likely owing to a strong perception among enterprises that equity deals imply a loss of business control.

DFIs channel nearly all of their direct investments through debt, which accounts for approximately 70% of capital deployed and 75% of deals made (Figure 8), and which flows largely into sizable loans in the energy, ICT, and infrastructure sector. This reflects DFIs' preference for debt as a lower-risk, easier-to-manage instrument with greater prospects for exit than either equity or quasi-equity. While information on loan tenures is limited, the size and nature of many DFI projects—including the construction of power plants and expansion of mobile telephony infrastructure—suggests that they are in the region of 10–15 years.²⁴ The six debt guarantees are all provided by IFC; they focus primarily on deals between USD 40 and 150 million in agriculture and manufacturing. The considerably smaller equity and quasi-equity deals are being driven primarily by IFC and IFU, with the majority in agriculture, manufacturing, and financial services.

FIGURE 8. DIRECT DFI INVESTMENTS BY INSTRUMENT, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

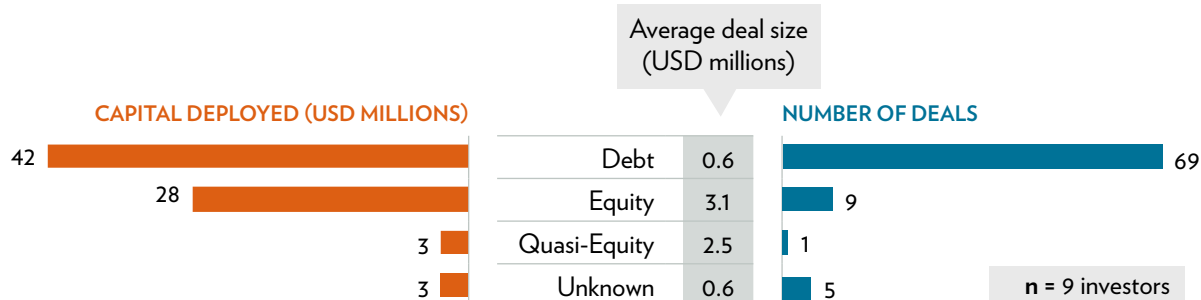
Source: Dalberg analysis; DFI portfolio data

Non-DFI investors are considerably more balanced in the instruments they use to make direct investments. Debt remains dominant—56% of total capital deployed and 82% of deals made—but equity represents a significant share of capital deployed (37%). Quasi-equity only represents a single deal of USD 3 million (Figure 9).

24 “Project focus: Takoradi, Ghana,” PIDG (2015). Available at: <http://www.pidg.org/news/project-focus-takoradi-ghana>; “Africa’s ICT Infrastructure: Building on the mobile revolution,” World Bank (2009). Available at: http://siteresources.worldbank.org/INFORMATIONANDCOMMUNICATIONANDTECHNOLOGIES/Resources/AfricasICTInfrastructure_Building_on_MobileRevolution_2011.pdf.

The share of debt in Ghanaian non-DFI portfolios is similar to that in the rest of the region (regional averages are 60% of capital deployed and 83% of deals made). This is a surprising finding given the high rates of interest currently prevailing in the Ghanaian economy. Interviews indicate two possible reasons for this. First, several non-DFI impact investors are offering loans at rates below those prevailing in the commercial market—though precise information on these rates is limited. Second, there is strong enterprise resistance to accepting equity investment due to business owners’ fears that they will “lose control” of their businesses. This is discussed in more detail below.

FIGURE 9. DIRECT NON-DFI INVESTMENTS BY INSTRUMENT, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; non-DFI portfolio data

Barriers and Opportunities

MAIN BARRIERS ENCOUNTERED TO DEPLOYING CAPITAL

Given current economic volatility, impact investors involved in Ghana are facing challenges related to both the sourcing and deployment of their capital as well as to the enabling environment in which they operate. Common challenges identified by interviewees include the following:

- **Lack of investable enterprises.** Investors in Ghana struggle to find enterprises that fit their financial and impact criteria and that are also robust enough to support investment. Critical gaps in human capital and business support lead to a lack of business systems, governance, and professional management on the part of enterprises. Because of this, many investors offer enterprise support in addition to financial investment: DFIs often provide technical assistance in the form of formal grants, while non-DFI investors support enterprises mainly through in-kind assistance and mentorship. Investors seem happy to take this hands-on approach and see it as a necessary part of the investing ecosystem in Ghana. While such an approach does raise the costs of investing directly, it is not clear whether this disadvantages impact investors, as commercial investors likely face the same problems and may offer similar forms of enterprise support.
- **Enterprise reluctance to offer equity.** There is a strong aversion to equity investment among enterprises in Ghana, even given high interest rates. As mentioned, this may

explain the greater share of debt in Ghanaian non-DFI portfolios relative to their Nigerian counterparts, though DFI preference for debt, as mentioned above, is likely driven by its fit with DFI risk profiles and capacities.

To many enterprises, giving up equity means giving up ownership of their businesses to investors they perceive as potentially untrustworthy, rather than engaging in a productive partnership. A strong culture of trading as the main form of enterprise in Ghana also contributes to this mindset—as debt is well-suited to the buying and reselling of goods, it has become the default means of enterprise finance.

- **Exits.** Investors highlight a lack of exit options for equity investments as among the most challenging aspects of impact investing in Ghana, given the shallow financial markets and lack of secondary buyers.²⁵ Still, it is worth noting that impact investors in Ghana did not emphasize this challenge as much as their counterparts in Nigeria did. While finding exits remains difficult in Ghana, several impact investors have managed to do so through owner or board buyouts.
- **Due diligence.** Though not a major concern for DFIs, given their large capacity relative to non-DFIs, the small size of many non-DFI investment portfolios in Ghana (average capital deployed by actor is less than USD 5 million) makes it difficult for them to commit substantial resources to due diligence. This limits their ability to properly consider deal pipelines, even where deals exist, and through this generate a steady supply of investable opportunities.
- **Difficulty raising capital from local sources.** Though it is not a major concern for DFI actors, non-DFI impact investors highlighted fundraising from local investors as a major challenge in Ghana—more so than in Nigeria. As in Nigeria, there is general mistrust of the ability of impact investors to generate significant financial return in the Ghanaian market. Considering the current economic volatility, this makes local investors very wary of impact investing as a viable investment strategy, and may limit growth prospects in the short to medium term.

Main Perceived Opportunities

Perhaps owing to the small number of impact investors focusing on Ghana, opportunities highlighted by interviewees centered both on ways to expand the impact investing community as well as on particular sectors of interest. Key opportunities highlighted by interviewees include the following:

- **Engaging African high-net-worth individuals (HNWIs).** There are several African HNWIs either currently or potentially interested in more responsible and impactful investing in West Africa, but they are not yet familiar with impact investing. Interviewees noted that, with sufficiently targeted outreach and coordination efforts, such HNWIs could create a large source of additional funding for impact investment.²⁶

25 Secondary markets involve the trading of existing investments into a given enterprise.

26 The Ghana Venture Capital Trust has established the Ghana Angel Investor Network (GAIN) to serve angel investors (but is not limited to those with impact intent).

- **Enterprise capacity and awareness building.** The lack of management skills, previously noted as a barrier, also represents an opportunity for investors to add value in the form of guidance and training for new and growing ventures. Through enhanced engagement between enterprises and investors, such activities could also build trust in and awareness of the role of equity investments as productive, rather than exploitative, partnerships.

Encouragingly, efforts in this regard appear to already be underway—as mentioned, most investors provide substantial guidance and support to their investees, while a recent business roundtable in Ghana’s Northern Region involved a discussion of the benefits of equity for SMEs.²⁷

- **Microfinance.** Despite the high interest rates, repayment rates for microfinance loans in Ghana appear to be generally very high—as high as 98%, according to one interviewee. Some interviewees ascribed this to a so-called “culture of accountability” in Ghana, while others noted that microfinance is often used as working capital for microenterprises (street vendors, for example) that, while struggling to access finance, have a steady supply of business. Coupled with the high need for finance among both individuals and enterprises, the high repayment rates make microfinance a high-impact and relatively low-risk target for investment. It should be noted, however, that one interviewee viewed the Bank of Ghana’s recent decision to raise capital requirements for microfinance institutions as a reflection of the Bank’s concerns about MFIs’ capacity to handle deposits securely.²⁸ Another interviewee noted the need for other microfinance products such as micro-insurance for individuals or crops, seeing these as a key area for future diversification among microfinance providers.
- **Renewable energy.** Due to the country’s chronic energy shortages and the state’s active support of renewable energy (the government has committed to providing 10% of the country’s electricity generation through renewables by 2020²⁹), investments in the sector provide an environmentally sustainable means of addressing both a viable market opportunity and a pressing social need. Recognizing this, one local impact investor is currently raising USD 25 million exclusively dedicated to renewable energy investment.

Impact Measurement and Tracking

Approaches to measuring and tracking social and environmental impact in Ghana are very similar to those in the rest of the region: DFIs track and report an internally

27 “Venture Fund holds roundtable for SMEs in Northern Region,” Ghana News Agency (2012). Available at: <http://www.ghananewsagency.org/economics/venture-fund-holds-roundtable-for-smes-in-northern-region-43837>; Dalberg interviews.

28 “MICROCAPITAL BRIEF: Bank of Ghana Doubles Minimum Capital Requirement for Microfinance Institutions (MFIs) to \$610k As of 2018.” Microcapital Website, July 31, 2015. Available at: <http://www.microcapital.org/microcapital-brief-bank-of-ghana-doubles-minimum-capital-requirement-for-microfinance-institutions-mfis-to-610k-as-of-2018/>.

29 “Ghana receives resounding endorsement of investment plan to transform its renewable energy sector,” AfDB (2015). Available at: <http://www.afdb.org/en/news-and-events/article/ghana-receives-resounding-endorsement-of-investment-plan-to-transform-its-renewable-energy-sector-14234/>.

consistent set of indicators annually—though these differ between DFIs—and non-DFI actors’ efforts are largely ad hoc, based on a combination of reporting requirements to ultimate investors (in the case of fund managers) and indicators that are feasible for enterprises to report on. While non-DFI investors noted a preference for placing as little reporting burden on their investees as possible, they also had limited capacity to collect and publish information alongside their core business of sourcing investable deals.

While some efforts are being made to drive greater alignment of impact measurement frameworks across impact investors (such as the work of the Ghana Institute of Management and Public Administration [GIMPA] Center for Impact Investment, which was partly set up to develop and disseminate shared impact measurement frameworks for investors in Ghana), these have yet to yield consensus on a core set of common indicators or measurement and reporting practices.

One interviewee did note, however, that impact reporting is likely to become easier as the private equity market expands and a track record of successful investment is developed and showcased. In a more mature private equity environment, the topic of shared industry metrics may be much easier to broach with both commercial and impact investors alike.

3. DEMAND FOR IMPACT INVESTING CAPITAL

Development Context

With nearly 26 million people, Ghana is the second most populous country in West Africa. Ghana’s Human Development Index (HDI) score is 0.573. This is above the sub-Saharan African average of 0.502 and the West African average of 0.446, and up 12% from its level of 0.511 in 2005.³⁰

Impressive achievements in education bode well for the development of a robust skills base to drive economic growth. Average years of schooling increased from 8.7 to 11.5 in the last 10 years, indicating a significant uptick in educational levels. As of 2014, tertiary school enrollment was 14% of those within five years of leaving secondary school, higher than other major regional players like Cote d’Ivoire (9%) and Senegal (8%).³¹

Despite these positive indicators, significant development challenges remain. Despite progress in education, more than 25% of the population is still illiterate, compared to the global average of 16%. In terms of access to financial services, only 8% of the Ghanaian population had access to credit facilities in 2014 and less than 20% of

30 “Human Development Reports,” United Nations Development Program (2015). Available at: <http://hdr.undp.org/en/data>.

