GSG
Driving real impact

STATE OF IMPACT INVESTING:
Perspectives and recommendations from 10 African countries

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About GSG

The Global Steering Group for Impact Investment (GSG) is an independent global steering group catalysing impact investment and entrepreneurship to benefit people and the planet. The GSG was established in August 2015 as the successor to, and incorporating the work of, the Social Impact Investment Taskforce under the UK presidency of the G8. The GSG currently represents National Advisory Boards in 21 countries plus the EU as members. Chaired by Sir Ronald Cohen, the GSG brings together leaders from finance, business and philanthropy to ensure measurable impact is considered in every investment and business decision. Our mission is to harness the energy behind Impact Investment to deliver impact at scale.

About Intellecap Advisory Services

Intellecap is a pioneer in providing innovative business solutions that help build and scale profitable and sustainable enterprises dedicated to social and environmental change. Intellecap Advisory seeks to build institutional capacity and channel investments into the development sector through consulting services, investment banking services, and knowledge and information services. Our work includes innovative and focused initiatives such as capital advisory services, intermediating impact investment capital, innovation management, strategy design, market research, stakeholder engagement and policy advocacy.

Founded in 2002, the Aavishkaar and Intellecap Group have directed USD 600 Million of capital to entrepreneurs working on such challenging problems sustainably through equity funds, venture debt vehicle, microfinance lending or investment banking intermediation.

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About Impact Investment and The Impact Economy

To navigate the complexity of achieving a future where no one lives in poverty and the planet thrives, we need a simple unifying principle: that it is the role of all actors in society to examine how their actions affect the people and the planet.

Impact investment optimizes risk, return and impact to benefit people and the planet, by setting specific social and environmental objectives alongside financial ones, and measuring their achievement. Impact management is a critical practice to reach this potential.

As more people and organizations get involved and become more successful in impact investing, there is a cumulative effect. A vibrant and growing impact economy can develop where businesses, investment and activity deliver tangible improvements in outcomes for people and the planet and people have choices. In the impact economy, businesses use their capabilities to optimize both their positive impact on the world and their financial return. Investors use their resources to optimize business impact, adding and creating value beyond what would otherwise be achieved. The momentum of more positive impact being generated enlivens the possibility of an inspiring future.

About the Report

The GSG is working to develop and strengthen the impact investment ecosystems in Africa. It does so by helping to unlock current supply and attract new capital, as well as by sharing knowledge and building capacity of various stakeholders in the impact investment space through the support to the establishment of National Advisory Boards in several countries in Africa. This report, relying on essential work delivered by other key players and GSG's strategic partners (ANDE, GIIN, British Council and others), provides an overview of the state of the impact investment sector in ten countries in Africa, looking at the five pillars of the ecosystem. This report aims to fill a critical information gap by providing investors and other market players with relevant information on the impact investment landscape in those ten countries. It highlights existing opportunities and challenges for the impact investors and entrepreneurs, and will be used to inform the formation of National Advisory Boards and their subsequent national impact investment strategies.

In addition to providing information on impact investing with this study, the GSG is working to strengthen the ownership and engagement of countries around impact investment. The GSG is currently supporting several countries in Africa in the formation of National Advisory Boards (NABs) for impact investing. A NAB is vanguard for impact investment and serves as a national platform for private, public, and civil society actors to work together to create an enabling environment for impact investing. The findings of this report will therefore contribute to enhanced understanding of ecosystems by future NAB members, as well as provide relevant information as the countries develop their strategies.

Executive Summary

As per the latest survey conducted by GIIN in 2018, the global impact investment market is estimated to be valued at US$ 228 Billion. Emerging markets accounted for over half (56%) of total assets under management, with Sub-Saharan Africa (SSA) accounting for 12% of total AUM as of 2018. Further the survey also highlighted that SSA is becoming a preferred locations for impact investors; 36% of the investors cited it as one of their top three preferred locations for deploying the capital, second to US & Canada.[1] While the industry continues to grow in SSA, the introduction of the Sustainable Development Goals (SDG) has strengthened the framework for impact investing by influencing private capital flows towards addressing some of the worlds' most critical social and environmental challenges.

This report details out the state of the impact investment sector in 10 African countries (Kenya, Ghana, Rwanda, Egypt, Rwanda, Côte D I'voire, Nigeria, Uganda, Senegal and Zambia). It provides and overview of the recommendations to overcome key barriers to growing the impact investment ecosystem in each country.

Key findings of the study

SUPPLY OF CAPITAL

- Impact investments have been increasing in Africa: a total of ~US$ 38 billion was invested in East African, West African and Southern African countries between 2005 and 2015.
- Development Finance Institutions (DFI's) are the most active providers of impact capital in these regions; deploying over ~US$ 31 billion (over 80% of total impact capital) between 2005 and 2015.
- Financial Services, clean energy and manufacturing are amongst the most popular sectors for impact investors across these regions.

▲ Southern Africa

- Southern Africa has attracted comparatively high amounts of impact capital in Sub-Sahara Africa; it received over 58% (US$ 22.4 billion) of total impact capital deployed in East, West and Southern African region between 2005 and 2015.
- South Africa received the majority of this capital: it received US$ 14.7 billon (65% of impact capital in Southern Africa) between the period of 2005 and 2015.

▲ East Africa

- The East African region received around 24% (US$ 9.3 billion) of total impact capital deployed in East, West and Southern African region between 2005 and 2015.
- Kenya, followed by Uganda, are the two most popular destinations for impact investors in the East African region.

▲ West Africa

- West African region received around 17% (US$ 6.7 billion) of total impact capital deployed in East, West and Southern African region between the period of 2005 and 2015.
- Nigeria and Ghana accounted for over 50% of the impact capital deployed in the West African region.
- Zambia and Mozambique are next most favored destinations for impact investors in Southern Africa region.

[1] 2018 GIIN Annual impact investor survey

DEMAND FOR CAPITAL

- Social entrepreneurship is a new phenomenon across the continent; most enterprises began their operations in the last five to seven years.
- Social enterprises face challenges in acquiring the right talent pool. This can result in long time periods to grow and scale the businesses.
- Access to finance is a challenge for most social enterprises across the continent and there is a lack of customized and suitable financing instruments.
- Social enterprises prefer to keep their businesses informal because of tedious regulatory processes creating a challenge for impact investors who need proper documentation and financial records to invest in a business.
- Social enterprises lack effective linkages with domestic and global markets due to the lack of market infrastructure for impact-seeking enterprises.

REGULATIONS AND POLICIES

- While many governments in Africa have taken positive steps to promote entrepreneurship in their countries (for example Kenyan government's initiative to launch Micro and Small enterprises (MSMEs) authority or the Ghanaian government's launch of Venture Capital Trust Fund (VCTF)), there is still limited understanding of social entrepreneurship and impact investing across the continent.
- Most governments do not provide separate recognition to social enterprises and thus there are no policies and regulations that govern social entrepreneurship.

INTERMEDIARIES OF CAPITAL

- Commercial banks and Micro-finance institutions (MFIs) are one of the main sources of capital for social enterprises across the continent; however, access to debt finance remains a challenge for smaller and early growth enterprises as they are unable to provide collateral and guarantees, and cannot afford market-driven interest rates.
- Fintechs and online lending platforms are emerging across the continent and providing an alternative source of capital to startups and early stage enterprises.

ECOSYSTEM SUPPORT

- The ecosystem support i.e. incubation and acceleration support vary considerably across different countries in the region; while Kenya and South Africa have the most significantly presence of incubators and accelerators and many other countries lack the required support. Most incubations, acceleration support is high-touch and demand for such support far outstrips current supply.

Key recommendations

There are a number of barriers and challenges that hinder the development of the impact investment ecosystem. However, these challenges also offer opportunities to various impact investment ecosystem. Some of these opportunities are:

- **Use of flexible investment strategies and innovative financing instruments**: While angel and seed capital are appropriate financial instruments to meet the demand of high growth social enterprises, mezzanine instruments can play an important role for low and moderate growth social enterprises. Most of the impact investors in the market have deployed the same investment vehicles as their commercial counterparts (simple equity and debt), thereby cutting off a significant number of investees from their portfolio. Impact investors could benefit from considering other innovative structures of deploying impact capital, such as tiered venture debt, matching grant guarantee and evergreen fund structures.
- **Recognition for Social Entrepreneurship**: In most African countries, social enterprises are not recognized as a separate entity. The government could benefit from putting in place a favorable regulatory environment that recognizes social enterprises as separate entities and applies favorable economic incentives towards enterprises targeting social or environmental benefits.

- **Increased collaboration amongst investors to reduce due-diligence costs and time**: One of the main reasons expressed by investors for not investing in early stage businesses is the high cost of due diligence. Social Enterprises in the process of fundraising typically undergo due-diligence separately by multiple investors. Such due-diligence costs can be reduced by increased coordination and pooling of data amongst investors; for instance multiple investors can conduct due diligence together and next stage investors can pick up previous due diligence conducted for the enterprise.
- **Unlocking domestic capital and promoting impact investments from high net worth individuals (HNWIs)**: According to a report by New World Wealth, there were approximately 145,000 HNWIs living in Africa as of 2016, with combined wealth holdings of approximately US$800 billion; these numbers increased by 19% between 2006 and 2016 and are expected to increase by 36% by 2026.[2] Promoting investments by these HNWIs will go a long way in supporting early stage enterprises in the region and providing them access to local capital which they are currently lacking. Further, such investors often come from a variety of backgrounds and are able to provide expertise about markets, customers and competitors, sales channels, and through their personal networks can facilitate potential partnerships for these enterprises.
- **Leverage funds from diaspora for investments into social enterprises**: Africa received remittances worth US$ 37.8 billion in 2017.[3] There is potential to tap these remittances, for example through a diaspora fund, to invest in high impact and high growth social enterprises. Remittances from the diaspora population currently lack structure and organization and formal recognition or the formulation of policies that encourage the diaspora will help investments into social enterprise sector.
- **Collaboration between incubators, accelerators, universities and colleges to build entrepreneurship skills amongst youth**: Many countries face the challenge of high unemployment among youth. Universities and colleges are seeking ways in which to more adequately prepare students for employment or entrepreneurship. Ecosystem support providers such as incubators and accelerators and educations institutions such as universities and colleges can collaborate together to develop the curriculum and training pedagogy which meets the skill gaps in the market, such as developing entrepreneurship skills. This can be done through development of incubation centers within the universities/colleges itself.
- **Building robust capital markets**: Most investors look for exit options and with very few such examples, it is a challenge for investors to see growth potential from their investments. With such constrained liquidity in the market, investors are forced to deliberate exit options prior to the investment. Investors generally are most confident placing capital in environments in which economic and entrepreneurial activity are encouraged, and where their rights will be protected. This highlights the need for a robust and strong capital market in Africa to catalyze further investments.

[3] AfrAsia Bank Africa Wealth Report 2017

[4] World Bank report

COUNTRY BY COUNTRY ANALYSIS:

AFRICA

CÔTE d'IVOIRE

Country Context

Côte d'Ivoire has a population of more than 24 million people and a total labor force of more than 8 million people[1]. Côte d'Ivoire had a Gross Domestic Product (GDP) of USD 40.389 Billion (2017). GDP is expected to grow[2] at a rate of 7.8%[3].
In 2017, Foreign Direct Investments (FDIs) inflows into Côte d'Ivoire stood at USD 675 Million, signifying a 17% rise from the year 2016[4]. This is because the Ivorian government, as part of its post-crisis economic reconstruction plan, encourages FDI and is committed to doubling foreign investment. Although the government encourages all foreign investment, French firms have traditionally dominated key sectors of the Ivoirian economy[5]. Côte d'Ivoire went up 2 places in the World Bank's Ease of doing business index[6] and currently stands at number 139. This is partly due to government reforms that have helped ease the creation of companies and attracted foreign investors in the Country[7].

TABLE 1:
FACT CHECKS FOR INVESTORS

FACTORS	INDEX SCORE	DESCRIPTION
GDP Growth (2017)	7.8%	The growth of the economy has been slumping gradually from the year 2015 (10.7%), thereby closing FY 2017 at a rate of 7.8%.
Financial Access		There are 19 commercial banks in the country, 21 licensed MFIs and 26 insurance companies.
Digital Access (2017)	43.8%	43.8% of the population in Côte d'Ivoire are reported to be internet users.
Ease of doing business (2018)	139	Ranked at position 139 in the 2017 Doing Business rankings.
Unemployment rate (2016)	3.7%	Youth (ages 15-24) unemployment rate stands at 3.7%
Inflation rates (2017)	0.83%	Inflation has dropped from 0.83% in the end of 2017 to 0.4% in July 2018
Corruption Index (2017)	103/180	Côte d'Ivoire ranked 103 in the annual Corruption Perception Index of Transparency international.