31 “World Development Indicators,” World Bank (2015). Available at: <http://data.worldbank.org/data-catalog/world-development-indicators>. Data not available for Nigeria.

the population over 15 had any form of savings. Further, an estimated 35% of the population still does not have access to electricity and those that do experience frequent and unpredictable blackouts.³²

Types and Distribution of Demand Actors

Impact investors target a range of enterprises, both large and small—DFIs, especially, favor larger enterprises due to their ability to absorb the large deals DFI provide. In this section, we focus on two sets of actors in the demand landscape: social enterprises and commercial SMEs. Both are potential recipients of impact capital due to their role in creating employment and providing goods and services to underserved populations; however, they face significantly greater obstacles to accessing finance and driving growth than do large enterprises. Their experiences, therefore, illustrate the main obstacles that stand in the way of channeling impact investment to where it is most needed.

While the term “social enterprise” generally implies a focus generating social or environmental benefits, there is no universally accepted definition for the term, which makes it difficult to quantify the social enterprise landscape. A study conducted by the Overseas Development Institute and the British Council attempted to do so in Ghana, and defined social enterprises as “businesses that exist to address social and environment needs, and focus on reinvesting earnings into the business and/or the community.”³³ Using this somewhat narrow definition, the study identified just 24 social enterprises in Ghana, mainly based in Accra.³⁴ While the organizations identified in the study focus on sectors potentially interesting to impact investors—such as agriculture, education and skills, health, and clean technology—only around half (11) of them are profit-seeking, arguably shrinking the pool of potential impact investees able to offer significant financial return.³⁵

According to the study, only 3 of the 24 social enterprises identified make use of returnable finance, with the rest benefitting from grants and donations. Foundations serve as the primary source of funding for these social enterprises, accounting for almost a third (27%) of funding received. Many are also sustained by founders and/or their family members (21% of funding), as well as donor and government support (16% of funding).³⁶

Even with a broader definition of social enterprises (businesses with a social or environmental impact objective), it is likely that social enterprises represent an

32 “World Development Indicators,” World Bank (2015). Available at: <http://data.worldbank.org/data-catalog/world-development-indicators>. Data not available for Nigeria.

33 “Social enterprise landscape of Ghana,” Overseas Development Institute (2014). Available at: http://www.britishcouncil.org/sites/britishcouncil.uk2/files/social_enterprise_landscape_in_ghana_report_final.pdf.

34 *Ibid.*

35 While this reliance on non-returnable finance may make their designation as social ‘enterprises’ dubious, it is worth noting that all enterprises are making attempts to become financially sustainable.

36 “Social enterprise landscape of Ghana,” Overseas Development Institute (2014). Available at: http://www.britishcouncil.org/sites/britishcouncil.uk2/files/social_enterprise_landscape_in_ghana_report_final.pdf.

underexploited potential target for impact investment in Ghana. The space appears to be growing—most social enterprises identified were registered in the past two years.

With the pool of social enterprises currently small, commercial SMEs make up a large proportion of current and potential impact investees in Ghana. There are three main reasons for this. First, SMEs are numerous—they account for 90% of all registered businesses.³⁷ Second, they represent significant drivers of economic growth and job creation—SMEs employ 60% of the workforce and estimates for SME contribution to GDP in Ghana range from close to 50%³⁸ to over 70%.³⁹ Third, they operate across various sectors providing goods and services to underserved populations—agribusiness, healthcare, and education, for example.⁴⁰

Challenges Faced by Demand Actors in Securing Investment

Given the impact potential of both social enterprises and commercially oriented SMEs, it is important to investigate the challenges they face in obtaining finance for their operation and growth. Interviewees identified the following as most pressing:

- **Awareness of financing options beyond commercial banks.** Awareness of financing options beyond commercial banks is severely limited, with very few enterprises knowledgeable about alternative options. Those impact investors that are operating in Ghana, whether local or foreign, do not seem to be on the radar of the vast majority of Ghanaian enterprises. Further, Ghanaian SMEs that are aware of impact investors often view their diligence requirements as too onerous and their preferred deal sizes as too large for their needs.
- **High collateral requirements.** When enterprises approach commercial banks for finance, they struggle to get it. Banks in Ghana tend to lend only to clients who can provide large amounts of collateral in the form of assets and savings, which many SMEs and social enterprises do not have. Some banks provide loan financing not backed by assets, but a strong track record is required to access it, and in any case these funds remain small. These stringent collateral requirements make it difficult for enterprises to access finance.
- **High cost of lending.** The most common financing mechanism in Ghana is debt (including for impact investors). Given the high interest rates, however, those enterprises that can access loans find it hard to sustain debt repayments. This situation is often worsened by prohibitively expensive rates for enterprises with unproven business models and low initial levels of revenue.

37 “Venture Capital Trust Fund,” WEF (2015). Available at: <http://reports.weforum.org/social-innovation-2013/06-the-venture-capital-trust-fund-ghana/#view/fn-2>.

38 “Ghana Banking Survey,” PWC (2013). Available at: https://www.pwc.com/en_GH/gh/pdf/ghana-banking-survey-2013-pwc.pdf.

39 “Ghana Government Services, Business Report,” Government of Ghana (2013). Available at: <http://www.eservices.gov.gh/Pages/Empowering-SMEs-in-Ghana-for-Global-Competitiveness.aspx>.

40 “Venture Capital Trust Fund,” WEF (2015). Available at: <http://reports.weforum.org/social-innovation-2013/06-the-venture-capital-trust-fund-ghana/#view/fn-2>.

- **Capacity gaps.** Enterprises often lack financial literacy, do not employ consistent bookkeeping practices, and struggle to administer their staff and activities effectively. Further, they struggle to find investors, and are often ill equipped to articulate their value proposition to them when they do find them. Several incubation and accelerator models are trying to work with entrepreneurs to address these challenges (see Ecosystem section below for more details).

Due to these challenges, many SMEs turn to informal lenders and personal networks of family and friends to obtain access to finance. This is proving a workable but inadequate solution—financing is unpredictable and often insufficient to meet even basic working capital needs. Impact investors are attempting to overcome enterprise challenges through the provision of formal and informal technical assistance, as well as through a more flexible approach to collateral for debt. However, broader efforts are needed to address the underlying issues related to SME access to capital, such as business systems and internal capacity—for example, through business incubation (discussed in more detail below).

4. ECOSYSTEM FOR IMPACT INVESTING

Policies and Regulations

Ghana has done well to provide a stable and enabling investment environment and has the highest scores in the region on the World Bank / IFC Doing Business index.⁴¹ In 2004, the government of Ghana established the Venture Capital Trust Fund to catalyze the country’s venture capital market through support to local venture capital funds investing in SMEs. Moreover, the Ghanaian Government actively provides incentives for investment, including the following:

- **Tariff exemptions on large machinery imports** to encourage enhanced enterprise productivity through mechanization, especially for enterprises involved in manufacturing.
- **Double taxation agreements** with a number of countries to prevent multinational organizations and foreign citizens from paying tax both in Ghana and the countries in which they are domiciled.
- **“Tax holidays”** for specific sectors ranging from five to ten years of tax-free operation depending on the size, scale, and location of the investment. Examples of sectors that may receive such incentives include rural access to finance, affordable housing, and agricultural investments.

41 “Doing Business: Measuring Business Regulations,” World Bank (2015). Available at: <http://www.doingbusiness.org/rankings>.

While interviewees did not flag the regulatory environment as a major barrier to investment, they did highlight a number of challenges related to the government’s role in promoting investment:

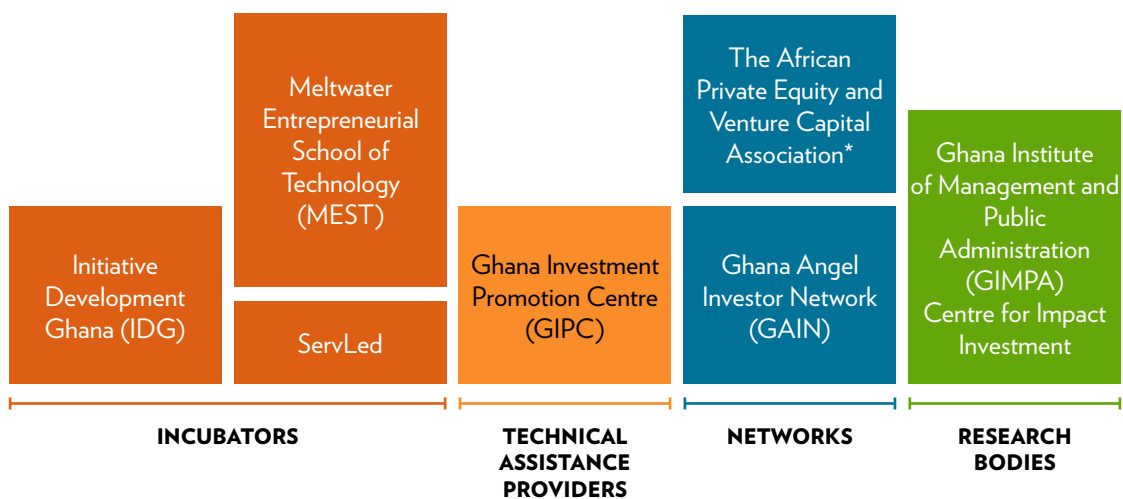
- **Lack of awareness of incentives.** While incentives exist, it appears that knowledge of how and where to access them is low among both domestic and foreign investors.
- **Restrictions on foreign investment.** A minimum of USD 500,000 must be invested by foreigners wishing to invest in Ghana—USD 1 million (with a minimum employment of 20 people) if engaged in trading. This is viewed by many investors as overly restrictive.
- **Inadequate incentives for impact investors.** While incentives exist for investments aimed at addressing critical development challenges, interviewees were of the opinion that more could be done to address impact investment specifically—for example, providing tax incentives for investors explicitly targeting both financial and social/environmental return.

Efforts to Support Development of the Impact Investment Market

TYPES OF ACTORS

The ecosystem of enterprise and investor support is still very small in Ghana (Figure 10).

FIGURE 10. GHANIAN ECOSYSTEM ACTORS, JULY 2015



*Also present in other West African countries

Source: Desk research; interviews

Three incubators were identified by the research team, with two focused on start-up technology enterprises (Meltwater Entrepreneurial School of Technology—MEST—and ServLed) and one on general small enterprise support (Initiative Development Ghana). The Ghana Investment Promotion Center provides investment advisory services, acting as a kind of technical assistance provider, while the Ghana Angel Investor Network (GAIN) is beginning to drive coordination among the country’s small but growing pool of angel investors.

Impressively, Ghana does have a research center specifically dedicated to impact investing. The GIMPA Center for Impact Investment aims to provide information on, drive awareness of, and advocate for impact investors in the country, and has published several reports on the state of the sector.⁴² As mentioned, GIMPA also intends to drive coordination in impact measurement and reporting, though efforts in this regard are still nascent.

MAIN OPPORTUNITIES AND CONSTRAINTS

Given the small size of the enterprise and investor support ecosystem, interviewees emphasized the need for a larger number of entrants into the space. While interviewees were careful to note that the ecosystem was still very young and thus likely to develop over time, two key barriers to its growth emerged:

- **Lack of awareness.** There is a limited awareness of the value of broader ecosystem support—in particular, the role of incubation in strengthening enterprises for investment and growth. This makes it difficult for incubators and other supporting organizations to generate revenue, as both enterprises and investors are reluctant to pay for services they deem ‘unproven.’
- **Insufficient investor linkages.** Interviewees indicated that there were few forums to facilitate linkages between ecosystem actors and investors. Incubators noted that finding ways of engaging investors was crucial to supporting the enterprises in their programs, while the GIPC noted the importance of enhanced investor engagement as a means of empowering the state to become more investor-friendly.

Ecosystem actors identified similar opportunities to those articulated by investors—in particular investing in renewable energy and engaging African HNWIs—but also emphasized technology as a key area of potential for Ghanaian enterprises, both in terms of market opportunity and for addressing key needs in areas such as health and education.

⁴² See <http://gcii.gimpa.edu.gh> for more details.

SENEGAL



1. COUNTRY OVERVIEW

Brief Historical and Political Context

Senegal is the fourth largest economy in West Africa, with a per capita gross domestic product (GDP) of over USD 2,300.¹ Along with Cote d'Ivoire, it is viewed as a gateway to business investment in francophone Africa, with the capital city of Dakar serving as the third largest port in the region behind Lagos (Nigeria) and Abidjan (Cote d'Ivoire).² In addition to its placement in major Atlantic shipping lanes connecting sub-Saharan Africa (SSA) to North Africa, Europe, and the United States, Dakar is served by relatively short direct flights to other economic centers in these regions as well as in sub-Saharan Africa.³ Along with seven other countries, Senegal is a member of the West African Economic and Monetary Union (WAEMU, also known by the French acronym UEMOA), and hosts the Central Bank (BCEAO) headquarters for this institution in Dakar. The local currency, the West African CFA franc, is pegged to the euro.⁴

Senegal has among the most impressive track records of political stability in sub-Saharan Africa. Since its independence from France in 1960, the country has had three peaceful democratic transitions of power.⁵ The current president, Macky Sall, will be implementing a referendum in 2016 to reduce the presidential term of office from seven to five years—a strong pro-democratic move at a time when many other African leaders are attempting to remain in power.⁶

While Senegal has experienced relatively modest annual GDP growth of 3.3% over the past five years, this has recently improved. GDP growth rose to 4.5% in 2014, its highest point since 2008.⁷ Under the current administration, the “Emerging Senegal Plan” (Plan Sénégal Emergent, or PSE) has set out to improve growth further through

1 “GDP per capita, PPP (current international \$),” World Bank (2014). Available at: <http://data.worldbank.org/indicator/NY.GDP.PCAP.PPCD>.

2 Flipo, Blandine. “Comment Dubaï a gagné Dakar,” *Jeune Afrique* (15/10/2007). Available at: <http://www.jeuneafrique.com/103242/archives-thematique/comment-dubae-a-gagn-dakar/>.

3 Regularly scheduled commercial flights as of July 2015 from Dakar to Casablanca, Paris, and New York run at three, five, and eight hours respectively. Dakar to Accra or Abidjan takes about three hours.

4 Union Économique et Monétaire Ouest Africaine (2015). Available at: <http://www.uemoa.int/Pages/Home.aspx>. In discussing Senegal and most other francophone countries as well as a lusophone one (Guinea-Bissau) in West Africa, the structural impact of the euro peg and monetary union is of particular note. The WAEMU zone also includes Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, and Togo. The peg dates to the use of the French franc. Guinea (also a francophone West African country) does not use the same franc.

5 “Senegal Overview,” World Bank (2015). Available at: <http://www.worldbank.org/en/country/senegal/overview>.

6 “Réduction du mandat présidentiel au Sénégal: Macky Sall se dédiera-t-il?” *Radio France International* (08/04/2015). Available at: <http://www.rfi.fr/afrique/20150408-senegal-reduction-mandat-presidentiel-macky-sall-dedie-wade-/>.

7 “Senegal Overview,” World Bank (2015). Available at: <http://www.worldbank.org/en/country/senegal/overview>.

key structural reforms and public-private development projects. GDP growth is anticipated to reach 6% in 2016 and the PSE aims for 7% average annual rates to make Senegal a competitive emerging economy in the next two decades.⁸

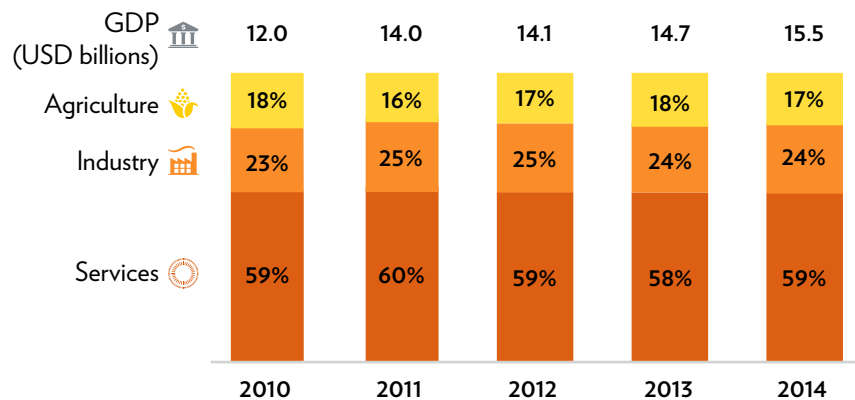
While investment barriers remain high due to factors such as a lack of infrastructure—especially in electricity provision—and a complicated environment for business tax compliance, Senegal’s track record of political and monetary stability make it attractive for impact investors seeking a combination of long-term potential and low risk.

Economic Performance and Structure

GDP INDICATORS

Senegal’s economy is mostly driven by the services sector, reflecting Dakar’s position as a port city. Financial services, transport, the hotel industry, and a booming telecommunications sector taken together contribute 59% of GDP (Figure 1). Agriculture—including primary sector staples of fishery, livestock, and forestry, as well as farming—accounts for 77.5% of employment in the country, but accounts for just 17% of GDP. The sector is vulnerable to climactic shocks—including a poor harvest in 2014 linked to inadequate rainfall—and low overall productivity.⁹

FIGURE 1. SENEGAL'S GDP CONTRIBUTION BY SECTOR, 2010-2014



Source: World Development Indicators, World Bank (2015)

The overall GDP growth rate in Senegal has until recently been well below the 5% average in sub-Saharan Africa. While economic growth is expected to hit 6% in 2016,¹⁰ and while the aforementioned PSE has a target of 7% annual growth, a lack of

8 “African Economic Outlook: Senegal Report,” African Development Bank (AfDB) (2015). Available at: <http://www.africaneconomicoutlook.org/en/country-notes/west-africa/senegal>.

9 Ibid.

10 Ibid.

formal private sector development—42% of GDP¹¹ is estimated to rest in the informal sector¹²—remains a major barrier to further growth-rate gains.

Investment Climate and Drivers of Foreign Direct Investment (FDI)

TRENDS IN FDI

FDI flows were USD 272 million¹³ in 2013—approximately 2% of national GDP, and concentrated on agribusiness and food processing. Information technology (IT)-enabled services, especially call centers, also attracted significant FDI inflows along with investments in construction and real estate.¹⁴ France has historically dominated official flows (50% of FDI between 2006 and 2011), but Middle East and North Africa (MENA) investors are increasingly active in Senegal and francophone West Africa.¹⁵ The international Organization of the Islamic Conference (OIC) was hosted in Dakar in 2008,¹⁶ for example, and King Mohammed VI of Morocco made an official state visit in May 2015.¹⁷ Major private and public-private business deals were announced at these diplomatic events.

Remittance flows from the Senegalese diaspora—equivalent to roughly 10% of GDP in 2011, or over USD 1.3 billion—far overshadow the impact of FDI. In contrast, remittances are equivalent to 5% of GDP in Nigeria and 0.4% in Ghana. Worldwide, Senegal is among the top 25 countries globally for remittances as a share of

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- 11 “Skills for Employability: The Informal Economy,” Dalberg and Results for Development (2012). Available at: <http://www.resultsfordevelopment.org/sites/resultsfordevelopment.org/files/resources/Skills%20for%20Employability%20in%20the%20Informal%20Economy.pdf>.
- 12 The informal economy consists of businesses and economic activities that are not registered with or taxed by government.
- 13 Accounting by governments and international financial institutions in the WAEMU zone is typically in XOF (West African franc). The research team converted historical data to current USD as of the publication of this report using the prevailing July 2015 exchange rate of 600 XOF per dollar. However, the USD has gained sharply in the past two years against the XOF (and EUR) with the Eurozone financial crisis and quantitative easing policy, so this figure does not reflect historical convertible value, where 500 XOF:1 USD was a prevailing rate as recently as mid-2014.
- 14 “African Economic Outlook, Senegal (detailed) Report,” AfDB (2014). Available at: http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Senegal_EN.pdf.
- 15 During the same time period (2006-11), France was followed by India (10%) and Switzerland (7%). “Évaluation des Investissements Directs Étrangers des Pays de l’UEMOA au cours des Années 2000-2011,” Banque Central des Etats de l’Afrique de l’Ouest (BCEAO) (2013). Available at: http://www.bceao.int/IMG/pdf/evolution_des_investissements_directs_etrangers_dans_les_pays_de_l_uemoa_au_cours_de_la_periode_2000-2011.pdf.
- 16 “Projet de communiqué final de la onzième session de la conférence islamique au sommet,” Organization of the Islamic Conference (OIC) (2008). Available at: <http://www.au-senegal.com/IMG/pdf/oci-communique-final.pdf>.
- 17 “Tournée de Mohammed VI: le Maroc et le Sénégal signent treize accords de coopération,” Le Monde and Agence France-Presse (AFP) (22/05/15). Available at: http://www.lemonde.fr/afrique/article/2015/05/22/tournee-africaine-de-mohammed-vi-le-maroc-et-le-senegal-signent-treize-accords-de-cooperation_4638737_3212.html.

GDP, behind only Liberia and The Gambia in West Africa.¹⁸ The vast majority of remittances to Senegal are spent on basic household expenditure such as food, with only 1.3% to 5.7% (depending on the source) going toward investment in businesses. In contrast, in Nigeria, 20.1% to 21.7% of remittances are invested in businesses.¹⁹

INFLATION AND EXCHANGE RATES

The core goal of WAEMU's monetary policies is to maintain low inflation and curtail exchange rate volatility. The Central Bank of West African States (BCEAO) has been successful at doing this: the euro peg has been completely stable at XOF²⁰ 655.957 since its introduction in 1999,²¹ while annual inflation in Senegal varies from 1% to 3%.²² As a consequence, Senegal's—and WAEMU's—currency and inflation trends structurally reflect the Eurozone rather than neighbors in West Africa.

The tradeoff for this stability is a tightly regulated financial sector with high reserve ratios and collateral requirements and strict capital deployment rules.²³ The BCEAO has provided a preferential loan window at 3.5% since June 2014 to Senegal's 22 commercial banks.²⁴ Prevailing retail and commercial loan interest rates are typically 10% to 12%—about three times the typical interest rate in the United States and significantly lower than rates in countries with greater currency devaluation risk such as Ghana, Kenya, Nigeria, and South Africa. Microfinance institutions (MFIs) lend at about double these rates, with their annual interest capped by WAEMU regulation at 24% (as of early 2015). While MFI interviewees indicated that this cap posed a risk to financial sustainability for many institutions, the prevailing interest rates are perceived as too high by most Senegalese SMEs.

EASE OF DOING BUSINESS

Senegal ranks near the bottom of the World Bank's *Doing Business* index: 161 out of 181 countries in 2014. The high costs of energy, complex administration of taxation, and difficult transfer of property processes are large deterrents of investment. Lack of access to capital, high levels of corruption, and inadequate infrastructure represent the greatest barriers to entrepreneurship.²⁵

18 "Personal remittances, received (% of GDP)," World Bank (2011). Available at: <http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS>.