The Impact Investment Landscape in Côte D'Ivoire

SUPPLY OF CAPITAL

Côte d'Ivoire has gained the attention of impact investors: It was the third largest recipient of impact capital in West Africa (2005-2015).
Abidjan – capital of Côte D'Ivoire is the headquarters of the African Development Bank (one of the largest and most active Development Finance Institution (DFIs) on the continent). Côte d'Ivoire is the fourth fastest growing economy in West Africa[8] and is gaining investors' attention due to its political stability and positive outlook for economic growth.A report by the Global Impact Investing Network (GIIN) indicated that Côte d'Ivoire was the third largest recipient of impact capital accounting for USD 879 Million in direct DFI investments and USD 11 Million in direct private impact investments in the 2005-2015 period[9]. The large majority of the DFI investments have been channeled into the energy and the infrastructure sectors, whilst non-DFIs focus primarily on agriculture and financial services.

An increasing number of Ivory Coast based companies are listing on the Bourse Régionale des Valeurs Mobilières SA[10] (BRVM), providing impact enterprises and investors with additional incentive for expanding their activities into the region.
The BVRM, which is located in Abidjan, provides a convenient source of capital for local enterprises and exit option for impact investors, and is available to both foreign investors and impact enterprises. Currently, of the 51 companies listed on the stock exchange, 28 are Ivorian based companies. The BVRM is widely regarded as an important factor forimpact enterprises and investors considering Côte d'Ivoire for their activities.

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1 World Bank Data, Available at: https://data.worldbank.org/indicator/SP.POP.TOTL?locations=CI, and: https://data.worldbank.org/indicator/SL.TLF.TOTL.IN?locations=CI

2 According to the 5th National Development Plan, the government aims at boosting economic growth in Zambia through policy interventions relating increased investments to grow the agriculture, tourism, manufacturing and energy sectors as well as improving mining activities, public economic infrastructure in transport and communication especially in rural areas.

3 The World Bank

4 According to UNCTAD Zambia Fact Sheet (2018), investments worth USD $ 577 Million were channeled into Zambia from foreign sources in 2016.

5 According to FDI Intelligence, France was the number one source of FDI inflows into Ivory coast accounting for 19% of all FDI investments at a total value of USD $ 1,295 Million.

6 World Bank: Ease of Doing Business 2018

7 These include the creation of Centre de Promotion des Investissements en Côte D'Ivoire (CEPICI) to shorten company registration lead times that is the creation of companies within 24 hours after the application of company registration.

8 GDP Growth rate of 7.2% (World Bank: 2018)

9 GIIN: The Landscape for Impact Investing in West Africa – Regional Overview (2015)

10 A regional stock exchange serving the 8 WAEMU countries including Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger and Senegal

Since the political crisis of 2010-2011[11], the financial sector in Côte d'Ivoire has seen sustained double digit growth.
Côte d'Ivoire's political crisis has not dampened economic growth[12]. – since 2010 the countryexperienced an aggregate growth rate of around 9%, which has benefited the country's financial services industry[13]. The banking sector, a formidable source of capital, has seen sustained double-digit growth since 2011, reinforcing the country's role as the UEMOA bloc's primary banking centre[13above]. According to the World Bank, if Côte d'Ivoire's financial sector were to reach comparatively similar levels of development as South Africa's, the country's entire economic growth rate would increase another 5% on top of existing levels. The regime change meant better environments for business and industry thereby earning the country the third highest amount of impact investments between 2005 and 2015.

DEMAND FOR CAPITAL

Small and medium-sized enterprises (SMEs) play a significant role Côte d'Ivoire's economy
80 percent of companies are SMEs[14], with the most common forms of businesses being Sole Proprietorships, Limited Liability Companies (LLC) and Public Limited Companies (SA).

There is a significant supply of capital available to impact enterprises from France and other Francophone countries
Francophone impact enterprises generally, and Ivoirian ones specifically, raise most of their capital from French investors. One such enterprise is Janngo, which raised USD 1 million in May 2018 from French investors including Naxitis. Another is Coliba[15] which raised capital from French investors through crowdfunding. The reason for this is threefold. Firstly, this can be largely attributed to an ease in cultural integration and a common language. Secondly, this is because most investors[16] who lack local offices in Cote d'Ivoire do operate from French speaking European countries. Lastly, Côte d'Ivoire is heavily influenced by French business practices and technical standards which are very different from the rest of non-francophone Africa. It follows that enterprises in Côte d'Ivoire that are looking to scale throughout non-francophone Africa will have to bear the (sometimes significant) costs associated with this[17]. The challenge remains for startups in francophone Africa to secure funding from investors in English speaking countries[18].

REGULATORY ENVIRONMENT

The government is taking initiatives to increase the ease of doing business for both local and foreign businesses.
The government has been establishing agencies and enacting legislation to drive up the economy through enterprise. Legislation such as the Investment Code, which was enacted in 2012 aims to catalyze investments in Côte d'Ivoire largely because of the presence of incentives to investors. In the same year, the government set up CEPICI to act as a one stop shop for business registration and investment promotion. CEPICI has a clear mandate to shorten company registration lead times to 24 hours. The creation of companies within 24 hours after the application of company registration[19] has propelled Côte d'Ivoire up the doing business rankings[20] and made it easier for foreign, local impact ecosystem players to start operations in the country. In 2014, the government in Côte d'Ivoire further made starting a business easier by reducing the notary fees and replacing the requirement for a copy of the founders' criminal records with one for a sworn declaration at the time of company registration[21]. The government also made starting a business easier by reducing the minimum capital requirement and lowering registration fees in 2015[22].

In addition, Cote d'Ivoire has set up national ministries, agencies, policy organizations (independently from the WAEMU framework) that seek to drive up enterprise activity and investments. These include an investment promotion agency and ministries that seek to create and issue policies to drive commerce in the country. The government has enacted measures to control and monitor foreign exchange flows, for example, the external finance and credit office of the Finance ministry must approve investments from outside the West African Franc (CFA) zone. The Ivorian government has also put in place a National Development Plan that includes plans for infrastructure development – most notably in the power sector –that calls for adding 150 megawatts to the grid every year until 2020. Further, the Government has adopted an ambitious strategy to develop and support the growth of a culture of entrepreneurship and innovation and aims that SMEs should contribute to 20% of GDP.

Côte d'Ivoire has differential payroll taxes for local and foreign employees.
Payroll Taxes are levied at the rates of 2.8% for local employees and 12% for expatriate employees on the total taxable remuneration, including salaries, benefits, and benefits in kind[23]. This high tax rate can make it more difficult for foreign impact investors and investment firms to set local offices and hire expatriate talent to support their investment operations in Côte d'Ivoire.

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11 This crisis ensued when Laurent Gbagbo, the immediate former President was proclaimed winner in the 2010 election. Violence erupted which was followed by military force brought by his contender Alasanne Ouattara. The end to the crisis occurred on 11 April 2011 upon the capture and arrest of Gbagbo by pro-Ouattara forces backed by French forces.

12 Côte d'Ivoire's GDP kept growing, although slowly through 2010, 2011 and 2012. According to the World Bank, the country's GDP throughout these years was at 24.88%, 25.38% and 27.04% respectively.

13 Oxford Business Group, available at: https://oxfordbusinessgroup.com/overview/key-changes-country-looking-maintain-high-growth-restructuring-and-reinvigorating-sector

14 UN CDI Country Presentation (2018)

15 Techmoran: Coliba collects plastic bottles from businesses and households in exchange for points that can be tracked via SMS. Once accumulated, these points are converted into vouchers to purchase food products, school kits or beauty products.

16 These include BPIFrance who in 2017 set up a cross-border investment fund targeting Small and Medium enterprises. Other participants in the fund include French investors such as Société Générale and Orange, and Proparco (the AFD group)

17 https://www.export.gov/article?id=Côte-d-Ivoire-Trade-Barriers

18 Startups in Anglophone Africa raised more funding than their Francophone Africa counterparts in 2017; https://www.wamda.com/2018/05/ivory-coast-attempting-lead-francophone-african-entrepreneurial-ecosystems

19 https://www.export.gov/article?id=Côte-d-Ivoire-Establishing-an-Office

20 Côte d'Ivoire is ranked at number 139 in the World Bank doing business rankings (2018) The country stands at number 44 when it comes to starting a business.

21 World Bank Doing Business Rankings 2014

22 World Bank Doing Business Rankings 2015

23 PwC: Tax Summaries - http://taxsummaries.pwc.com/ID/Ivory-Coast-Corporate-Other-taxes

There are restrictions on foreign investment in the healthcare, legal, accounting and travel sectors[24].
The government of Côte d'Ivoire has imposed limits and restrictions on foreign investments in certain sectors. This is a particular impediment to impact investments in the healthcare sector as it bars impact enterprises in the healthcare sector from attracting and receiving capital from foreign sources.

Côte d'Ivoire strictly monitors and regulates the movement of foreign exchange, which can cause delays in fund transfers
Côte d'Ivoire regulation requires that any foreign exchange transaction, movement of funds or payments between a WAEMU member and a non WAEMU country must be done through the Central Bank of West African States (the BCEAO), post-offices or authorized agents. This results in backlogs as the Central Bank of West African States monitors all share, asset and fund transfers in the region.

INTERMEDIARIES OF CAPITAL

Decreasing mandatory interest caps have negatively impacted the MFI sector.
In 2013, the West Africa Economic and Monetary Union lowered the interest rate ceiling by 3% to 24%[25]. The maximum effective interest rate banks could charge was 15% and MFIs could charge 24%. The average interest rate in the banking sector has fallen between 7% and 8% compared to the 10% to 11% rate in 2011[26]. This is significantly below the level of interest charged in the region's other major economies, Nigeria, which was 14%, and Ghana, which was 25.5% as of January 2017.

This interest rate capping has dis-incentivized microfinance institutions from entering the most economically underdeveloped segments. Since, MFIs serve as a critical source of funding for the start-ups, SMEs which would not be able to otherwise access capital from the banks or other funders, reduction in interest rate caps for MFIs has resulted in decrease in risk taking appetite of MFIs and leasing to reduction in capital disbursement to these set of businesses.

Diaspora funds are a key source of capital that have fuelled the success of crowdfunding platforms.
Côte d'Ivoire enjoys a strong diaspora base in France and Canada. These often participate in the economic growth of their home country through remittances. Remittances into Côte d'Ivoire have been on a steady rise since 2008[27], despite a slump in 2011 and subsequent revival in 2016 to date[27 above]. France still remains the top year on year European source of remittances into Côte d'Ivoire[28]. A strong diaspora presence is fueled by immigration and refugees[29]. This diaspora resource has been tapped by the growing number of local crowdfunding platforms that connect local enterprises to diaspora capital as well as international crowdfunding platforms that connect the Ivorian diaspora to channel impact capital in their home country.

ECOSYSTEM SUPPORT PROVIDERS

The fast increase of tech hubs provides an opportunity for tech based enterprises to grow, however there remains a need for other ecosystem support players to emerge[30]
There are few ecosystem support players in Côte d'Ivoire[31] - a significantly lesser presence of incubators and accelerators than Nigeria and Ghana[32] but a considerable number of research and knowledge organizations. However, this is changing with the emergence of tech hubs as well as international ecosystem players that source for and support enterprises in Côte d'Ivoire. GSMA[33] has estimates the presence of 13 tech hubs in Côte d'Ivoire, a rise from just 4 in 2015[34]. Further, ecosystem support players are increasingly acquiring funding from DFIs, the government, international philanthropic organizations and corporations[35] to run their programs as existing entrepreneurs are unable to afford their services.

KEY CHALLENGES IN CÔTE D'IVOIRE

- **Prevalence of informal or semi-informal SMEs[36]:** This is attributable to the informality of SMEs in Ivory Coast. The high degree of enterprise informality is common across West Africa, and Ivory Coast is no exception, with an estimated 70% of total Ivoirian SMEs being informal or semi-informal. This means that most SMEs have a short-term vision and limited growth capacity, as well as a lack of proper financial and enterprise management practices, and insufficient assets to pledge as collateral[37].
- **Ecosystem support providers are not widely regarded by SME's as offering clear tangible benefits**: Typically, SME's have been resistant to the notion of support from ecosystem support providers. The main reason cited for engagement with ecosystem support program has been clear and credible opportunity to improve access to financing[38]. This is partly due to a lack of effective communication and education about the value such programs can yield.

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24 https://www.export.gov/article?id=Côte-d-Ivoire-openness-to-foreign-investment

25 CGAP: http://www.cgap.org/blog/worrying-trend-interest-rate-caps-africa

26 Oxford Business Group: https://oxfordbusinessgroup.com/overview/key-changes-country-looking-maintain-high-growth-restructuring-and-reinvigorating-sector

27 World Bank: Personal remittances into Côte d'Ivoire stood at USD 198 Million in 2008, at USD $ 396 Million in 2011, at USD $ 342 Million in 2016 and USD $ 379 Million in 2017.

28 According to Pew Research Centre, USD $47 Million was channeled into Côte d'Ivoire from France in 2016. Data available at: http://www.pewglobal.org/interactives/remittance-map/ Further, according to KNOMAD, over USD $ 52 Million was received by Côte d'Ivoire from France in 2017

29 According to UNICEF – over 2.4 million Ivorians migrated from Côte d'Ivoire in 2013. Data available at: https://esa.un.org/miggmgprofiles/indicators/files/CôteIvoire.pdf

30 Financial Times: https://www.ft.com/content/8d5eb950-169e-11e5-b07f-00144feabdc0

31 Financial Times: https://www.ft.com/content/8d5eb950-169e-11e5-b07f-00144feabdc0

32 According to the GSMA Tech Hubs Landscape report (2018), Côte d'Ivoire has an estimated 13 hubs, while Nigeria and Ghana has 55 and 24 respectively.

33 According to the GSMA Tech Hubs Landscape report (2018), Côte d'Ivoire has an estimated 13 hubs, while Nigeria and Ghana has 55 and 24 respectively.

34 The World Bank, data available at: http://pubdocs.worldbank.org/en/652861444073319429/AFC41639-9-25-15.pdf

35 In 2016, Societe Generale launched Catalyst – an accelerator programme targeting tech startups in Ivory Coast. In 2017 MTN helped establish Y'ello Startup in Abidjan.

36 Hugues Kouadio: Constraints of SME in West Africa: the case of Côte d'Ivoire after the crisis (2015)

37 Dutch Good Growth Fund: #ClosingtheGap: An assessment of the entrepreneurial ecosystem in Ivory Coast (2017)

38 Ibid

RECOMMENDATIONS

The following recommendations surface from impact investment landscape analysis of Côte D'Ivoire

▲ Supply of capital

- There is an opportunity for intermediaries of capital to encourage the use of digital and mobile phone solutions as a tool for SME's to access finance. This has the benefit of facilitating the delivery and repayment of funds, whilst providing a way to track SME credit scores. This reduces the inefficiencies present in the current agency model of microfinance which is capital intensive to MFIs.
- Supply side and ecosystem support players could promote the development of one centralized platform for the promotion of ecosystem support and financing sources for SME's. This would enable local enterprises, ecosystem support providers and impact investors to find each other in a more effective way.

▲ Government

- A review of the interest rate capping to incorporate the interest of all stakeholders would likely benefit the SME sector. In depth consultations between intermediaries of capital and The Central Bank of West African States (BCEAO) are recommended to ensure robust and beneficial systems of interest rate capping which enable SME's to access debt finance where appropriate.
- Education and advocacy to reduce the real and perceived risk barrier the exists between Francophone and Anglophone countries in Africa. This may be achieved through education and interchange of cultures, and would result in more non-francophone impact investors looking at possible investments in the country.
- Monetary and fiscal incentives to promote the creation and growth of impact enterprises and impact investors would broaden the sector. Potential measures would include the introduction of tax holidays, tax cuts to NGOs, new startups as well as investors who channel capital into these enterprises.
- Increasing the speed and efficiency with which foreign investment can be made would increase the flow of impact capital into the country. The WAEMU Monetary council ought to consider relaxing its regulations and controls on foreign currency, whilst increasing the transparency of the legislation it creates. Its approvals of foreign investments into the economic block ought to be transparent and the systems made clear to impact investors and enterprises. This would likely provide increased flow of capital in currencies other than the Central African Franc.

EGYPT

Country Context

Long known for its pyramids and ancient civilization, Egypt is the largest Arab country in Africa, and has played a central role in Middle Eastern politics in modern times. The country has a total population of 95 Million (2016), highly concentrated along the Nile river as large swathes of the rest of the country are desert.

Egypt has a GDP of USD 336 Billion (2016). The uprising of 2011 increased the perceived risk of investing in the country, caused the collapse of the tourism sector and the sharp reduction of FDI inflow in the country. These factors resulted in the country's financial crisis and the depreciation of the Egyptian pound (EGP) which has lost 70% of its value over the last 5 years. Recently, the country's economic situation has improved after the government started to implement different economic reforms to spur economic growth.

Egypt ranks 165th worldwide and 4th in Africa in terms of Venture Capital/Private Equity (VC/PE) Attractiveness at a score of 57.1.[1] In the first half of 2018, 21 investment deals had been closed in Egypt ranking it 3rd after Nigeria and Kenya.[2] By the end of the first half of 2018, 6 of 9 ecommerce companies that received funding by Africa were based in Egypt, illustrating its positioning as an ecommerce hub for Africa.[3]

The Impact Investment Landscape in Egypt

SUPPLY OF CAPITAL

While there are many private equity investors that are currently present and deploying capital in Egypt, presence of private impact investors is still limited.
As of 2016, Egypt ranked second after Morocco at 40% (USD 960 million) in terms of the percentage share of Private Equity (PE) deal value in North Africa.[4] However, in terms of Impact investments, the MENA region attracted the second smallest share of investment representation and general investor interest globally. According to the JP Morgan, GIIN report (2015), only 3.7% of impact funds focus on MENA with only 2% of assets under management earmarked for in the region[5].

However, the situation is gradually improving with increased participation from different stakeholders such as government setting up some impact funds, increased interest by youth in Social entrepreneurship and the development of a vibrant ecosystem support. Some of the key suppliers of capital in the country include: USAID, Shell foundation, Gates foundation, MasterCard foundation, IFC, Abraaj, Sawari VC, Endure Capital, Egypt Ventures, Willow Impact, Grofin, HIVOs and Endeavor.

Similar to in other Africa countries, funds that are not domiciled in Egypt also actively invest in Egyptian businesses. For example Endure capital is headquartered in California, but invests in Egyptian startups. Willow Impact which has offices in Dubai and Nairobi is focused in the East Africa, North Africa and the Middle East regions.

TABLE 1:
FACT CHECKS FOR INVESTORS

FACTORS	INDEX SCORE	DESCRIPTION[6]
GDP Growth (2018)	5.2%	Egypt's GDP stood at to 5.2% by H1 2018 and is forecasted to grow gradually to 5.8% by FY20.
Financial Access (2017)	33%	The account penetration as of 2017 stood at 33%. The total number of banks in Egypt is 38 and subscribers to the mobile financial service is 7.9 Million
Digital Access (2016)	35.9%	39.5% of the population in Egypt are reported to be Internet users
Ease of doing business (2018)	128	Egypt ranks 128 having dropped 6 places from 2017
Unemployment rate (2018)	11.3%	The unemployment rate by end of Q3 2015 stood at 12.8% and declined to 11.3% by Q2 2018.The IMF predicts a further decline to 9.7% in 2019
Inflation rates (2018)	14.4%	Annual inflation rate increased to 14.4 % in June 2018 up from 11.4% in May. The IMF also expects inflation rates in Egypt to fall to 13% in 2019
Corruption Index (2017)	117	Egypt ranked 117 in the annual CPI of transparency international

1 https://blog.iese.edu/vcpeindex/

2 Wee tracker_Africa startups and VC ecosystem report_H1 2018

3 Wee tracker_Africa startups and VC ecosystem report_H1 2018

4 AVCA: Spotlight on North Africa private equity

5 JP Morgan, GIIN: Perspective on progress (2013), JP Morgan, GIIN: Eyes on the Horizon (2015)

6 http://hdr.undp.org/en/countries/profiles/EGY

Islamic financing in Egypt contributes to a majority of impact capital in the country.
In Egypt, Islam is recognized as the state religion with an estimated 90% of the population being followers of the religion which fosters the practice of Islamic financing. One such principle for Islamic financing is Zakat, which is a mandatory charitable contribution by the wealthy to the poor and is considered to be an obligatory aid. Historically, zakat is expected to be a 2.5% of a Muslim's total savings and wealth above a minimum amount. In Egypt, a specialized state institution was formed to manage funds from zakat. The fund managers of Zakat Fund are mandated to select projects that benefit the poor and create impact in the society. This funding takes some characteristics of impact investments, though there are no expectations of returns in these Zakat monies.

Further, income from investment is forbidden (Principle of Riba as per the Islamic laws); therefore modern Islamic investment managers provide mechanisms to their clients, to channel their interest income into social and economic causes through the use of zakat. This therefore alludes to the fact that if the pool from which zakat is collected is increased, elaborate collection channels established, and the capital is managed well, the potential for zakat as a source of capital for the businesses creating impact is very high.

High Net worth Individuals (HNWIs) and crowdfunding platforms are actively supplying capital to start-ups in the country.
Local investors are actively supplying capital in the country, evidenced by the growing number of angel networks. For instance, Cairo Angels, launched in 2011, is a network of over 80 angels with over 50% of them actively investing between USD 14,000 –USD 112,000. By end of 2017, Cairo angels had made over 20 investments amounting to over USD 2.2 Million. Another such network is Nile angels, a network that was seeded by GIZ and a group of 10 angel investors. It seeks to support Startups based in Upper Egypt and Nile delta.

Crowdfunding platforms are also emerging as a source of impact capital in the country. As of 2015, Egypt had 5 crowd funding platforms which in aggregate had raised USD 842,000 for various projects.[7] Such platforms include Shekra which provides investment readiness support to the promoter of a project before being promoted to a closed network of investors, Madaad which relies on public funding where sustainable impact focused projects/ NGOs are identified and selected to fund raise through the platform and Yomken-it combines crowdfunding with open innovation. Such crowdfunding platforms are filling the gap in early stage financing.

The government of Egypt has started to play an active role as the financier of impact capital for the micro and social enterprises (SEs) in the country.
The Egyptian government has recognized the role that micro and small social enterprises play in driving economic growth through job creation. It has therefore actively promoted the growth and competitiveness of startups through providing technical support and offering incentives to investors who supply capital into certain high priority areas.

In addition, the government is setting up funds, through partnerships with donors and private sector, which are investing directly into SEs or supporting ecosystem support providers that support the growth of SEs. For instance, in 2017, the government together with UNDP signed a letter of intent to establish the first 'National Impact Investment Fund' in Egypt to co-invest and offer capacity building support for companies whose objectives include poverty reduction, employment creation and provide sources of renewable energy to households. Similarly, '*Bedaya*' is a USD 17 Million governmental fund that is private sector led. The fund targets SMEs with a paid-in capital of between EGP 2 million - EGP 50 million (~USD 111K - 2Million) and invests in ticket sizes of up to EGP 15 Million (~USD 836K) in equity, investing in sectors such as Food and agriculture, Manufacturing, Services and IT with a special focus on clean tech/green field projects in remote areas. Similarly, '*Egypt Ventures*' is a sector agnostic USD 25 million (EGP 451 million) fund that was seeded by the Ministry of Investment and International Cooperation in 2017. The fund directs capital into accelerators, venture capital firms, and startups at the early and growth stages that promote socio-economic development and uses a blended financing model.

DEMAND FOR CAPITAL

Egypt has been seeing increased awareness and interest in Social Enterprise sector though existing Government policies are not very favorable to the sector

- Social enterprises in Egypt are not recognized as a separate entity and have the option of registering as a for-profit company or NGO. If it is a for-profit, the most common business registration used is joint stock companies, limited liabilities company or branch offices. Foreign SEs are allowed to set up in the country but are only deemed to have permanent establishment (PE) if it establishes a local entity that will be governed by the Egyptian laws. The key players are either registered as non-profits or companies/ SMEs.
- Social Enterprises or fair trade organizations in Egypt have no provisioning under law to receive tax incentives (if registered as for profits) and are treated no differently from traditional companies.
- Many SEs are being founded by experienced promoters, which is an encouraging trend as such individuals contribute to the business their management and transferable skills and this ultimately fosters and strengthens the sector. Founders of Social Enterprises in Egypt have comparatively high education level and work experience: According to a report done by Wamda capital, 73% of SE founders are said to have attained a master's degree, 18% bachelors and 9% Doctorate. 50% had 5-10 years work experience), 32% (10-20 years) and 9% (over 20 years)[8].