19 "Leveraging Migration for Africa: Remittances, Investments, and Skills," World Bank (2011). Available at: <http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/AfricaStudyEntireBook.pdf>.

20 The West African franc.

21 "Rattachement à l'euro au franc CFA et au franc comorien," Banque de France (1999). Available at: <https://www.banque-france.fr/eurosysteme-et-international/zone-franc/presentation-de-la-zone-franc/rattachement-a-leuro-du-franc-cfa-et-du-franc-comorien.html>.

22 "Inflation, GDP deflator (annual %)," World Bank (2013). Available at: <http://data.worldbank.org/indicator/NY.GDP.DEFL.KD.ZG>. The country did experience deflation of -1.5% in 2013.

23 "Impact Investing in West Africa," Dalberg and Rockefeller Foundation (2011). Available at: <http://assets.rockefellerfoundation.org/app/uploads/20150610104900/Impact-Investing-in-West-Africa.pdf>.

24 BCEAO (2015). Available at <http://www.bceao.int/>.

25 "African Economic Outlook, Senegal (detailed) Report," AfDB (2014). Ibid.

Access to electricity is a particularly large challenge for businesses operating in the country. Obtaining an electrical connection requires eight procedures completed over approximately 114 days, at a cost of nearly 60 times income per capita, which is significantly worse than regional neighbors in both francophone and non-francophone West Africa.²⁶ “The country’s power bills are among the highest in the entire West African region and its service delivery among the worst,” said one interviewee while reflecting on Senegal’s reliance on (imported) petroleum sources of energy.²⁷

Recognizing these challenges, the Government of Senegal has implemented a series of investment-friendly reforms over the past five years to improve Senegal’s competitiveness. For instance, the number of procedures involved in property transfers has dropped from six to four, the time required to start a business has decreased from 122 days to 60, and the country’s investment code has introduced a three-year tax holiday for certain projects.²⁸ As discussed below, ongoing impact investment activity by development finance institutions (DFIs) in large electrical and road projects are directly addressing the historical gap in physical infrastructure. As a result of interventions such as these, Senegal’s *Doing Business* rank improved by 10 places between 2013 and 2014, making it among the most improved countries in the world, both relatively and in absolute terms.²⁹

2. SUPPLY OF IMPACT INVESTING CAPITAL

Estimate of Impact Capital Deployed

Twenty-three impact investors are active in Senegal, including 11 DFI and 12 non-DFI investors.³⁰ Identified impact investments, which include 10 DFIs and eight non-DFIs, amount to approximately USD 550 million in deployed capital across 74 direct investments in enterprises and projects since 2005 (Figure 2). The 12 non-DFI investors making direct investments include a mix of fund managers and foundations (Figure 3). In addition, both DFI and non-DFI investors have deployed approximately USD 45 million in nine indirect investments through funds and intermediaries. To avoid

26 “Doing Business – Senegal,” World Bank/IFC (2015). Available at: <http://www.doingbusiness.org/data/exploreeconomies/senegal>.

27 Posthumus, Bram. “The City That Made Solar Power Illegal,” Next City (13/08/14). Available at <https://nextcity.org/daily/entry/dakar-senegal-solar-power-illegal-power-cuts>.

28 “Résumé du Code des Investissements et des Dispositifs du CGI,” APIX (2012). Available at: http://investinsenegal.com/IMG/pdf/resume_ci_et_dispositifs_incitatifs_du_cgi-3.pdf.

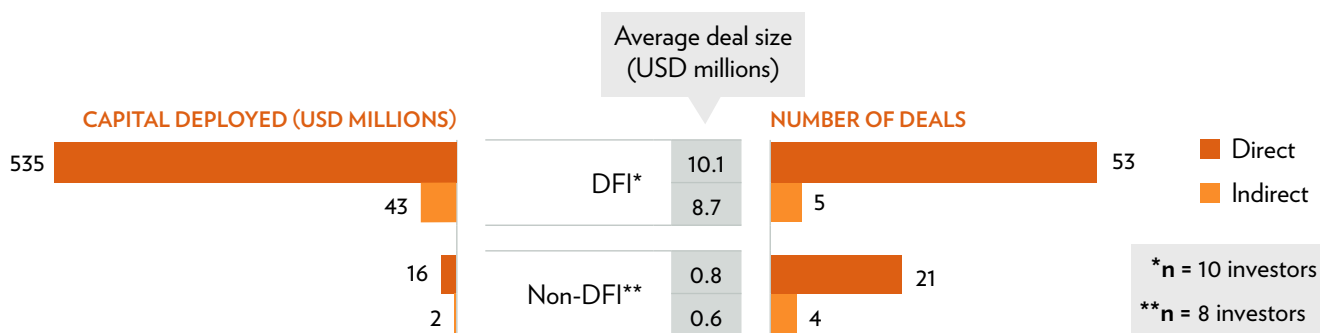
29 “Doing Business – Senegal” and “Most Improved in Doing Business,” World Bank/IFC (2015). Available at: <http://francais.doingbusiness.org/data/exploreeconomies/senegal/> and <http://www.doingbusiness.org/reforms/top-reformers-2015>.

30 Due to the unique nature and large size of development finance institutions (DFIs), the authors of this report analyzed their activity separately from those of other types of impact investors (“non-DFI”), and present this separate analysis when appropriate. We also assessed SIMEST, the Italian DFI; however, its single deal in Senegal is indirect and is not counted in [our] figures.

double counting—an unknown proportion of indirect investment acts as a source of direct investment—and due to severe data limitations on the nature of indirect investments, this chapter focuses on direct investments only. Indirect investments are, however, discussed in more detail in the regional chapter of this report. In sum, they are driven almost exclusively by DFIs and focus on commercial banks, impact fund managers, and private equity funds, reflecting DFI attempts to both support impact investing and build shallow commercial banking and private equity markets.

Senegal has received the fourth highest amount of disclosed impact investment in West Africa, behind Nigeria, Ghana, and Cote d'Ivoire. As in the rest of the region, DFIs make up an overwhelming majority of direct impact investment, accounting for USD 535 million or 97% of total capital deployed across 53 deals. Non-DFIs, meanwhile, account for a mere USD 16 million in disclosed financing across 21 deals. DFIs focus on debt financing of core infrastructure, but there is a growing number of small deals in diversified sectors made by both DFIs and impact fund managers, as discussed in more detail below.³¹

FIGURE 2. TOTAL IDENTIFIED IMPACT INVESTMENTS IN SENEGAL, JANUARY 2005–JULY 2015



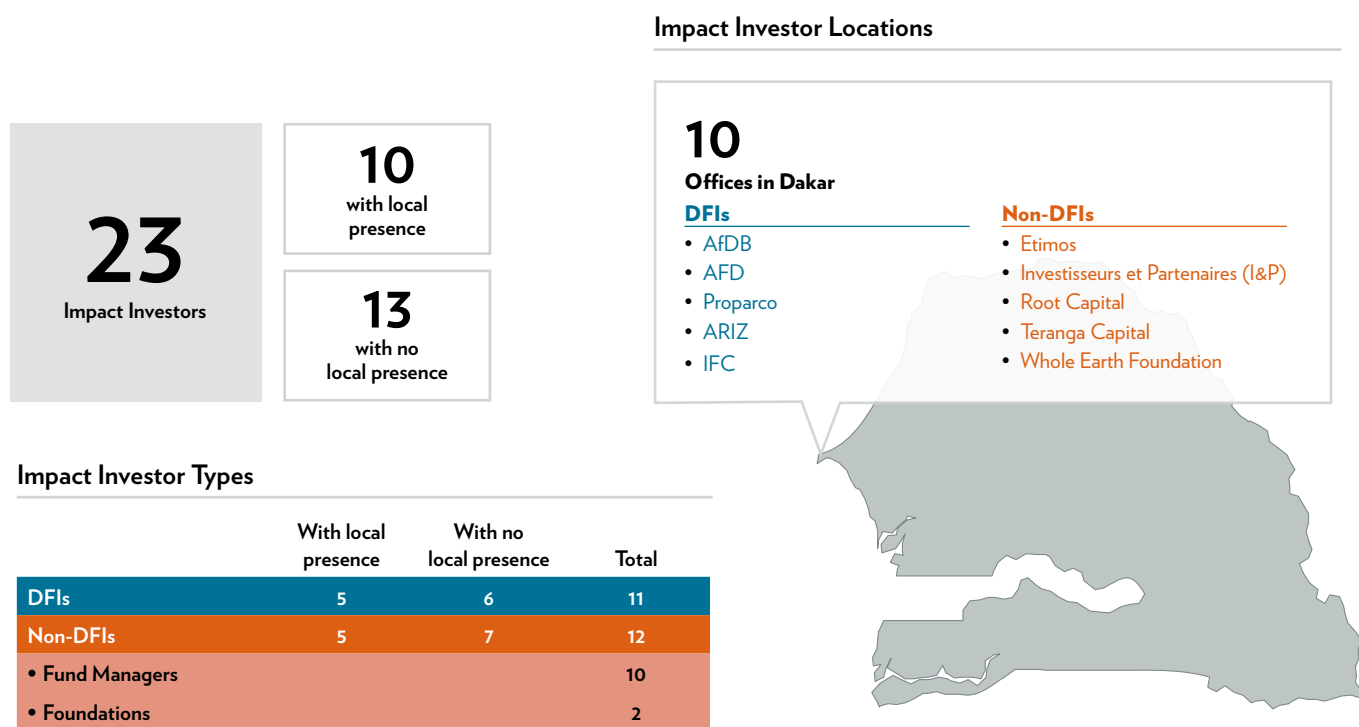
Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.
Source: Dalberg analysis; DFI and non-DFI portfolio data

Fewer than half (10/23) of the impact investors who have deployed capital in Senegal are present in the country (Figure 3). All DFI and non-DFI actors, except for Teranga Capital,³² are part of international networks. Fund managers rely primarily on a combination of financing from DFIs, family foundations, and high net-worth individuals (HNWIs), with the vast majority of raised capital originating outside Senegal. For instance, I&P and Root Capital both pool DFI funding at a global level along with private capital. Others, such as Grameen Crédit Agricole and the Lundin Foundation, currently deploy private capital only.

31 Some information on investment value by these fund managers was not disclosed for multiple known deals at the time of writing this report. Our figures thus underestimate non-DFI financial activity.

32 Teranga Capital has not yet deployed capital but is launching formally in September 2015 as a domestic partner to Investisseurs et Partenaires (I&P).

FIGURE 3. IMPACT INVESTOR TYPES AND LOCAL PRESENCE IN SENEGAL, JULY 2015



Source: Dalberg analysis

Nearly 97% of impact investment in Senegal is deployed as big-ticket direct debt financing, primarily in infrastructure, electrification, agribusiness, and manufacturing by DFIs. Tenure varies according to the specific project being financed, but typically runs at least five years. DFIs are also active in smaller deals: six of eight have made investments under USD 5 million, with particularly robust activity by the Belgian Investment Company for Developing countries (BIO) in an MFI and several agribusinesses, as well as dozens of varied investments by the West African Development Bank (Banque Ouest Africaine de Développement, BOAD). Notably, BOAD is a major actor unique to Senegal and the WAEMU countries.

Non-DFI impact fund managers primarily invest through smaller deals with somewhat more openness to non-debt instruments. For both debt and equity, fund managers usually prefer to deploy capital across a five-year timeline. It should be noted that although there is a long list of non-DFI impact investors that include Senegal in their target geographies, only 12 have actually deployed capital in the country.