[7] Afrikstart: Crowdfunding in Africa

[8] Social enterprise development in the Middle east and North Africa: statistics from Egypt, Jordan, Lebanon and Palestine

REGULATORY ENVIRONMENT

The government started implementing a reform program to spur the economy and enhance the country's business environment. The first phase of reforms focused on re-balancing the macroeconomics facets of the country while the second phase focused on improving the governance and investment climate in the country. The government also developed the Investment Law under which set up the General Authority for Investments and Free zones (GAFI) was established, with the objective to reduce the barriers and bureaucracies and streamline the investment administrative processes.

Government of Egypt has defined ceilings on the deposits and withdrawals of foreign currency by individuals and entities.

The government has been working to stabilize the financial crisis by floating the EGP and imposing a USD 10,000 ceiling on the maximum amount of deposits/withdrawals per day per individual with a maximum of USD 50,000 per month per entity.[9] These limits were later abolished for individuals and some businesses, but still apply to companies importing non-essential goods. These limits can affect foreign social enterprises.

Government provides tax incentives to investments in certain priority impact areas.

Companies in Egypt are taxed at the flat rate of 22.5% except for non-profits. The investment law offers tax rebates to investors whose investments are directed in geographical areas that are in most need of development, labor intensive projects, small & medium projects, food and agriculture sectors among others. These rebates mean that they would qualify for deduction of investment costs from the taxable net profit capped at an upper ceiling of 80%. Further, amounts that are channeled to Corporation Social Responsibility (CSR) activities are considered to be deductible costs (costs are capped at 10% of annual profits).[10]

Central Bank of Egypt (CBE) has developed policies favorable for lending to SME sector.

The Small and Medium Enterprises (SME) unit within the CBE was established in 2009 to facilitate access to finance to SMEs. This unit acts as a catalyst for the CBE and works on bridging the gap between bankers and SMEs by offering training programs on bankability to SME's. One of the perks provided to banks under this unit is that any direct credit facilities extended by banks to an SME cluster are exempted from the reserve requirement. This has incentivized banks to give credit to SMEs. Further, in a bid to create favorable policies for SMEs, the CBE in 2016 issued a unified definition of Micro, Small and Medium Enterprises to be adopted by all banks. Within the same year, EGP 200 Billion (~USD 7 Billion) initiative was launched to facilitate financing for MSMEs. It also consisted issuing of a number of instructions to the banking sector, aimed at creating an enabling environment for MSMEs. They included; banks operating in the Egyptian market were required to direct 20% of their total loan portfolios to MSMEs with lending rates not exceeding of 5%. The risk weighted for lending requirements was also set at 75% to make it applicable only to micro firms and it established a specialized unit within each bank mandated to provide technical assistance and training opportunities to MSMEs.[11]

Under the charity law, NGO's access to funding is severely restricted.

NGOs are restricted only to donor funding and they are not allowed to collect deposits or access commercial funds from banks and/or private investors. The law also prohibits NGOs in participating in activities that generate income. This poses a sustainability challenge to more than the 45,000 support providers or enterprises that are registered as NGOs as they have to solely rely on donations and can't participate in any income generating activities. This therefore alludes to the complexities around forming hybrid models in the country. It also means that NGOs are formed with a short term view and after their objectives are fulfilled, they may shut down. This law equally applies and affects those MFIs that are currently registered as NGOs. Further, NGOs in the country are also required to seek written approval from the government if receiving foreign funding for any donations above USD 550 and if no approval is granted within 60 days, the request is automatically declined this is regardless of the registration/ domicile of the foreign donor. Further, finances/ donations for NGOs are to be supervised by the central audit organization whether the NGO receives local or foreign funding. This brings the challenges of bureaucracy and it means that funding into such entities is ultimately controlled by the state.

INTERMEDIARIES OF CAPITAL

Most intermediaries in Egypt not only provide investment advisory services but also offer other services such as tax and auditing services, consulting, advisory on mergers and acquisitions among others.

Some non-profits act as intermediaries of capital and promote the collaboration between the ecosystem pillars, facilitate capital and partnerships and mentorship to SEs. For example, RISE Egypt which is a non-profit leverages its network of top experts, investors and researchers to accelerate entrepreneurship for development in Egypt.

Significant government aid from other countries into Egypt is channeled into economic and social development including employment creation.[12] Most of these aid monies tend to support the whole ecosystem and support providers. For example, The British government in collaboration with IFC has funded (USD 2.8 Million) some of the ecosystem players' programs such as Start Egypt. Another example is The Egyptian American Enterprise Fund (EAEF) that was established by the US Secretary of State Hillary Clinton following the Arab Spring protests in 2011, funding efforts such as Algebra Ventures.

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9 PWC: Doing business in Egypt _A tax and legal guide

10 EY: Egypt enacts a new investment law to promote foreign investments

11 EMNES: Micro, Small and Medium sized enterprises development in Egypt, Jordan, Morocco & Tunisia

12 HIVOs: Foreign funding in Egypt after the revolution, European commission: Joint staff working document

ECOSYSTEM SUPPORT PROVIDERS

There has been a spike is the number of startups and support providers.

Egypt ranks third in Africa in terms of concentration of tech hubs with 33 hubs.[13] The Key players who support the entrepreneurship ecosystem include co-working spaces, accelerators/incubators, Technical assistance service providers and conferences, startup news aggregators. Some notable names include; Icealex /Fablab, MINT incubator, NM Incubator, Egypt Innovate, Endeavour, Rise Egypt, Flat6Labs, Greek campus, Seedspace, Cairo,G-space, District, Injaz Egypt, Ashoka, Hult prize, Orange startup cup, & startup scene among others.

The following are some key characteristics of entrepreneurship ecosystem support sector in Egypt:

- **Increase in partnerships/collaboration between various ecosystem support providers:** There has been an upward trend in partnerships among the ecosystem providers and other pillars. For example, MINT incubator has partnered with Cairo angels and EG bank to support post ideation companies. There is also a platform- *Egypreneur* that seeks to coordinate activities of all the functions of ecosystem providers in the market.
- **Support providers for social enterprises may also be suppliers of capital:** Usually the culmination of programs is signified by an award or pitching event post which the winners receive some seed funding of small ticket sizes. Equally, some support providers also fund their program alumni. Some of these programs include: Flat6labs that invests ticket sizes of USD 10,000-15,000 for equity of 10-15%, Falak Startups that invests between the ticket sizes of USD 6,000 – 28,000 for equity of 4-8%.
- **Active participation by Higher learning institutions in enterprise space:** Higher learning Institutions have also taken up an active role in supporting social entrepreneurship by offering entrepreneurship classes, sponsoring hubs and acceleration programs, setting up co-working spaces or sponsoring student-run entrepreneurship clubs, business plan competitions and boot camps. Some notable names include Nile University that runs the NU TechSpace incubator, The American University in Cairo's AUC venture lab and The British University in Egypt that offers entrepreneurship courses.
- **Innovative models for co-working spaces and incubation.** In a bid to diversify, some support providers have innovated to add extra value add services. For example, Seedspace Cairo (set up by Seedstars) has a co-living space. Virtual incubation platform models are also models that are being adopted, such as Egypt Innovate-a virtual (online) innovation hub.

KEY CHALLENGES IN EGYPT

- **Lack of access to financing**: According to the World Bank enterprise survey 2016, 13.2% of SMEs cited access to finance as their biggest constraint and this is attributable to the lack thereof of affordable options.[14] Further, SEs registered as NGOs are affected by the NGO law which means they face restrictions in regard to the source of funding i.e. they cannot access commercial funds from banks and/or private investors and would only depend on donations.
- **Regulatory environment:** For-profit SEs or fair trade organizations are equally affected by the taxation law as any other company and do not receive any incentives. According to the World Bank enterprise survey 2016, 7.6% of enterprises surveyed stated taxation and 9.9% stated trade regulations as an impediment to growth. This ultimately impedes the growth of the impact sector as stakeholders have to trade-off on social benefits that would have otherwise been accrued through the use of these funds and taxation optimization.
- **Political instability:** Since the uprising in 2011, Egypt has been undergoing political unrest which has had an effect on the FDI inflows and investments, as the perceived risk associated with investing in the country have increased. 33.8 % of enterprises cited political instability as the biggest challenge for their business, as per the World Bank enterprise survey (2016). However, this is currently stabilizing under the current regime with the government having implemented a number of different policy reforms.
- **Insufficient pipeline:** According to the research conducted by JP Morgan & GIIN, impact investors stated finding viable (companies that pass initial financial and impact screening) pipeline as a challenge. 33% of them stated that they found none, 44% found few, 19% found some and only 4% stated found many investable enterprises. This may allude to the fact that not many SEs have created a bankable business model. However, given that the ecosystem support is now vibrant with lots of support on investment readiness training and TA support, this challenge may significantly be mitigated.
- **Challenges of sustainability:** The law that inhibits NGOs to undertake income generating activities and given that most microfinance institutions are also registered as NGOs they are affected by the NGO law. This brings issues of sustainability of social enterprises or ecosystem enablers that are registered with such status.
- **Bureaucracies:** Regardless of the passing of new NGO law, it is still bureaucratic in terms of requirements to seek for pre-approval of any donations above USD 550 and if no approval is granted within 60 days, the request is automatically declined. Therefore in reality, this may be subject to misinterpretation and thus create delayed funding for NGOs.

[13] GSMA: Ecosystem accelerator Africa Tech hubs landscape 2018

[14] World bank: Enterprise surveys (2016)

RECOMMENDATIONS

The following recommendations surface from impact investment landscape analysis of Egypt

▲ Supply of capital

- **Islamic finance as a tool for impact investments:** Islamic financing takes some aspects and forms of Impact investing and Egypt already has policies which guide the principles of Islamic financing, there is also a national body that has been set up to manage Zakat funds. Therefore, the Zakat funds could be structured in a way that returns could be earned disbursing the capital from the pool to high development sectors or impact focused SEs and the returns re-invested back into the pool.
- **Unlocking the national pension fund:** Egypt's reserves are typically invested in government debt and projects; and the pension portfolio is very heavily concentrated in fixed income. Historically, returns have not been sufficient to ensure the sustainability of the system.[15] Therefore, if structured properly; such funds could be used as a fund of funds for impact investment vehicles and set a return for the funds.
- **Leveraging the vibrant, active PE/VC sector to make a case for the supply of impact capital.** Given the active PE/VC sector, which typically relies on suitable exit options, there is an opportunity for impact capital to benefit from the strong ecosystem infrastructure around exits which already exists. These includes IPO's as well as other strategic and financial exits.
- **Designing policies to channelize CSR funds into impact sector:** CSR funds from corporates could be mobilized into start-ups/social enterprises. The corporates receive tax incentives (as per the law) on such donations and investments.

▲ Demand for capital

- **Conducting an overall assessment study of social entrepreneurship:** There is little and fragmented data on SEs unique challenges and needs. An in-depth study should be done in order to comprehensively understand the subject matter.

▲ Government

- **Revision of the policy framework.** The restrictive policy on the type funding available for SEs, MFIs and ecosystem providers registered as NGOs should be revised. For instance, a policy could be designed where SEs/intermediaries receive a special category of registration which allows them to register as hybrid model such as LLCs or Bcorp companies and be able to access commercial funding, participate in profit earning activities and still be bound to create social benefits.
- **Designing social impact bonds (SIB):** An SIB is public-private partnership (PPP) tool or contract designed to deliver social programs to underserved communities. The return on investments is pegged on achievement of certain social goals. This tool could be used to incentivize suppliers of private capital to channel funding into high sector priorities identified by the government. In the case of Egypt, the government has already identified high priority sectors and regions (Upper Egypt) and it could therefore promote private capital providers to design solutions addressing the challenges identified and channel funding into such areas. As this (SIB) may be risky for the private capital providers, the funding could be de-risked by CSR monies or by development financial institutions.

[15] Leveraging African Pension funds for financing Infrastructure

ETHIOPIA

Country Context

Ethiopia is Africa's oldest independent country, apart from a five-year occupation by Italy, it has never been colonized. It currently serves as the African base for many international organizations such as the African Union and the UN Economic Commission for Africa (UNECA).

Ethiopia's location gives it strategic dominance in the Horn of Africa, close to the Middle East and its markets. Ethiopia has a population of about 102 million (2016) making it the second most populous nation in Africa, after Nigeria. It benefits from a fast growing but poor economy, with a per capita income of $783. Ethiopia's government aims to reach lower-middle-income status by 2025. A new Prime Minister, Mr Abiy Ahmed, is seemingly bringing the country to peace, normalizing relations with Eritrea and managing fractious groups within Ethiopia and focusing on an economic transformation agenda.

TABLE 1:
FACT CHECKS FOR INVESTORS

FACTORS	INDEX SCORE	DESCRIPTION[1]
GDP Growth (2017)	10.9%	The economy has been steadily growing with an average of 10.3% a year from 2005/06 to 2015/16, closing FY 2017 with a GDP growth of 10.9%
Financial Access		There are 16 private banks in the country, 3 government-owned banks and 35 licensed MFIs and 17 insurance companies.
Digital Access (2016)	11.6%	11.6% of the population in Ethiopia are reported to be Internet users
Ease of doing business (2018)	161	Ethiopia Ranks 161 having dropped 2 places from 2017
Unemployment rate (2016)	7.6%	Youth (ages 15-24) unemployment rate stands at 7.6%
Inflation rates (2018)	15.6%	Inflation has significantly slowed from a high of 39.2% (2008) to 15.6% by the end of February 2018
Corruption Index (2017)	107	Ethiopia ranked 107 in the annual CPI of transparency international

The Impact Investment Landscape in Ethiopia

SUPPLY OF CAPITAL

Investments in Ethiopia are steadily growing based on factors such as the increased focus by the government to attract foreign investment, development of sound macroeconomic policies, the promotion of privatization and industrial development, and the surge of start-ups/social enterprises. The country is gradually opening up its economy as evidenced by the fact that the likes of Kenya's telecom company Safaricom were allowed to expand its M-Pesa services into Ethiopia.

REGULATORY ENVIRONMENT

The current government of Ethiopia is increasingly becoming investor-friendly.

Some of the initiatives that the government is implementing to boost entrepreneurship and attract foreign investments in the country include:

- **Setting up bodies such as Federal Micro and Small Enterprises Development Agency (FeMSEDA):** Ethiopian government launched its revised Micro and Small Enterprises (MSEs) Development Strategy in 2011, in order to integrate the development of the MSE sector with the country's 5 year Growth and Transformation Plan (GTP). With the revised strategy, an institution Federal Micro and Small Enterprises Development Agency (FeMSEDA) was established with clear responsibilities to promote the MSE sector in the country. As a result of comprehensive support and policies by the Government towards the MSE sector, it was able to:
  - Generate ETB 25.62 billion (~USD 1 Billion) through Domestic Market linkage and USD 65.37 Million through foreign market linkage
  - Facilitate transfer of 3,141 micro and small enterprises to medium enterprise level
  - Provide technical and management training for over 5 Million MSE operators

[1] http://www.et.undp.org/content/ethiopia/en/home/countryinfo.html, https://www.worldbank.org/en/country/ethiopia/overview

- **Development of Industrial parks:** In order to transform itself from a predominantly agricultural country into a manufacturing country – the government of Ethiopia created a special entity in 2014: the Industrial Parks Development Corporation (IPDC). Under this, the government has established multiple industrial parks that focus on the production of textiles, leather and garment, pharmaceutical, agro-processing and equipment manufacturing. It provides various forms of tax incentives and benefits to investors in the park. The establishment of these industrial parks played considerable role in enabling the Government to promote investments into these sectors. According to Ethiopian Investment Commission, in the first Growth Transformation Plan (GTP-I) the country was able to attract 1.2 billion USD from Foreign Direct Investments (FDIs).
- **Tax Incentives:** Companies are taxed at the rate of 30% however, incentives are granted if investments are directed towards defined high priority sectors such as agro-processing for export, pharmaceuticals, tourism, sugar and related products. Ethiopia has also signed 13 double taxation treaties (DTAs) with different countries which could promote cross-country investments and trade. Further for businesses which have created employment for at least 50 Ethiopian nationals or engaged in manufacturing and have invested more than USD 200,000, they are entitled to duty free privileges for capital goods at any time.[2] This has resulted in increased inflow of investments into the country.

Though the above initiatives have been able to generate increased investor interest, there are still many policies/ regulations that create challenges for the investors.

Some of such policies include:

- **Minimum capital investment:** The capital requirement from a foreign investor to invest in Ethiopia has been capped to a minimum of USD 200,000 for a single investment project (revised up from 100,000) but if the investor invests in partnership with a domestic investor(s), the minimum capital injection required is USD 150,000 (revised up from 60,000) with the exception of sectors such as architectural and engineering works or related technical consultancy services, technical testing and analysis or in publishing works whose investment is capped at USD 100,000 and USD 50,000 respectively.[3] However, a foreign investor reinvesting his profits or dividends generated from existing enterprise is not required to allocate a minimum capital. Further, foreign investors that wish to purchase an existing private enterprise, or shares in an Ethiopian Entity should obtain prior approval from the Ministry of Trade. This is applicable to any foreign investor channeling capital into the country.[4]
- **Foreign Investment Restrictions for certain sectors:** The government has restricted and heavily regulates foreign investments in sectors including financial services, banking, insurance, power transmission and distribution, wholesale and retail trade, telecommunications and some transportation. The government has been reluctant to ease restrictions on non-state participation in energy, telecoms and financial services sectors though recent developments point to the fact that this may be relaxed in future as the country seeks to attract more foreign investments.
- **Foreign exchange controls:** Ethiopian firms face many restrictions in accessing the foreign currency that they need to either import goods or buy services. The government limits foreign currency trade as well as the amounts that individuals and corporations can hold. This can create significant shortages of foreign currency reserves. However, in 2017, the government to some extent relaxed the foreign exchange controls through the issuance of two directives on external loans and suppliers' credit and retention and utilization of export earnings and inward remittances. These strategies will see more FDI inflows into the country and ensure the stabilization of the ETB and this will have a ripple effect in the spurring of the growth of entrepreneurship.

SUPPLY OF CAPITAL

Local financial institutions in Ethiopia are underdeveloped signifying the need for impact investors in the country. Ethiopian banks continue to be risk averse and are mostly unwilling to invest in start-up or early-stage enterprises. Even when they are willing to lend to start-up or early stage enterprises, their requirements for collateral can be greater than 100% of the loan amount. Many early-stage businesses are unable to satisfy these requirements. As a result, there remains a large gap in the market for early-stage investments that offer risk capital to high-potential businesses.

The main sources of finance for start-ups/social enterprises in Ethiopia are from personal savings, credit from MFIs, mobilizing Iqub and contribution from family and friends. As of 2015, Ethiopia received approximately 7% of all the impact capital that was disbursed in East Africa by private impact investors. Microfinance institutions (MFI) in Ethiopia come in to play a significant role in filling this gap between the demand and supply of impact capital. According to the National Bank of Ethiopia, there are 34 MFIs (2017) with a client base of over 3 million and USD 1.5 billion (2016/17) held in assets. Their model is to provide credit through a group based lending methodology so as to reduce the risk of default with some of them having incorporated some models from the informal financial systems such as '*iqub*' and '*iddir*' in order to widen their client base.[5]

Iqub (also spelled iquib or equb) is a traditional means of saving in Ethiopia and exists completely outside the formal financial system. An iqub is a form of revolving savings. People voluntarily join a group and make a mandatory contribution (every week, pay period or month for example). The "pot" is distributed on a rotating basis determined by a drawing at the beginning of the iqub. Amounts contributed vary according to the means of the participants. Iqub is widespread, especially in urban areas. In the absence of formal banking systems, the volume of money rotated in iqub is significant part of Ethiopia's GDP. Many first time entrepreneurs or existing entrepreneurs looking to grow their businesses rely on iqub for the capital.

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[2] ALN: Investment Guide_Ethiopia 2016/2017

[3] Ethiopia Investment commission: An investment guide to Ethiopia, UNCTAD: Ethiopia_ Investment proclamation No.769/2012 (2012), UNCTAD: Ethiopia Investment proclamation No. 280/2002 (2002), ALN Investment Guide to Ethiopia 2016/2017

[4] A foreign investor is defined by law as: 1) A foreigner or an enterprise wholly owned by foreign nationals, having invested foreign capital in Ethiopia or 2) A foreigner or an Ethiopian incorporated enterprise owned by foreign nationals jointly investing with a domestic investor, and 3) An Ethiopian permanently residing abroad and preferring treatment as a foreign investor

[5] Small-scale enterprises finance sources and constraints in Ethiopia, Financing practices for MSEs in West Oromia-Ethiopia

INGOs have shifted away from grant only towards impact investment.
There was an influx of INGOs in Ethiopia fueled by the adverse drought that caused a humanitarian crisis in the country in the 1970s, as of 1999 there were more than 120 INGOs in the country. These INGOs are currently shifting their strategy to focus on more long-term development. According to a report by amplify 29% of INGOs are actively engaged in impact investing, 42% are exploring opportunities in impact investing and developing their strategies for engagement and 29% are piloting their new approaches in impact investing with 62% focused in East Africa. Most of them prefer to channel capital through technical assistance and capacity development programs while 62% of them are considering making direct investments.[6]

Specifically for Ethiopia, the INGOs are supplying impact capital through partnerships with the local angel investor networks. Notable examples include; ACDI/VOCA through its partnership with RENEW, an impact investment angel network, invested patient capital in the form of private equity into seven growing, agriculture-focused companies and Oxfam BV through its enterprise development program which offers grant based support channeled through a social-impact vehicle that provides part of the funding as low cost loans in partnership with the local banks.

DEMAND FOR CAPITAL

Social entrepreneurship is a growing sector in Ethiopia and according a report done by British council, there are approximately 55,000 Micro- small enterprises (MSEs), Non-governmental organizations (NGO), Cooperatives and individual entrepreneurs whose core objectives are creating having a social/environmental impact. Most of these enterprises are either family-owned or informally structured which creates the issues of cooperate governance.[7]

Ethiopian law does not recognize Social Enterprises as a separate legal entity.
Social Enterprises in Ethiopia have the option of being registered as sole proprietorships, private limited companies, micro and small enterprise (MSEs) or cooperatives as per the commercial code. MSEs is the most commonly used (31%), Sole proprietorship (22%) and cooperatives (10%) being less common. Cooperatives and non-profits are generally understood as businesses upon which many rural communities and the people at the bottom of the economic pyramid (BoP) rely on to avoid being exploited and thus most of the entrepreneurship support providers are registered as such. Recently, SEs that had previously registered as non-profits have started to convert themselves to hybrid models and have started engaging in income generating activities with the ultimate objective of registering as for-profits.

SMEs in Ethiopia are mostly small and recently established.
An enterprise survey done by World Bank (2015) shows 49% of SMEs in the private sector have been in operation for less than 10 years, 32% between 11-20 years and merely 20% above 20 years. Further, in terms of categorization by the number of employees, 48.8% are small (5-19 employees), 30.3%-medium (20-99 employees) and 20.8% large (Over 100 employees). This implies that formal entrepreneurship is still in its nascent stages in the country; however, informal micro businesses abound. Furthermore, according to the GIIN report, many impact investors feel that the most appealing businesses for impact investments – those whose activities generate positive social impact and financial return - do not explicitly present themselves as social enterprises, due to the lack of a standard definition and understanding of "social enterprise" in the region.

Philanthropic capital is more commonly understood than equity capital amongst SE's.
The most common type of financing preferred by 54% of SEs are from philanthropy, donations, grants and concessional loans compared to equity or equity like instruments (5%). Whereas according to the ANDE ecosystem snapshot for Ethiopia, equity instruments (at 86%) are the most preferred instruments to deploy capital among investors and grant being only at 14%. This therefore creates a mismatch in expectations in terms of the instruments that the investors are willing to use versus what the social enterprises prefer. This could allude to the lack of understanding of commercial capital by SEs and a hesitance to reduce control (shareholding dilution) given that many early stage businesses in Ethiopia are family owned.