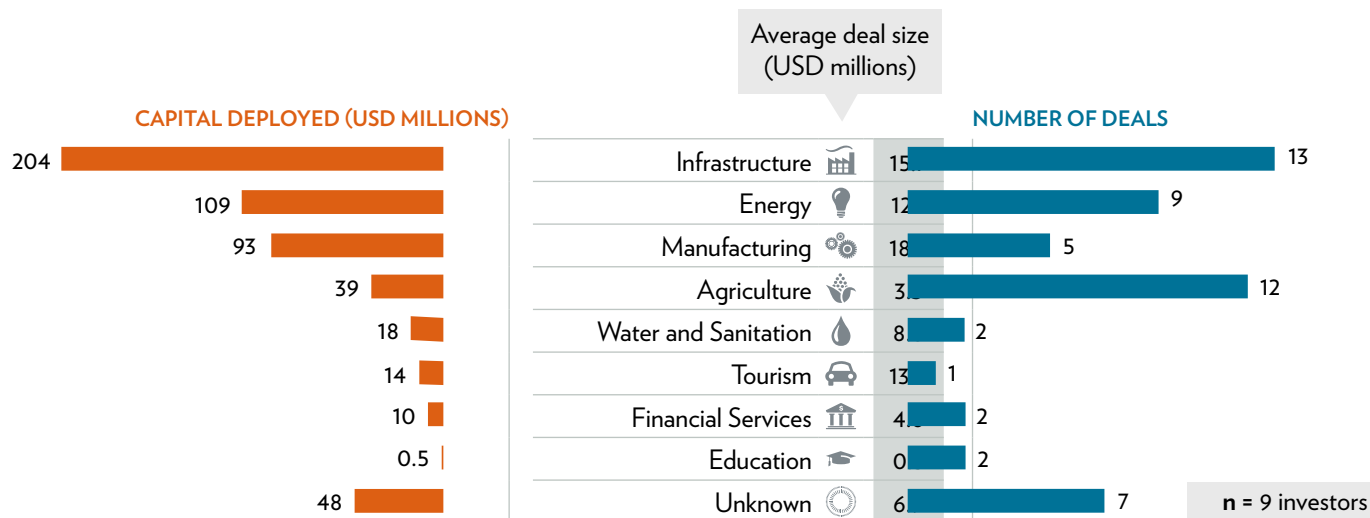
SECTOR

DFIs have invested most of their deployed capital in infrastructure and energy, accounting for USD 313 million (nearly 60%) of their total direct investments (Figure 4). Infrastructure investments focused on building out Senegal’s road networks are driven mainly by the African Development Bank (AfDB) and BOAD. These road investments are a key intervention given that the country’s poor road

infrastructure is estimated to cost the country 4.6% of its annual GDP.³³ Energy investments, meanwhile, focus on providing electrification to rural areas, which are chronically underserved with power, and are driven by a combination of the AfDB, the International Finance Corporation (IFC), BOAD, and the Dutch FMO (Netherlands Development Finance Company). The IFC covers both these crucial sectors. It has invested in two national toll roads, two large power generation projects, and the Dakar international airport. Manufacturing is also a large recipient of investment, accounting for 17% of total DFI capital deployed, which reflects DFI's focus on boosting productivity and diversification in the sector.³⁴

Infrastructure and agriculture lead the way in terms of number of deals, together representing nearly half of all DFI deals. Agriculture accounts for the fourth largest share of capital deployed by DFIs, with a particular emphasis on livestock and fisheries. This focus reflects DFIs' recognition of the need to boost productivity and decrease Senegal's reliance on food imports.³⁵

FIGURE 4. DIRECT DFI INVESTMENTS BY SECTOR, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; DFI portfolio data

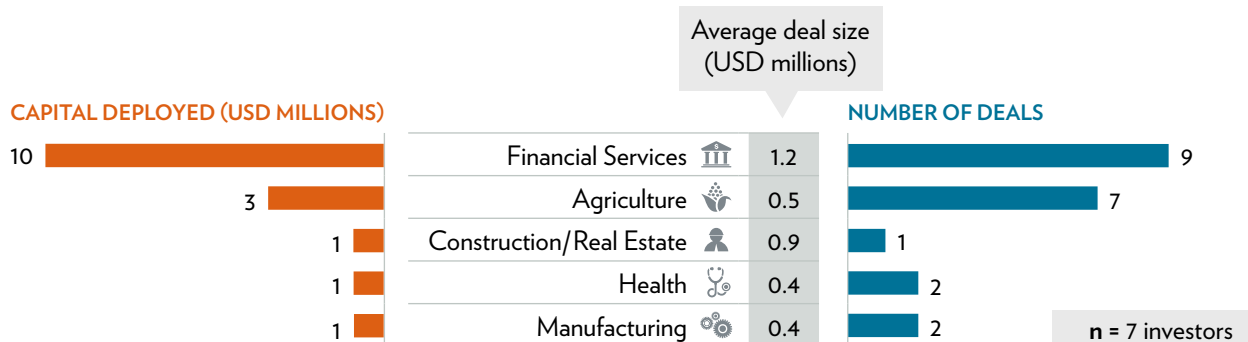
33 "Senegal's road to better transport," IFC (2015). Available at: http://www.ifc.org/wps/wcm/connect/region_ext_content/regions/sub-saharan+africa/news/senegal_toll_road.

34 Cisse et al. "Scoping paper on industry in Senegal" (2014). Available at: [http://www.value-chains.org/dyn/bds/docs/913/wp2014-157\(1\).pdf](http://www.value-chains.org/dyn/bds/docs/913/wp2014-157(1).pdf).

35 "Senegal: Challenges of diversification and food security," Organization for Economic Co-operation and Development (OECD) (2008). Available at: <http://www.oecd.org/countries/senegal/41302267.pdf>.

Non-DFI investments, in contrast, focus on a very narrow range of sectors (Figure 5). Financial services makes up the bulk of investment, with USD 10 million deployed to date in the sector representing over 60% of total capital deployed. These investments focus on MFIs, reflecting investors’ recognition of the large needs and opportunities related to enhanced financial inclusion in the country. Agriculture also represents a significant sector of interest, with many investors viewing agro-processing—for example, rice milling—as a key investment opportunity.³⁶

FIGURE 5. DIRECT NON-DFI INVESTMENTS BY SECTOR, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; DFI portfolio data

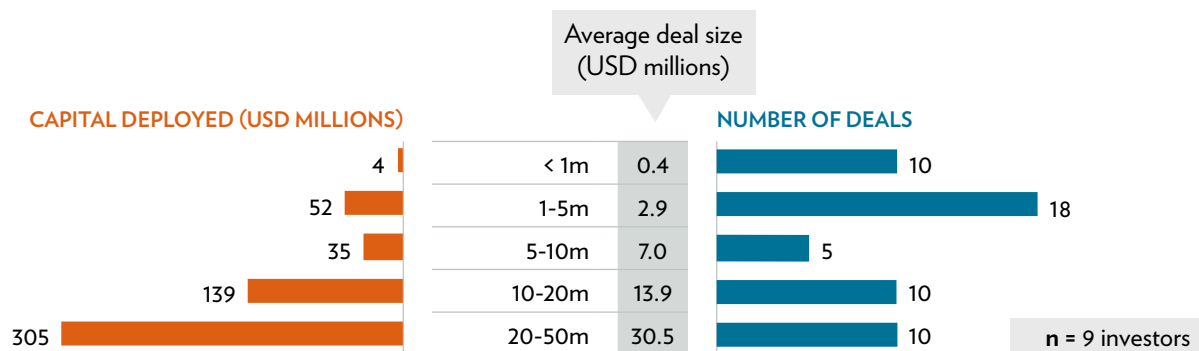
DEAL SIZE

DFIs in Senegal are channeling most of their capital through large deals. Deals of more than USD 20 million account for almost 60% of total capital deployed (Figure 6); all are focused on large projects and enterprises in infrastructure, energy, and manufacturing. Over 80% of total capital deployed is through deals above USD 10 million.

Smaller deal sizes do, however, account for the majority of deals. More than half (28) are less than USD 5 million. These investments are primarily in agricultural enterprises and, to a lesser extent, small-scale energy projects in rural areas.

³⁶ Incidentally, this mix corresponds with the impact-first investment philosophies of investors such as Etimos and Root Capital, which specialize in a mix of smallholder agriculture finance and microfinance but whose Senegal investments are not financially disclosed in our database as of 2015.

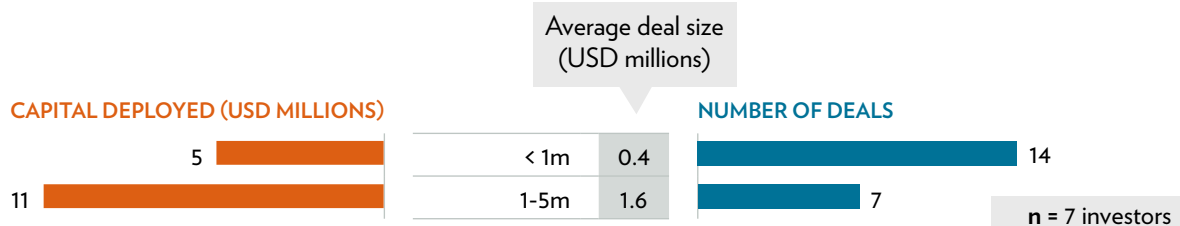
FIGURE 6. DIRECT DFI INVESTMENTS BY DEAL SIZE, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.
Source: Dalberg analysis; DFI portfolio data

Non-DFI deals, on the other hand, are considerably smaller, with all deals below USD 5 million (Figure 7). The majority of deals are below USD 1 million, with these often taking the form of loans to MFIs and small agro-processing enterprises.

FIGURE 7. DIRECT NON-DFI INVESTMENTS BY DEAL SIZE, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.
Source: Dalberg analysis; DFI portfolio data

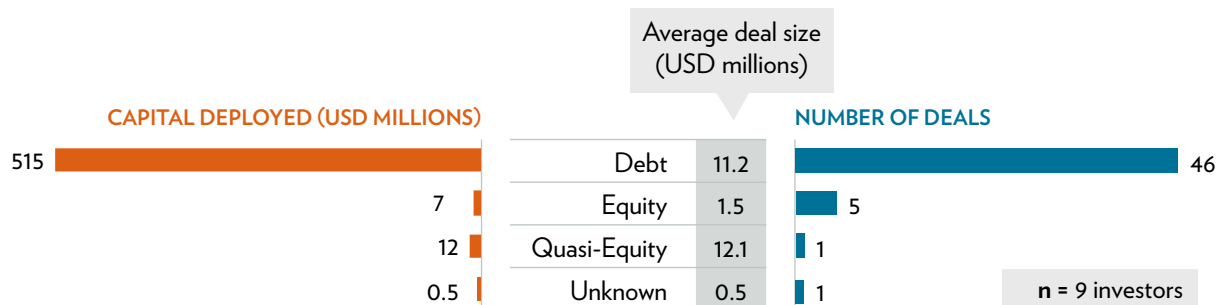
INVESTMENT INSTRUMENTS USED

DFIs channel nearly all of their direct investments through debt (Figure 8), with the profile of these investments no different than that of DFI investments generally. Infrastructure, energy, agriculture, and manufacturing account for the bulk of capital deployed. This reflects DFIs' preference for debt as a lower-risk, easier-to-manage instrument with more a straightforward exit than either equity or quasi-equity. While data on loan tenures are limited, the size and nature of many DFI projects—including the construction of roads and power plants—suggests that they may be as long as

15 years.³⁷ Equity deals in Senegal have been very small relative to those utilizing other instruments—an average of USD 1.5 million as compared to USD 11-12 million for debt and quasi-equity—and have focused on small energy and infrastructure enterprises. The single quasi-equity deal was in a cement manufacturing enterprise, and was made by the Danish Investment Fund for Developing Countries (IFU).