INTERMEDIARIES OF CAPITAL

Ethiopia has very few intermediaries of capital and investment advisors.
An indicator of the very early stage of the ecosystem is the extremely few intermediaries of capital in the market with some incubators/accelerators taking up this role. There also exists some uncertainty as to the real value the intermediaries provide beyond making introductions to investors and government officials.11 RENEW and EAGate are among the few intermediaries that are working in the country. RENEW runs an impact angel network and as of 2016 had facilitated deals of up to USD 10.6 Million with 7 investments under management. EAGate is a boutique investment advisory having made over 600 B2B introductions over multiple institutional and private trade delegations. The limited availability of the intermediaries has also resulted in some ecosystem providers acting as intermediaries of capital especially to its alumni or winners of the challenge programs.

ECOSYSTEM SUPPORT PROVIDERS

The support providers' space in Ethiopia is small, concentrated in the capital, and lacks specialization.
The country has the fewest active support providers compared to other East African countries. The support providers can be categorized as business development providers (36), accelerators/incubators (27), and consultants (16). Some of the key players include: IceAddis, Xhub, Growth Africa, iCog labs, Bluemoon, DOT Ethiopia, Reach for Change, TechnoServe, Seedstars, UNDP entrepreneurship award, and Solve IT.[8]

Furthermore, most support providers are concentrated in the city Addis and Amhara region and, this causes a cascading effect in the whole ecosystem. Most of the ecosystem providers in Ethiopia are yet to specialize. More often than not, service providers tend to overlap in the services they provide.

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[6] The INGO value for impact investing

[7] The state of social enterprises in Ethiopia- British council

[8] ANDE Ecosystem Snapshot

KEY CHALLENGES IN ETHIOPIA

- **Foreign exchange controls and strict monetary policies:** Foreign exchange controls require entrepreneurs to run operations in ETB, leaving them exposed to currency risk. Such controls also increase the perceived risk of investing into the country.
- **Fluctuation of the ETB:** This causes increased real and perceived risk for foreign investors.
- **Foreign investment restrictions for certain sectors:** Ethiopia places restrictions on foreign investments into sectors such as financial services, banking, telecommunication etc. This deters the social benefits that could be accrued by investing in these sectors. At the same time, investors who have mandates to invest only in these sectors would not any supply capital in Ethiopia.
- **Repatriation of profits and dividends:** Though allowed, it is bureaucratic and can be lengthy as it requires disclosure to Ethiopian Investment Commission and could be delayed depending on the availability of reserves of hard currency held by the National Bank.
- **Few investment exits to model from:** Ethiopian enterprises have few exit opportunities due to a nascent PE/VC market. There is not sufficient data available on comparable impact deals or exit multiples for impact funds to use as a benchmark for their exit valuations or financial performance.[9]
- **Land lease challenges:** In Ethiopia, land is public property and it can only be obtained through rent or a lease of up to ~99 years. Investors are expected to negotiate lease agreements with local governments, which increases the administrative costs, especially when implementing cross-regional projects.
- **Internet penetration is very low:** 11.6% of the population in Egypt is reported to be Internet users and the mobile phone subscription per 100 people is 42.8.7 This challenge hinders innovation as some of the sectors such as Fin-Tech, Ag-tech depend on technology as an enabler. Low Internet penetration also inhibits the availability of data and interaction that is otherwise useful to the flourishing of a social enterprise ecosystem.
- **Financial institutions are risk averse:** They are often unwilling to invest in early stage companies with a high risk profile. Commercial banks are described as 'conservative lenders' according to a study done by Kfw (2005) and don't do non-collateralized lending because of reasons such as fraud. On the other hand, SMEs reported that they are discouraged from applying for loans in banks due to high collateral requirements, high transaction costs, interest rates and tedious application procedures: only 7.8% of the proportion of initial investments to SMEs was financed by banks.[10]
- **Large ticket sizes:** Data points to the fact that impact investors disburse large ticket sizes (USD 500,000 and above) whereas the turnover for SEs is reported to significantly lower, resulting in SE's potentially being unable to absorb capital in the sizes disbursed by investors.

RECOMMENDATIONS

The following recommendations surface from impact investment landscape analysis of Ethiopia

- **Supply of capital**
  - **Setting up of a fund to ease repatriation of funds:** Repatriation of funds is costly and time consuming due to low foreign reserves held by the NBE. A catalytic tool could be designed from which funds could be drawn to quicken the process of repatriation of profits pending payback by the NBE whenever reserves are available. This fund could also facilitate small ticket size investments to SEs.
  - **First loss capital (FLC) facility:** Ethiopia is typically regarded as a high risk country for investment. A blended finance facility with first loss capital could be designed where donors, foundations, the government or Development Financial Institutions (DFIs) agree to take up the first losses of a commercial investment for an institutional fund. This will help address the real and perceived risks associated with Ethiopia.
- **Demand for capital**
  - **Extensive Investment training.** Promoters of SEs should be educated on the availability of commercial instruments such as equity, quasi-equity investments and low cost debts. This will help catalyze the growth of commercial investments and improve the quality of pipeline for investors. TA facilities could be leveraged to provide this pre-investment training and support.
- **Government**
  - **Design an impact investment Policy:** This policy could be designed to explicitly define social enterprises and provide their own legal status.
  - **Public Credit Guarantee schemes for SMEs:** This is a common tool used by governments to unlock financing for SMEs. The government through the NBE should consider setting aside a credit guarantee fund that will help de-risk SME lending especially the startup phase.

[9] Global Impact Investing Network (GIIN), December 2015, The Landscape for Impact Investing in West Africa

[10] World Bank Enterprise survey: Ethiopia (2015)

GHANA

Introduction and Context

Since its independence in 1957, Ghana has been one of the most politically stable countries in West Africa. Ghana's economy is mainly dependent on agriculture which contributes about 30% of its GDP and employs more than 50% of its population[1]. There has also been a recent discovery of oil in the country (2010), which has significantly contributed to the GDP of Ghana's economy. Ghana observed a slowdown in its economy in 2013 with growth rates down from 14% in 2011 to 7% in 2013[2]. However, the country's gross domestic product (GDP) bounced back to 8.5 per cent in 2017 compared with 3.7 per cent in 2016.

Under the new government of President Nana Akufo Addo, industrialization was identified as the key driver of projected GDP growth. The government intends to specifically revitalize manufacturing through its flagship initiative '***The One District, One Factory***'; by resolving the shortage of energy in the country and by aggressively promoting exports of high-value manufacturing products. The government is also focusing on growing the agricultural sector through the interventions ***One Village, One Dam*** and ***Planting for Food and Jobs***, among others.

Impact investment in Ghana is growing. This is predominantly due to a number of successful government interventions to increase the supply of capital in the market. There remains an opportunity for policy makers to work with intermediaries and with those in the demand of capital to further enhance sector.

Through extensive market research, this report outlines the key trends, challenges and opportunities that lie in the impact investment sector in the country. It is structured in accordance with the GSG's framework for impact investment, which outlines 5 main building blocks for an enabling impact investment ecosystem: supply of capital, demand of capital, intermediaries, policy makers & ecosystem support providers.

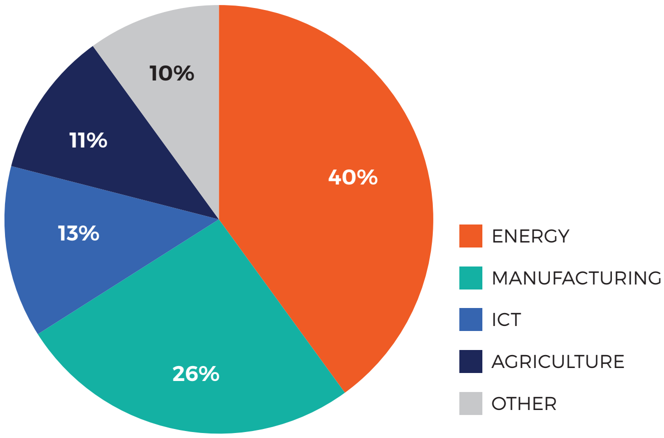
The Impact Investment Landscape in Ghana

SUPPLY OF CAPITAL

Impact investing is small and nascent sector in Ghana but it is starting to grow. The establishment of Ghana Venture Capital Trust Fund in 2004 and amendment of the Internal Revenue act in 2006, which provided tax benefits to funds domiciled in Ghana, led to the increased activities in the sector and in the emergence of the first few Ghanaian-owned private equity investors. Ghana is one of the few countries in Africa which has a significant number of Ghanaian-owned private equity investors, though they are significantly smaller in size than their international counterparts.[3]

During the ten year period between 2005 and 2015, the volume of impact capital deployed in the country (US$ 1.69 Billion) was similar to that which was deployed in its neighboring country Nigeria (US$ 1.94 Billion), despite the fact that Ghana's economy is less than one-tenth the size of Nigeria's[4]. Development Financial Institutions (DFIs) investment, accounted for more than 90% of the total capital deployed amounting to $ 1.615 Billion while private impact investments amounted to US$ 75 Million[5]. Of the total

% OF CAPITAL DEPLOYED BY DFI'S



DFI capital deployed between 2005 and 2015, the energy sector represented the large majority (40%), followed by manufacturing (26%), ICT (13%) and agriculture (11%).[6]

This is in sharp contrast to the investments made by the private impact sector, where 40% of the capital deployed was focused on the financial services sector.[7]

Similarly to other African countries, time taken for due diligence process i.e. the time frame between the application for capital by impact enterprises and allocation of capital by impact fund managers is much longer compared to other parts of the world. This is due to the nascence of investment banking industry in the country, which in other parts of the world provides impact fund managers with vetted and selected deals. As a result fund managers have to spend a significant amount of their time and resources on due diligence process to develop their deal flow.

In the absence of viable exits options through national stock/capital markets, some investors in country are using innovative exit strategies such as listing on international stock exchanges. For instance, Emerging Capital Partners (ECP) had invested into Ecobank. ECP, finding few suitable exit alternatives in Ghana, exited through multiple listings on the Nigerian stock exchange, the Ghana stock exchange and the regional stock exchange Bourse Régionale des Valeurs Mobilières ("BRVM"). The fund exited profitably at US$ 35.9 Million from its initial investment of US$ 11.8 Million into the bank, profiting more than a 3x return, whilst significantly improving the lives of millions of people on Ghana who were previously unbanked and did not have access to financial services.

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1 http://taxsummaries.pwc.com/ID/Ghana-Overview

2 United Nations Economic Commission for Africa, 2017

3 Private Equity in Ghana: An analysis of investments and exits by Yaw Brako Osei-tutu, July 2014

4 Global Impact Investing Network (GIIN), December 2015, The Landscape for Impact Investing in West Africa

5 Global Impact Investing Network (GIIN), December 2015, The Landscape for Impact Investing in West Africa

6 Global Impact Investing Network (GIIN), December 2015, The Landscape for Impact Investing in West Africa

7 Global Impact Investing Network (GIIN), December 2015, The Landscape for Impact Investing in West Africa

DEMAND FOR CAPITAL

There are a huge number of informal businesses in Ghana. Of the 638,234 businesses that exist in Ghana, only 9.5% are formalized while the other 90.5% operate informally.[8] This presents an additional challenge for impact investors, who typically rely on the existence of formal organizations to invest their capital.

The Social enterprise sector in Ghana is heavily dominated by young people and women: 39% of the Ghanaian social enterprises are run by women entrepreneurs, and 43% of all social enterprises are led by people between the ages of 25 to 34.[9] In addition, over half of all social enterprises in Ghana have been set up in the last 5 years.[10] It is reasonable to assume that this young industry is set to grow and develop over the next decade.

Stakeholders interviewed as a part of this research, cited that most social enterprises operating in Ghana operate at a regional or national level, with only few very who have expanded internationally.[11] These regional or national enterprises may be seeking very small ticket size financing, (US$ 5,000- US$ 500,000), which is currently not available in the market, due to the expense associated with investing in smaller sizes. This results in a financing gap for enterprises which require such capital.

The large majority of the demand for capital is in the form of debt in Ghana because equity is a new concept for many enterprises. Increased awareness and understanding of equity financing amongst social enterprises in Ghana would help support the impact investment sector.

INTERMEDIARIES OF CAPITAL

Financial markets in Ghana are highly debt-driven. Most of the capital flowing in the country is in the form of debt and this is true both for traditional banking sector such as banks and micro-financial institutions as well as for impact investments. The preference for debt as the form of capital has made the financial sector in Ghana highly crowded with 33 commercial banks (excluding ARB Apex bank which is a mini-central bank for rural banks), 77 non-banking financial institutions, 141 rural and community banks (RCBs), and 564 microfinance institutions (MFIs).[12] Total assets of the industry at the end of March 2016 were US$ 15.4 Billion, up by 18.8% compared US$ 12.9 Billion at the end of March 2015.