In general, exit options for equity are highly constrained in Senegal. In terms of public markets, only three Senegalese firms, none of them recipients of impact investment, are listed on the WAEMU regional stock exchange. Private equity activity, meanwhile, is growing but remains limited. For instance, one interviewee indicated that although they ideally would like to see an initial public offering for many of their investees, this is simply not yet a reality in the WAEMU capital markets. Equity and quasi-equity investments have nevertheless been used by BOAD, IFC, and IFU.

FIGURE 8. DIRECT DFI INVESTMENTS BY INSTRUMENT, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

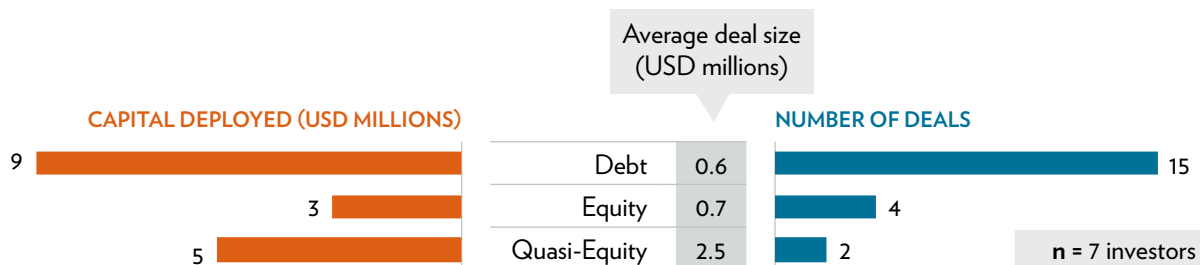
Source: Dalberg analysis; DFI portfolio data

For non-DFIs, there is strong interest in equity and quasi-equity deals, but also recognition that foreseeable exit options are constrained in the same manner as for DFIs, resulting in a larger number of companies financed through debt (Figure 9). Nearly all investments are made into early- and growth-stage companies,³⁸ although two quasi-equity deals have been deployed with somewhat more mature MFIs with a substantially larger valuation than for pure debt or equity. Impact investors are also constrained in using these instruments by Senegalese entrepreneurs' relatively low familiarity with equity instruments and reluctance to cede control of their businesses (see more detail in the "Demand" section below).

37 "Senegal moves into the fast lane with the opening of its toll highway," AfDB (2015). Available at: <http://www.afdb.org/en/news-and-events/article/senegal-moves-into-the-fast-lane-with-the-opening-of-its-toll-highway-12263/>.

38 Early-stage enterprises are those that are in the process of launching themselves, while growth-stage enterprises are seeking to consolidate and grow their existing businesses.

FIGURE 9. DIRECT NON-DFI INVESTMENTS BY INSTRUMENT, JANUARY 2005-JULY 2015



Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; DFI portfolio data

Barriers and Opportunities

MAIN BARRIERS ENCOUNTERED TO DEPLOYING CAPITAL

Although significant progress has recently been made in Senegal’s formal investment climate, it remains less developed than more well-known impact investment destinations like Kenya and India. Capital markets have significantly less liquidity and active participation than other developing countries in sub-Saharan Africa and elsewhere. This is particularly true for impact investing. Interviewees gave examples of multiple bottlenecks:

- **Lack of investable enterprises.** For both DFIs and non-DFIs, sourcing deals is a challenge. The overall financial and management reporting and planning of non-infrastructure investees is a major capacity gap. Bookkeeping in line with accounting norms is often inconsistent, cash flow management is a major pain point, and financial sustainability is a challenge even for many high-profile firms, particularly in agribusiness. Multiple sources, including commercial banks, noted that over half of SME loan applications are rejected due to problems in the dossier even before due diligence. Impact investors in Senegal have responded to this business reality by offering technical assistance, either through dedicated funds and grants (for DFIs) or in-kind via taking board seats and guiding management (for non-DFIs).
- **Limited awareness of impact investment as a source of capital.** The notion of “impact investment” is less well known in Senegal than in anglophone countries on the continent. Self-described social entrepreneurs³⁹ targeting “base of the pyramid” (BoP) customers or “triple bottom line” models are scarcer in Senegal than in other countries in sub-Saharan Africa, with many such organizations

³⁹ Defined as having articulated a core objective to generate a positive social or environmental impact and who seek to grow to financial viability and sustainability.

operating strictly as nonprofits. This reflects some differences in the diffusion and appeal of these related concepts in francophone contexts. However, the notion of social entrepreneurship has recently gained ground, including in Senegal,^{40,41} where two social enterprises—Laiterie de Berger (dairy production) and Nest for All (pediatric and maternal healthcare)—now operate.

- **High degree of informal economic activity.** Underlying the business management and reporting gap is the fact that Senegal operates as a two-tiered economy. Up to 90% of job creation and 80% of total employment is in the informal sector, where micro and small enterprises are typically pursuing business activities such as fishing, farming, and wholesale and retail trade. Cultural and religious networks have played a significant role in driving informalization in Senegal, and make it difficult to establish the formal structures required by investors.⁴² For example, the Mouride Islamic brotherhood has a significant influence on trade in Senegal, and operates several large firms led by individuals with complex political, business, and religious links.⁴³
- **Owners' reluctance to offer equity to impact investors.** Successful commercial SMEs are typically individual proprietorships and/or family-owned companies run by Senegalese nationals. Given historical underdevelopment of the formal financial sector, these entrepreneurs are seldom acquainted with non-debt financing mechanisms and fear losing management control in the case of accessing such financing alternatives. More mature commercial enterprises that might be attractive for certain types of impact investors, meanwhile, are typically receiving finance from commercial lenders, such as CBAO, a leading national bank in Senegal that was acquired by Morocco's Groupe Attijariwafa in 2007.
- **Difficulty finding exits.** Plausible exits for equity stakes mostly consist of firm acquisition by a larger (likely regional) firm and buyback by the entrepreneur. No impact investment from Senegal has yet fully exited via public equity markets. The WAEMU regional stock exchange BRVM (Bourse Régionale des Valeurs Mobilières) has a relatively robust total capitalization of approximately USD 10.8 billion (XOF 6.5 trillion) as of early 2015. However, the only Senegalese firms listed on the exchange are local subsidiaries of a banking network majority-held by a private bank in Morocco (Bank of Africa) and two French multinationals (SONATEL/Orange and Total). Secondary markets, which involve the trading of existing investments into a given enterprise, are virtually nonexistent.

40 "Fiche 'investissement lié à l'impact social,'" France Diplomatie (2013). Available at: http://www.diplomatie.gouv.fr/IMG/pdf/_Fiche_Investissement_lie_a_l_impact_social_impact_investing___cle493d91.pdf.

41 "Sénégal: sept projets d'entrepreneuriat social inspirants," Levy-Heidmann, K. and Galey, A. (2013). Available at http://www.lexpress.fr/diaporama/diapo-photo/emploi/business-et-sens/senegal-sept-projets-d-entrepreneuriat-social-inspirants_1232602.html.

42 "The Informal Sector in Francophone Africa: firm size, productivity, and institutions," AFD and the World Bank (2012). Available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/9364/699350PUB0Publ067869B09780821395370.pdf?sequence=1>.

43 Ibid.

MAIN PERCEIVED OPPORTUNITIES FOR DEPLOYING CAPITAL

Impact investors see continued opportunities to deploy funds in Senegal, largely by expanding the volume of deals and funding committed to currently favored sectors and project types—such as further large-scale, largely debt-backed projects in infrastructure and energy—as well through diversification beyond financial services and agriculture. Interviewees identified the following opportunities:

- **Infrastructure, especially energy.** Senegal’s road infrastructure started deteriorating in the early 1990s and subsequently received public and DFI investment, but 40% to 60% of the network was still in poor condition as of 2010. Substantial maintenance, repair, and upgrading is still required. Significant investment is also needed in the power sector, which was privatized in the last two decades.⁴⁴ Consumption of electricity continues to grow with GDP, compounding the existing gap between inconsistent, limited supply and extensive demand. BOAD and multiple Senegalese sources specifically cited energy—both in promising renewables like solar and traditionally bigger-ticket deals—as a high-potential and high-growth area, even when this was tangential to their institution’s core activities. BOAD recently established a USD 25 million fund targeted at energy development projects, for example.
- **Agriculture.** Nearly all interviewees cited agriculture as a critical growth sector, as well as one with high social impact. The Senegalese Government has also targeted the sector through the various investment mechanisms in which it takes part (Caisse Nationale de Crédit Agricole du Sénégal [CNCAS], Fonds Souverain d’Investissement Stratégiques [FONSIS], Fonds de Garantie des Investissements Prioritaires [FONGIP]). Peanuts and fish have been Senegal’s leading exports since the colonial period, but productivity gains in both have been historically marred either by policy mismanagement or the absence of policy. Moreover, as the national SME promotion agency noted, very few SMEs are formally registered.
- **Microfinance.** Investors involved in MFIs noted that demand for loans continues to outstrip supply and the sector will continue to grow, particularly as the population becomes better educated and sensitized to methods and advantages of accessing formal financial instruments.
- **Information and communications technology (ICT).** The impact of the internet accelerated this service sub-sector’s importance in Senegal, contributing 7.9% to GDP in 2013, placing Senegal just behind Kenya among countries in sub-Saharan Africa in terms of ICT share of GDP.⁴⁵ This trend is exemplified by SONATEL’s national champion status as the most valuable domestic private sector firm and largest employer after the government, but also by the establishment of dedicated incubators such as CTIC and Jokkolabs (discussed below).

44 “Senegal’s Infrastructure: A Continental Perspective,” World Bank (2011). Available at: <http://www.ppiaf.org/sites/ppiaf.org/files/publication/AICD-Senegal-country-report.pdf>.

45 “African Economic Outlook: Senegal Report,” AfDB (2015). Available at: <http://www.africaneconomicoutlook.org/en/country-notes/west-africa/senegal>.

Impact Measurement and Tracking

Almost all DFIs in Senegal consistently measure impact indicators across their portfolios but did remark on some challenges in identifying consistent and complete impact metrics for specific deals. Infrastructure and energy deals are difficult to measure as the downstream economic and social development effects—for instance, from a highway or non-renewable electricity plant—are enormous but indirect. Even for renewable energy projects, sophisticated reporting capacity is required to calculate carbon footprints and social impact beyond total grid connections and power delivered. While all of the DFIs in Senegal issue regular (usually annual) reports of financials, BOAD only recently initiated impact evaluation, as formal impact monitoring has not historically been a high priority for its member governments.

Non-DFI impact investors in Senegal generally have a strong desire to conduct consistent impact measurement and reporting, but note challenges with the cost and skills requirements of data collection. Fund managers are largely driven by the reporting requirements of DFI limited partners. Although there seems to be substantial overlap in the metrics investors would like to use and those contained in IRIS, the catalogue of standardized metrics managed by the GIIN, the only self-identified non-DFI impact investor present in Senegal and registered as an IRIS user is Root Capital.⁴⁶

The typical metric reported for non-infrastructure investments is jobs created or saved. Employment is at the top of the agenda for both national government and business leader stakeholders in Senegal. Alternatively, some investments were described in terms of (a) total customers reached with affordable and quality goods and services, (b) fiscal tax contributions, or (c) a range of financial and operational indicators (in the case of MFI investments).

3. DEMAND FOR IMPACT INVESTING CAPITAL

Development Context

Despite its political and economic stability, Senegal remains well below the global average score of 0.702 for the United Nations Human Development Index (HDI). Although it has made progress in indicators of health, wealth, and social and environmental welfare tracked by the index, progress has been slow compared to other developing countries in Africa and beyond. Senegal's global HDI rank fell from 160 in 2013 to 163 in 2014, even though its absolute HDI score has improved over the past decade from 0.451 in 2005 to 0.485 in 2012.⁴⁷

⁴⁶ Users of IRIS metrics can register their use on the IRIS website, although those registered represent only a portion of IRIS users. See all registered users at www.iris.thegiin.org/users.

⁴⁷ "Human Development Reports," United Nations Development Program (UNDP) (2014). Available at: <http://hdr.undp.org/en/content/table-1-human-development-index-and-its-components>.

With a population of approximately 14 million—42.5% of which are under 15 years old—growing annually at 2.8%, Senegal exhibits great potential to benefit from future human capital. This potential is constrained by the state of Senegalese education, despite government attempts to address educational deficiencies over the past 30 years.⁴⁸ The average Senegalese citizen spends less than five years in formal education, just 11% go on to complete some secondary education, and youth literacy rates are estimated at 65%—4.2 percentage points lower than the average in sub-Saharan Africa. Lack of literacy and numeracy is particularly pronounced among women and rural populations. Although steady progress has been made in life expectancy and health indicators, child and maternal mortality remain pronounced. Almost 50% of the population still lives in poverty. These social dynamics demonstrate a clear need for impact investing that addresses fundamental issues of education, health, and poverty.

Entrepreneurship in Senegal, though prevalent, is driven more by necessity than an opportunistic outlook. According to the National Strategy for Economic and Social Development (2013 – 2017), only one Senegalese citizen in five has procured formal, full-time employment. Business owners have low levels of financial and business knowledge and a tendency to keep their businesses small and informal. The outlook for entrepreneurial development is positive, however, as technical and vocational education have received increased attention in Senegal in the past decade. The government’s Ten Year Program on Education and Training was implemented in 2000 and aimed at addressing these shortcomings in order to increase the technical knowledge and professional qualifications among Senegal’s potential workforce.⁴⁹ Indications are that it has been successful in increasing the amount of vocational training and in better matching skills to the job market, though significant work remains to be done.⁵⁰

Types and Distribution of Demand Actors

As detailed above in the Supply section, over half of DFI-driven impact capital deployed in Senegal has targeted large infrastructure projects, as these promise impressive social and environmental impact via the creation or improvement of roads, bridges, power hubs, and water systems, and carry less risk given the public-private nature of the investment. As an example, IFC has reported almost USD 63 million in Senegalese energy infrastructure investment since 2005, with amounts increasing every year. Given their specialized nature and considerable coverage in other studies, however, this report does not focus on demand for large-scale infrastructure and energy projects.

48 “Human Development Reports,” UNDP (2014). Ibid. Examples of state orientation toward education include the National Education Framework Law (1971), participation in the Summit on Education and Training (1981), and the Ten-year Program for Education and Training (circa 2000).

49 “World TVET Database: Senegal.” UNESCO-UNVOC (2015). Available at: http://www.unevoc.unesco.org/wtdb/worldtvetdatabase_sen_en.pdf.

50 “2015 National Review of Education for All – Senegal,” UNESCO. Available at: <http://unesdoc.unesco.org/images/0023/002316/231652f.pdf>.

Apart from these large deals, impact investors in Senegal have also targeted growing social enterprises.⁵¹ Prominently cited examples include Laiterie du Berger, which collects milk from 800 dairy farmers while providing nutritious dairy products to low- and middle-income households, and Nest for All, which operates pediatric and maternal health clinics targeting similar households. Despite these two success stories, social enterprises remain rare. While cultural expectations in Senegal are that private businesses have prominent social roles and responsibilities, the notion of explicitly targeting or tracking both financial and social/environmental impact is relatively new.

MFIs, many of which are also SMEs and/or social enterprises, are worth mentioning, as they make up a significant target of impact investment. In 2013, there were 30 MFIs in Senegal reporting data to the MIX Market, which collates data on microfinance activities across the world.⁵² Based on these data, Senegal has the highest number of MFIs (30) in West Africa and leads the way in terms of gross loan portfolio (USD 402 million), closely followed by Nigeria (USD 351 million). According to interviewees, demand for further finance and expansion of microfinance activity remains high and unmet, particularly in rural areas.

Challenges Faced by Demand Actors in Securing Investment

Demand-side and ecosystem actors cited a series of related barriers, which echoed the remarks of supply-side investors about bottlenecks in the investable deal pipeline.

- **Difficulty in achieving managerial and financial sustainability.** Many SMEs in the country lack well-developed business plans, standardized monitoring systems (e.g., bookkeeping), administrative structures, predictable operations, and adequately skilled employees. If left unaddressed, these factors make it unlikely that the business will survive beyond the first three to five years of operation, making any investment unappealing. Expensive electricity and other operating costs, as well as poor norms for enforcement of contract payments (especially by the public sector), were cited as key challenges. Combined with competition from the informal enterprises, which do not pay taxes and thus have lower costs of doing business, such realities make net profitability a hurdle for even well-established firms. Alternatively, many self-defined social enterprises in Senegal seek to avoid this entirely by operating as nonprofits, as in the case of the SEM Fund.⁵³ In the MFI sector, the small scale of most institutions and regulatory cap on annual interest rates makes it difficult for many to achieve financial sustainability.
- **Difficulty securing financing.** The typical financial instrument in Senegal is debt, but entrepreneurs' general distrust in institutional finance often prevents them from seeking it. If they do apply for debt, the quality of their application is more often than not insufficient for a bank to release the capital. One ecosystem

51 Defined as having articulated a core objective to generate a positive social or environmental impact and who seek to grow to financial viability and sustainability.

52 Latest data as of 2013.

53 Dalberg interviews and analysis.

interviewee noted that there was a circular or chicken-and-egg effect with SME reluctance to seek formal financing. A lack of information on financing vehicles constrains entrepreneurs from growing their firms and installing more formal controls and management processes. This tendency in turn leads them to have difficulty in accessing the typical forms of debt financing, which perpetuates a distrust of unaffiliated third-party investment. Regardless, WAEMU regulation requires commercial financiers in Senegal to be very risk-averse. Such regulation bans most institutional investors⁵⁴ from taking private equity stakes and imposes significant reserve and collateral requirements for lending while capping retail interest rates. Both lenders and borrowers identified gaps in formal financing for nearly every kind of imaginable instrument, ranging from short-term working capital and trade finance to long-term loans for capital expenditure.

- **Lack of awareness about impact investment instruments, leading to underutilization of funds.** Growing SMEs struggle to obtain investment due to the constraints detailed above, but they also often lack the awareness that pools of capital exist offering more favorable terms than typical commercial investors, especially from “impact-first” fund managers.⁵⁵ Enterprises are also reluctant to accept equity investment. Since most SMEs begin as family-owned and operated businesses, entrepreneurs often hesitate to grant unaffiliated third parties or institutions a stake. This reluctance is often attributable to a lack of knowledge concerning exit and buyback options. One ecosystem actor noted, for example, that most firms are not even aware that minority and time-bound equity stakes exist.

4. ECOSYSTEM FOR IMPACT INVESTING

Regulatory Environment

Senegal’s membership in the WAEMU zone is a large determinant of its regulatory environment. Combined with extensive public sector involvement and management in the economy, this confers both advantages and challenges on the investing environment:

- **Monetary stability and low-risk growth profile.** The stability of the franc limits risk arising from currency volatility, but the monetary and capital constraints required to maintain the euro peg inhibit speculative financial risk-taking and liquidity throughout the formal economy.

54 All domestic banks taking retail deposits and insurance companies.

55 “Assessment of Impact Investing Policy in Senegal,” Dalberg (2012). Available at http://dalberg.com/documents/Impact_Investing_Senegal_Eng.pdf.

- **Public participation in the economy.** Public financing injects significant liquidity into the investment market. The Government of Senegal is a shareholder in nearly all medium and large formal-sector enterprises, and exerts further indirect influence through vehicles such as the Institution de Prévoyance Retraite du Sénégal (IPRES), the national public retirement fund, which is one of the country’s largest institutional investors. Further, interviewees noted that the agricultural sector has benefited from direct state subsidies and concessionary loans from CNCAS.

However, government involvement has also crowded out private sector investment and inhibited productivity in certain sectors. Among MFIs, zero-interest finance is occasionally extended by government agencies and has led to the continuation of unsustainable operations. Further, several prior investments by the Senegalese Government under previous administrations have failed due to mismanagement and corruption—a prominent case is the disastrous decline in the performance of the peanut value chain, which remains a staple as well as top export crop, but went through an extended crisis starting in the 1990s.⁵⁶

Efforts to Support Development of the Impact Investment Market

TYPES OF ACTORS

The recent emergence of ecosystem support actors in Senegal is a welcome development, responding to the tremendous need for enterprise support and technical advisory in tandem with structural efforts to incentivize formalization and reduce the cost of doing business (Figure 10).

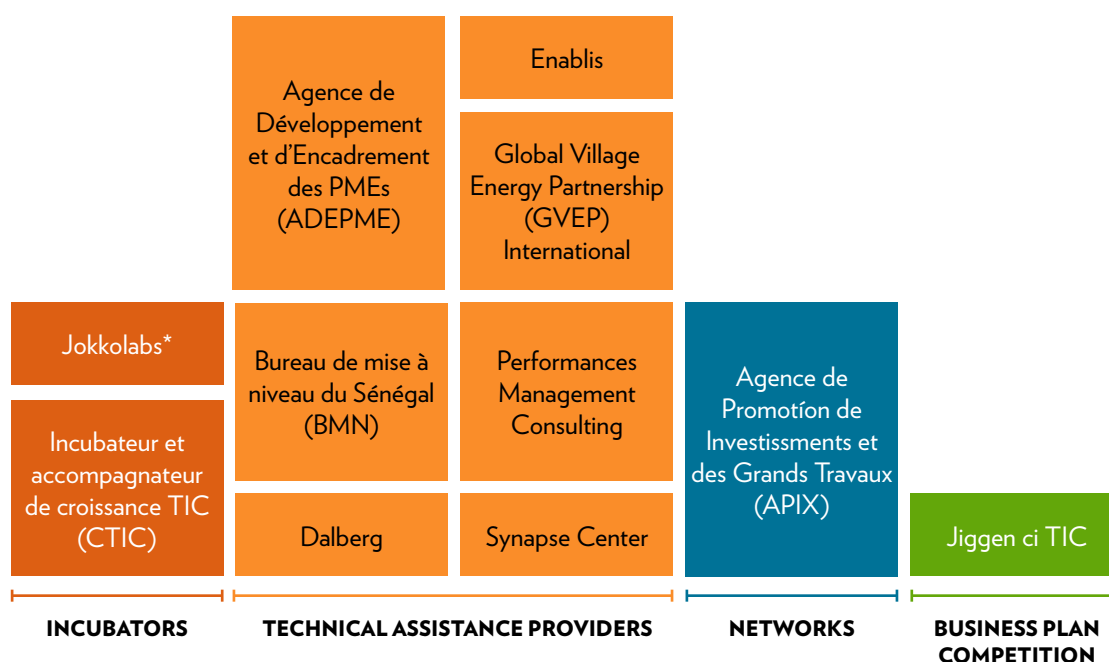
Two incubators, CTIC and Jokkolabs, have been launched with a focus on ICT-enabled services. Jiggen ci TIC is an example of a national business competition, and also focuses on ICT. The attention paid to ICT is due to the rapid growth in the number of technology-enabled enterprises in Senegal. In addition to hosting French-language outsourced call centers, the country is experiencing growing startup activity in e-commerce (for instance, Rocket Internet’s introduction of Hellofood, Kaymu, Jovago and other digital retail sites). Further, an increasing number of mobile applications and mobile payment platforms are emerging, though limited literacy and network coverage have limited the uptake in Senegal and West Africa as compared to other regions.