Loan interest rates charged by Ghanaian banks are one of the highest in Africa, averaging around 24.5% (2018).[13] High interest rates combined with high collateral requirements, make it difficult for SMEs to access commercial capital from local banks.

There is a gap in the availability of long term and patient capital in Ghana, which is beginning to be realized by banks in Ghana. Consequently, banks in Ghana have started to play in private equity/impact investment space through the development of new services/products. Examples include Ecobank and HFC bank, which have established their fund under the names of Ecobank Venture Capital and HFC Capital Partners respectively.

GOVERNMENT AND POLICY MAKERS

The government of Ghana has been taking initiatives to improve the working environment both for businesses and for investors. These initiatives have been successful, evidenced in the improvement of Ghana's ease of doing business ranking for 2018 at 114, up from 2017 where it was ranked 120. Over the last two decades, the country has witnessed relative political stability and improved macroeconomic conditions making it an increasingly attractive investment destination. Some of the key initiatives taken by the government to promote investment sector include:

- Establishment of Ghana Free Zones Boards (1995) providing tax incentives to businesses operating in those zones and moving Ghana towards export oriented economy
- Establishment of the Ghana Securities and Exchange Commission (1998) and the Ghana Alternative Market exchange in 2013 for providing an alternative supply of capital to businesses in Ghana
- Establishment of Venture Capital Trust Fund (2004) for providing low-cost financing and technical assistance to small and medium enterprises in the country
- Establishment of a Microfinance and Small Loans Center (2006) for providing micro and small loans to small businesses and startups in the country with the particular focus on women owned enterprises
- Establishment of Ghana Angel Investment Network (2011) to promote angel investing in the country through capital from High Net worth Individuals (HNWIs)
- Re-establishment of Ghana Investment Promotion Centre (2013) to encourage and promote investments in Ghana, and to create an attractive incentive framework and a transparent, predictable and facilitative environment for investments in Ghana

ECOSYSTEM SUPPORT PROVIDERS

The support providers' ecosystem in Ghana is small but growing. The ecosystem consists mostly of incubators, technical assistance providers and research organizations. Currently there are less than 10 incubators/accelerators in Ghana (supporting ~ 26,000 social enterprises), about a fifth of the number in Kenya (supporting ~ 44,000 social enterprises), highlighting the gap in support needed for the businesses to grow.[14]

There is also a need for increased coordination, cooperation and collaboration amongst the impact investors in the country. While eastern and southern Africa have developed region specific associations for venture capital (of which impact investors are also part of) i.e. East Africa Venture Capital Association and Southern Africa Venture Capital Associations, West Africa doesn't have such an association.

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8 Integrated Business Establishment Survey, Summary report, Ghana, 2015

9 British Council, 2016, The State of Social Enterprise in Ghana

10 British Council, 2016, The State of Social Enterprise in Ghana

11 Intellecap research

12 Sourced from https://www.stanbicbank.com.gh/Ghana/About-Us/news/A-time-for-equity

13 Bank of Ghana banking sector report released in Feb'2018

14 British Council, 2016, The State of Social Enterprise in Ghana

Key Recommendations to Strengthen the Impact Investment Sector

GOVERNMENT AND POLICY MAKERS

While the government of Ghana is taking on many initiatives to promote investment in the country; it doesn't give special or different recognitions to impact investments made in the country. The government can play a role in promoting the impact investing in the country by working on three fronts, i.e. supply side regulations, demand side regulations and ecosystem level regulations. On the supply side, it can provide tax incentives to impact investors, provide guarantees on the impact investments, promote local long term financing through pension funds and ease regulations for foreign investors. On the demand side, it can create specific regulations tiered regulatory system which varies with the size and stage of the company and offer tax benefits to those businesses which are solving social and developmental challenges. On the ecosystem side, it can create industry bodies which promote and market impact investing, thereby enhancing collaboration amongst various ecosystem players. Specifically, it can take initiatives on following fronts:

- **Amend the current Pension Funds Management Act to allow pension funds in Ghana to invest into private equity as an asset class:** Pension funds in Ghana currently have assets worth US$ 1.2 Billion that have largely been invested into government debt and fixed income instruments issued by banks.[15] These assets are currently growing at 60% per annum and can be a readily available source for local financing for private equity and impact investors. However, as per the current regulations, pension funds in Ghana are not allowed to invest in private equity. Amending this can help ease the gap in long term financing capital and reduce the investors' reliance on foreign funding.

  Example: The U.S. private equity industry saw sky-rocketing growth after the regulation allowed the 5% allocation of assets managed by pension funds into the private equity sector.

- **Redevelopment of the Ghana Alternative Exchange and integration with other regional stock exchange:** One of major challenges faced by impact investors is finding the right avenues to exit their investments. Revamping the Ghana Alternative Exchange would strengthen and deepen the local capital market. Further, it would be of benefit to the entire West African region if they can integrate and strengthen their country stock markets and regional stock market Bourse Régionale des Valeurs Mobilières ("BRVM"), as it would improve the exit opportunities for investors, allowing them to get better exit valuations and reaping better returns for their investments.

SUPPLY OF CAPITAL

- **Impact investors to develop flexible investment strategies and innovative funding structures:** While angel and seed capital are appropriate financial instruments to meet the demand of high growth social enterprises, mezzanine instruments can play an important role for low and moderate growth social enterprises. Most of the impact investors in the market have deployed the same investment vehicles as their commercial counterparts (simple equity and debt), thereby cutting off a significant number of investees from their portfolio. Impact investors should consider other innovative structures of deploying impact capital, such as:

  - Development of a tiered venture debt fund. Venture debt is the capital in the form of debt to high-risk businesses that lack the assets or cash flow for traditional debt financing. Further, venture debt is more flexible and is longer term that traditional form of debt.

    Example: GroFin is a venture debt fund that provides medium term debt and technical assistance to startups and early stage enterprises across Africa and Middle East. It has invested in 675 SMEs since its inception in 2004. More such funds are needed in the region.

  - Structuring deals with catalytic first loss or matching-grant guarantee. Catalytic first loss is the guarantee provided by an investor or grant provider to bear the first loss in case the investment fails to meet its return expectations

    Example: Catalytic first loss capital models are starting to gain traction in the market due to their ability to offer protection to investors while engaging in high risk investments. A good example of this is in Tanzania where Equity for Africa leveraged a US$1.2 Million grant from the Dutch government to catalyze an additional US$ 3.6 Million investment towards setting up of EFTA, an SME equipment leasing company in Tanzania.[16] EFTA Ltd. is a Tanzanian equipment financing company specializing in serving small and medium enterprises and farmers. It focuses on equipment loans of up to US$ 60,000 with no collateral except for the equipment itself.[17]

  - Implementation of evergreen structures, which take a long term approach in provision of capital and allow enterprises to fulfill long term goals.

    Example: UK-based impact investment fund, Bridges Ventures, launched Bridges Evergreen Holdings ("Evergreen") in 2016. The permanent capital vehicle is designed to provide long-term support to mission led enterprises. The capital vehicle is structured as a holding company rather than a fund so that it can provide ongoing support to enterprises over a long term, with no requirements to exit.[18]

    Example: Five is an evergreen fund, launched by AfricInvest (fund manager) and FMO and BIO (anchor limited partners) in 2017. This long term fund aims to invest in financial institutions in Africa in order to increase the access to financial services for growing populating. The fund's evergreen structure allows it to meet the requirements of investors, fund managers and investees.

- **Local fund managers to adopt co-investment models:** There is a lack of local capital in the country, which makes it difficult for Ghanaian owned fund managers to raise capital. In such scenario, it will be advisable for Ghanaian owned fund managers to make co-investments into the target businesses. The co-investment model will reduce the risks for the local investors; while at the same time will give them the opportunity to reap benefits from the upside of company's positive performance.

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15 https://www.stanbicbank.com.gh/Ghana/About-Us/news/A-time-for-equity

16 https://www.investingforgood.co.uk/news/blendedfinance

17 http://www.equityforafrica.org/efta.html

18 http://www.bridgesfundmanagement.com/bridges-launches-new-evergreen-permanent-capital-vehicle-mission-led-businesses/

▲ **Impact investors to leverage funds from diaspora for investments into social enterprises:** Ghana has large diaspora population with remittances from them hitting US$ 2.2 Billion in 2017. Primary uses of remittances currently are for household needs such as food, clothing, etc. Though, with the growing economy and political stability, more and more diaspora members are becoming interested in investing back in their country.[19] There is potential to tap these remittances, through a diaspora fund, to invest in high impact and high growth social enterprises. Remittances from the diaspora population currently lack structure and organization and formal recognition or the formulation of policies that encourage the diaspora will help investments into social enterprise sector.

Example: The Rwanda diaspora mutual fund is a pool of capital from Rwandans in the diaspora for collective investments into Rwanda. The fund aims at promoting the financial well-being of the Rwandan diaspora, while at the same time increasing their participating in the socio-economic growth of their country. The fund is open to all Rwandan diaspora communities, their organizations and networks, friends of Rwanda, Rwandan nationals, and any other interested parties both public and private.[20]

DEMAND FOR CAPITAL

▲ **Increased awareness amongst social enterprises on the benefits of formalizing their business:** The overwhelming majority of businesses in Ghana operate informally, which constricts their ability to grow if they don't formalize their structures.[21] An investor or a financial institution such as bank will not invest in a business that doesn't have proper financial records or fails to meet regulatory requirements. Therefore, there is a need to create awareness amongst the informal sector on the benefits of formalizing their businesses. Ecosystem support providers are well placed run campaigns across the country, in partnership with the government, to educate informal businesses and assist them in formalizing. The government should introduce incentives and ease the regulatory requirements to attract informal businesses to formalize.

▲ **Creation of replication corridor for knowledge transfer:** There is a need a replication corridor to provide information, advisory services and collaboration support to match small businesses with large companies within and outside of the Greater Accra region. Most of the businesses in Ghana are present in the Greater Accra region – large sized (>50% present in Greater Accra region), medium sized (> 70% present in Greater Accra region), small sized (>30% present in Greater Accra region), and micro sized (30% present in Greater Accra region).[22] Creating connections between these large businesses with smaller businesses will assist in transfer of knowledge and allow the smaller businesses to learn and grow. Further, with the transfer of knowledge to other region outside of Greater Accra region will enable social and economic uplifting of those regions as well.

MARKET BUILDING SUPPORT

▲ **Provide market linkage support to SMEs:** In addition to financial and technical assistance, SMEs interviewed as part of this research, cited access to market linkages as one of their biggest challenges. Market linkage refers to linkages with various stakeholders across the value chain of the business such as suppliers and customers. In the absence of an adequate market, SMEs are not able to grow beyond their immediate vicinities or take their products to regional or global markets. While there has been a lot of focus by the ecosystem support providers on technical assistance and capacity building for enterprises, there is an increased need to assist these enterprises with market linkages. Ecosystem support providers can create facilities to link big corporates and SMEs, through which corporates can be regular buyers for SMEs' products and services.

▲ **Develop a platform to support collaboration and information sharing:** With multiple DFIs, donor and government programs to promote startups and MSMEs across the country, there is a need for a common platform which disseminates useful information, enables collaboration and multiplies the impact of these efforts. This research found that it is mostly the support program implementation teams that identified and sourced beneficiaries and entrepreneurs. It was very rare that beneficiaries actively sought out support - particularly in areas outside of the Greater Accra region. This is primarily due to poor awareness levels amongst the enterprises. Since VCTF anchors the role of SME development, it could establish such a platform – for instance, a Startup Forum - to provide a common platform for startup entrepreneurs, business leaders and advisors to share their experiences and resources. This platform could provide information on available government programs and policies that promote startups or SMEs in Ghana. It could also act as a focal point to connect with key government stakeholders in different provinces.