In the last 15 years, the Senegalese government established the national investment promotion agency, APIX (Agence de Promotion des Investissements et des Grands Travaux), and reinforced the national SME support agency, Agence de Développement et d’Encadrement des PME (ADEPME), to provide direct technical support and enable business advisory and networking for their respective constituencies. A special “Office for Scaling” (Bureau de Mise à Niveau, BMN) also

⁵⁶ “L’arachide au Sénégal: état des lieux, contraintes, et perspectives pour la relance de la filière,” Noba, K. et al (2014). Available at: <http://www.ocl-journal.org/articles/occl/pdf/2014/02/occl130020.pdf>.

exists to improve businesses' competitiveness via access to advice on technology, marketing, and human resources. Enablis is a nonprofit business incubator offering closely tailored business coaching as well as networking. Expanding on its presence in other capitals in Africa and Latin America, Enablis launched in Dakar—and francophone West Africa⁵⁷—in 2014 and aims to rapidly grow its network to 60 fee-paying members this year. The Global Village Energy Partnership International (GVEP) provides similar support targeted at energy sector SMEs. Finally, there are two management consulting firms with Dakar offices that provide technical advisory.

FIGURE 10. SENEGALESE ECOSYSTEM ACTORS, JULY 2015



*Also present in other West African countries

Source: Desk research; interviews

In addition to ADEPME, APIX, and BMN (discussed above), the government has refreshed or launched since 2012 three institutions with an explicit aim to drive job creation and SME access to finance and growth: a commercial small business bank (BNDE), a national sovereign wealth investment fund (FONSIS), and a national loan guarantee and capitalization fund (FONGIP).

- BNDE has a capitalization of USD 45 million, of which 70% is intended to explicitly benefit SMEs with target interest rates of 9% to 10%.
- FONSIS, the national sovereign wealth fund, has a direct mandate from the government to target job creation and to secure at least 12% annual returns for

57 Enablis also opened a branch in Mali in 2014.

future generations of Senegalese citizens. While it does not attempt to evaluate impact in an exhaustive manner—one interviewee noted that to do so would be “attempting to define the indefinable”—FONSIS aims to multiply its financial leverage by ten times through attracting outside investors to proposed deals, which are packaged in five- to seven-year funds. It would like to create jobs in the tens or even hundreds of thousands while deploying 20% of its capital to SMEs, and has to date made equity placements in organic farming, thermal energy, and domestic pharmaceutical manufacturing.

- FONGIP has deployed USD 25 million in guarantee funds alongside international DFI actors providing similar instruments (AFD and IFC). FONGIP partners with commercial banks to reach a portfolio of at least 70% SMEs and aims to halve the SME financing gap in Senegal by 2017. It lends to MFIs at concessionary rates of 1.5% to 2%.

These institutions complement the national agricultural bank (CNCAS) and nonprofit microfinance intermediary fund (Sen Finances), both of which have been active for decades.

MAIN OPPORTUNITIES AND CONSTRAINTS

Other than the structural fundamentals in the business environment and WAEMU monetary zone, the main constraint to the investment ecosystem noted by interviewees is a lack of financial and human resources to further accelerate the efforts catalyzed in recent years. One interviewee gave extensive examples of further technical advisory that could be offered to SMEs with more time and resources, ranging from financial coaching sessions with retired bankers to leadership coaching and business plan pitch and presentation demonstrations. Beyond the high-potential sectors cited in the Supply section above, ecosystem actors cited several key opportunities emerging to catalyze investment in Senegal:

- **Sustained policy priority.** All interviewees agreed that the strategy and policies set out under the “Emerging Senegal Plan” mark an important shift toward SME and private sector development that must be sustained. One interviewee expressed the view that he had “never seen an emerging economy that did not have strong government intervention succeed.” Given the civil law structure prevailing in Senegal, legislation and decrees are required to drive regulatory interventions. The momentum reflected in the Doing Business rankings represents the first steps for engineering a more dynamic economy. However, as approaches and institutions supported by national policy proliferate, there is also a risk of fragmentation and policy incoherence if institutions do not compete, or otherwise coordinate and collaborate to avoid duplication. Some interviewees remarked that ongoing government initiatives could be better communicated to SMEs and entrepreneurs, and also that such policies should continue their recent improvement of being carefully targeted to avoid distorting markets.
- **Regional credit bureau.** A promising development linking public policy and investment to private enterprise is the imminent process to establish the WAEMU zone’s first-ever regional credit bureau, accorded to private provider Creditinfo VoLo. The BCEAO Central Bank and IFC have led the effort, with a view to

enabling SME formalization and finance, and growing the volume of loans throughout the WAEMU zone by 45% from 2012 to 2017.⁵⁸

- **Harnessing domestic and diaspora finance.** There are a number of well-known HNWI's in Senegal but, until now, no individual impact investor has emerged—at least publicly— along the lines of Tony Elumelu in Nigeria. Furthermore, given the disproportionate share of Senegal's population abroad and the economic clout of this group reflected in remittances, further efforts can be made to harness the human and financial capital of this group to support domestic investment and not just consumption. Ethiopia's successful use of a "diaspora bond" to finance public infrastructure offers a case study.⁵⁹
- **Increasing SME and investor maturity.** Interviewees expressed hope that their past and current attempts to build enterprise capacity will bear fruit. In the future, they expect to see businesses building the necessary administrative and economic infrastructure through supplier-customer relationships as well as generating healthy competition, enabling an overall growth of the private sector and broader economy. Although there is an obvious self-interest in ecosystem actors advocating for more resourcing and scale of their activities, it is notable that until recently Senegal has lacked well-known "business development support" actors like TechnoServe or the Dutch organization SNV. Whether nonprofit or for-profit, such groups have catalyzed the social enterprise landscape and private sector development in other countries. The launch of groups such as the Synapse Center and Enablis over the past five years represent promising developments.

58 "Zone Uemoa: le premier bureau d'information crédit attend en juin 2015," Jeune Afrique (2015). Available at: <http://www.jeuneafrique.com/3841/economie/zone-uemoa-le-premier-bureau-d-information-cr-dit-attendu-en-juin-2015/>.

59 "Diaspora bonds: some lessons for African countries," AfDB (2012). Available at: http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Economic_Brief_-_Diaspora_Bonds_Some_Lessons_for_African_Countries.pdf.

ANNEX: LIST OF INTERVIEWEES

Note: Actors listed as “supply” are not necessarily impact investors

| Actor category | Interview location | Organization | Type |
|----------------|--------------------|--|------------------------|
| Supply | Ghana | Acumen Fund | Fund manager |
| Supply | Ghana | JCS Investment Limited | Fund manager |
| Supply | Ghana | Lundin Foundation | Foundation |
| Supply | Ghana | Venture Capital Trust Fund | Government fund |
| Supply | Nigeria | Alitheia Capital | Fund manager |
| Supply | Nigeria | Doreo Partners | Fund manager |
| Supply | Nigeria | International Finance Corporation (IFC) | DFI |
| Supply | Nigeria | Sahel Capital Partners | Fund manager |
| Supply | Senegal | Banque Nationale de Developpement Economique (BNDE) | Fund manager |
| Supply | Senegal | The West African Development Bank (BOAD) | DFI |
| Supply | Senegal | Banque Sahélo-Saharienne pour l'Investissement et le Commerce (BSIC) | Institutional investor |
| Supply | Senegal | CGF Bourse | Institutional investor |
| Supply | Senegal | Caisse Nationale de Crédit Agricole du Sénégal (CNCAS) | Institutional investor |
| Supply | Senegal | Fonds de Garantie des Investissements Prioritaires (FONGIP) | Fund manager |
| Supply | Senegal | Fonds Souverain d'Investissement Stratégiques (FONSIS) | Fund manager |
| Supply | Senegal | International Finance Corporation (IFC) | DFI |
| Supply | Senegal | Investisseurs et Partenaires (I&P) | Fund manager |
| Supply | Senegal | Root Capital | Fund manager |
| Supply | Senegal | Sen Finances | Fund manager |
| Supply | Senegal | Teranga Capital | Fund manager |
| Supply | Telephonic | Accion | Fund manager |
| Supply | Telephonic | Adlevo Capital | Fund manager |
| Supply | Telephonic | Africinvest | Fund manager |
| Supply | Telephonic | Alterfin | Fund manager |
| Supply | Telephonic | Broad Cove | Fund manager |
| Supply | Telephonic | Cordaid Investments | Fund manager |
| Supply | Telephonic | Netherlands Development Finance Company (FMO) | DFI |
| Supply | Telephonic | Injaro Investments | Fund manager |

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|-----------|--------------|--|-------------------------------|
| Supply | Telephonic | Leapfrog Investments | Fund manager |
| Supply | Telephonic | Medical Credit Fund | Fund manager |
| Supply | Telephonic | MicroVest Capital Funds | Fund manager |
| Supply | Telephonic | Oikocredit | Fund manager |
| Supply | Telephonic | Shell Foundation | Foundation |
| Supply | Telephonic | Teranga Capital | Fund manager |
| Supply | Telephonic | TIAA-CREF | Institutional Investor |
| Supply | Telephonic | Whole Planet Foundation | Foundation |
| Demand | Ghana | Initiative Development Ghana | Incubator |
| Demand | Ghana | Sinapi Aba Trust | Enterprise |
| Demand | Ghana | Toyola | Enterprise |
| Demand | Nigeria | Africa Exchange Holdings (AFEX) | Enterprise |
| Demand | Nigeria | Africa Training and Management Services (ATMS) Foundation/ Africa Management Services Company (AMSCO) | Technical assistance provider |
| Demand | Nigeria | Andela | Enterprise |
| Demand | Senegal | Mutuelle d'Épargne et de crédit du Djoloff (DJOMEC) | MFI |
| Demand | Senegal | Enablis | Enterprise |
| Demand | Senegal | Laiterie du Berger | Enterprise |
| Ecosystem | Ghana | Ghana Angel Investor Network | Network |
| Ecosystem | Ghana | Ghana Investment Promotion Centre (GIPC) | Technical assistance provider |
| Ecosystem | Ghana | Ghana Institute of Management and Public Administration (GIMPA) Center for Impact Investing | Academic/research body |
| Ecosystem | Ghana | Meltwater Entrepreneurial School of Technology (MEST) | Incubator |
| Ecosystem | Ghana | Servled | Incubator |
| Ecosystem | Nigeria | Co-creation Hub (CcHUB) | Incubator |
| Ecosystem | Nigeria | Enterprise Development Center, Pan-Atlantic University | Academic/research body |
| Ecosystem | Nigeria | Information Technology Developers Entrepreneurship Accelerator (iDEA) | Incubator |
| Ecosystem | Nigeria | Lagos Angel Network | Network |
| Ecosystem | Senegal | Agence de Développement et d'Encadrement des Petites et Moyennes Entreprises (ADEPME) | Technical assistance provider |
| Ecosystem | Sierra Leone | Innovate Salone | Incubator |



ABOUT THE GLOBAL IMPACT INVESTING NETWORK

The Global Impact Investing Network (GIIN®) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see www.thegiin.org.

30 Broad Street, 38th Floor, New York, NY 10004
+1.646.837.7430 | info@thegiin.org | www.thegiin.org