Conclusion

Ghana's strengthening economic environment, stable political environment and growing social enterprise sector render it well suited to the development of an impact investment industry. The recommendations outlined in this paper are based on extensive secondary research, literature review and primary research conducted through interviews with over 15 leading professionals in impact investment sector in Ghana such as fund managers, government and policy makers, entrepreneurs, incubators, accelerators etc., spanning a three month period

[19] Understanding the investment potential of the Ghanaian Diaspora, Results of the Commonwealth Diaspora Investor survey country report

[20] http://www.rwandandiaspora.gov.rw/index.php?id=64

[21] Integrated Business Establishment Survey (IBES), 2016

[22] Integrated Business Establishment Survey (IBES), 2016

KENYA

Introduction

Impact investment momentum in Kenya is growing fast due to a young, enterprising and ambitious population, a number of social or environmental challenges which need investment, and rates of return which are attracting the attention of private impact investors. This is particularly noticeable in relation to financial services, a sector in which Kenya has emerged as one of Africa's financial services hubs.[1]

Looking ahead, this momentum is unlikely to cease. This is due to positive trends in terms of the political, economic and in the business environment which render Kenya a potential hot-bed of private impact investment.

Economically, Kenya has seen GDP growth has averaged between four and six per cent annually since 2011 and there is little indication of decline: the World Bank estimates that the annual growth in 2019 will be 6.1 per cent[2]. This will be driven largely by population growth, urbanization and growth in private consumption through a rise in real incomes[3]. Foreign direct investment (FDI) in Kenya increased to USD 672 million in 2017[4], representing a 71 per cent increase from 2016. This is particularly striking considering the 22 per cent drop in FDI in Africa as a whole and a 23 per cent fall-off globally.

Recent government initiatives also support the impact investment movement. In 2018, the government of Kenya launched its *Big 4 Agenda,* outlining its four big priorities over the next five years: security and agricultural productivity, affordable housing, manufacturing, and universal health coverage. Importantly, the government has publicly acknowledged the importance and significance of entrepreneurs and investors as key in achieving this agenda.

Despite economic progress and support for impactful sectors, there is still an urgent need to provide basic goods and services to low-income households (86% of which lack these). This presents a huge opportunity for impactful and profitable businesses to include underserved customers[5].

The Impact Investing Landscape in Kenya

SUPPLY OF CAPITAL (KEY TRENDS)

Kenya is becoming the most attractive destination in East Africa for international impact investors
Nairobi is the regional hub with 48 investors based there.[6] According to a 2015 study by the Global Impact Investing Network (GIIN), at least 136 impact capital vehicles are active in Kenya, managed by 95 private impact investors (excluding Development Financial Institutions (DFIs)).[7] This figure is likely to have increased since 2015, but up to date data is not yet available.

Between 2005 and 2015, almost half of all impact capital disbursed in East Africa had found its way into the Kenyan market, representing more than US$650 million of private impact investment capital and more than US$3.6 billion of DFI capital.[8] More than half (~55%) of the deals made by private impact investors were less than US$ 1 million whereas majority of deals (~65%) by DFIs were between US$ 5 million to US$ 50 million.[9]

Over **130** impact investment vehicles active in Kenya	< **US$ 4.2 Billion** deployed by private impact investors and DFIs between 2005-2015
Energy and Financial services are preferred sectors for impact investors	Angel investing is picking up in Kenya with total of **US$ 10 Million** invested since 2008

Significant investment in the energy sector by both commercial and impact investors yielded huge societal benefits: the access to electricity rate in Kenya jumped considerably from 32% in 2013; to 73.42% by the end of April 2018.[10] Between 2005 and 2015, Development Financial Institutions (DFIs) made over US$ 1.5 Billion worth of investments in the renewable and clean energy markets, making energy as one of the preferred sectors.[11] The financial services sector also received a large proportion of total investment, with US$1Billion invested over the same period.

Impact investors are investing in larger ticket sizes
The impact investment sector picked up in Kenya post 2008. Prior to 2008, impact investors were primarily investing into start-ups and early stage enterprises with ticket sizes ranging between US$ 20,000 and US$ 1 million. Over the last decade, there has been an increase in ticket sizes to upwards of US$3 million. This is due to the increase in viable enterprises ready for this sort of investment. This trend has enabled the growth and expansion of many companies[12]. Though a positive development in terms of the quantum of capital deployed,

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1 Herbling, 2015

2 World Bank, 2018

3 UN, 2015

4 https://kenyanwallstreet.com/kenya-records-an-impressive-71-increase-in-fdi-inflows-unctad/

5 IFC Consumption database

6 KPMG&EAVCA : Private Equity survey of East Africa_2015/2016

7 The Global Impact Investing Network (GIIN), 2015, The Landscape for Impact Investing in East Africa

8 The Global Impact Investing Network (GIIN), 2015, The Landscape for Impact Investing in East Africa

9 The Global Impact Investing Network (GIIN), 2015, The Landscape for Impact Investing in East Africa

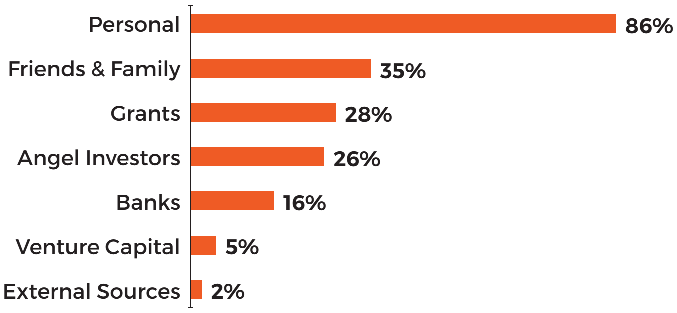
10 The Energy Progress Report, Kenya

11 The Global Impact Investing Network (GIIN), 2015, The Landscape for Impact Investing in East Africa

12 https://www.businessdailyafrica.com/markets/marketnews/Impact-funding-for-Kenyan-firms-set-to-hit-Sh123-billion/3815534-4274308-

this recent trend has exacerbated the problem of mismatch between investor expectations and requirements, in terms of capital, return expectations and time horizon for early stage enterprises. The British Council report (2017) states that majority (64%) of social enterprises in Kenya are still in their early stage of growth i.e. established in last five years and have average number of employees between 10-15.[13] Such enterprises require small ticket-size capital (< USD 100,000), but limited capital is available at that size.

SOURCE OF FUNDS FOR YOUTH ENTREPRENEURS

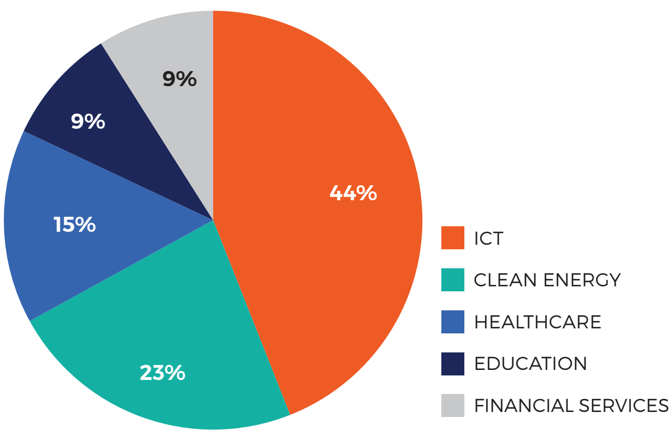


Source: Intellecap's analysis as part of 'Catalyst for Change Report'

Angel investing is gaining momentum

A total of approximately US$10Million has been invested by Angel investors in Kenya since 2008, spread across 82 investments.[14] Ticket size generally ranges from US$20,000 – US$500,000. Average (mean) ticket size is US$140,000 and the median is around US$44,000.[15] Typically, three to four investors co-invest in a start-up and acquire up to 25% of the stake in the enterprise. Angel investors fund only 2% of Kenyan startups, most of which are in the ICT sector.[16]

% OF CAPITAL DEPLOYED BY DFI'S



Source: #Closing the Gap Kenya, Intellecap report

Private investment capital in Kenya is mostly foreign originated

As per the KPMG survey on the deal activity in East African region, 75% of investors investing in Kenya mentioned that their source of funding originates from international investors based in Europe and North America. This includes DFIs, high-net worth individuals, family offices, insurance companies and asset managers.[17]

DEMAND FOR CAPITAL (KEY TRENDS)

Kenya's large population of under 35 years old people are shifting their mindset from 'job seeking' to 'job creating

More than 70 percent of the population in Kenya is under the 35 years of age. In the absence of adequate avenues for formal employment, Kenya's youth is exploring entrepreneurship as a means of livelihood. As per the latest estimate by the British Council, there are over 44,000 social enterprises in Kenya, 60% of which have been created between 2013 to 2016.[18]

The number of investment funds are increasing, however the funding is going to a small number of enterprises

More investment funds are entering the region; however they are investing in same enterprises, with the majority of funding being allocated to the larger expat founded social enterprises. For instance, just five enterprises - M-Kopa, (off-grid electricity, PAYG company), Angaza, (sales and payment management provider) Tala (a consumer lending app), Off Grid Electric (clean energy provider) and Branch (a lending app) - received over 70% of disclosed investments in the region between the period of 2015 and 2017.[19]

The due diligence process in Kenya can often stretch 12-18 months for both debt and equity investments.[20]

Though many investors now have local offices in Kenya, their investment committees are still internationally based, i.e. outside of Kenya; and they frequently have less contextual knowledge of investment and entrepreneurial environment within Kenya. Therefore, the perceived risk by these investment committee members becomes higher than the actual risk on the ground, resulting in much more detailed and prolonged due diligence process. On the other hand, enterprises in Kenya are also at nascent stage and lack necessary documentation required by the investors, which results in investors conducting multiple field visits for evaluating the health of the company, thereby further delaying the process.

GOVERNMENT AND POLICY MAKERS (KEY TRENDS)

The government is strongly supporting micro, small and medium enterprises

Through a number of different initiatives, the government has enabled the growth of these enterprises, acknowledging their importance in job-creation and livelihoods. Some of the initiatives taken by the government include:

- Amendment in the Retirement Benefit regulation in 2015, which allowed allocation of up to 10% of pension funds' assets under management for direct investment in private equity asset class. This is a remarkable step by government as it will channel more local capital into private equity and will allow increased participation of pension funds in the growth of micro, small and medium sized enterprises in Kenya.

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13 British Council, 2017, The State of Social Enterprise in Kenya

14 Intellecap, 2015, Closing the Gap Report

15 Intellecap, 2015, Closing the Gap Report

16 Intellecap, 2015, Closing the Gap Report

17 KPMG & EAVCA: Private equity sector survey for East Africa for the period of 2015 to 2016

18 British Council, 2017, The State of Social Enterprise in Kenya

19 Breaking the Pattern: Village Capital/BMGF Foundation, 2017 report

20 The Global Impact Investing Network (GIIN), 2015, The Landscape for Impact Investing in East Africa

- Establishment of Micro and Small Enterprise Authority in 2013, which is responsible for developing, promoting and regulating the micro and small enterprise sector in Kenya. Since inception, MSEA has facilitated over 1,450 MSEs to participate in various exhibitions countrywide. It has also supported entrepreneurial and skills upgrading programs by training more than 2,000 MSEs across various counties.[21]
- Establishment of Ministry of Public Service, Youth and Gender Affairs through which government launched some of its flagship initiative for youth and women such as:
  - **Uwezo fund** aimed at expanding access to finances and to promote women, youth and persons living with disability led enterprises at the constituency level. The government has disbursed over **US$40 million** through Uwezo Fund.
  - Youth Enterprise Development Fund (YEDF) established in the year 2006 with the sole purpose of reducing unemployment among the youth. The government has so far released over **US$100 million** to the YEDF.
  - Women Enterprise Fund established in August 2007, to provide accessible and affordable credit to support women start and/or expand their businesses. Under WEF, the government has disbursed over **US$74.5 million**.
- Establishment of Kenya Investment Authority in 2004 which is responsible for facilitating implementation of new investment projects in the country and providing post investment services to investors. The authority stepped up its efforts in last five years, which resulted in improvement in country's ease of doing business ranking from a low of 129 in 2013 to a high of 61 in 2018.

INTERMEDIARIES OF CAPITAL (KEY TRENDS)

Increasing cost of debt

Despite of the interest rate capping introduced by the Central Bank of Kenya in 2016, which limits lending rates to 4 percentages above the Central Bank Rate, the cost of credit is still very high in the country, and show no signs of abating. A report by the Kenyan Bankers Association published in June 2017 shows that some of the biggest banks in the country add high processing fees to the charged interest rates, bringing the cost of credit to 20-25%. The costs are even higher and reach up to 40% for large amount and small duration loans.[22]

ECOSYSTEM SUPPORT PROVIDERS (KEY TRENDS)

Technical assistance providers in Kenya are becoming sector and country specific

With the maturity of ecosystem and sector specific technical assistance demand from enterprises, more and more incubators and accelerators in the country are becoming sector specific and providing tailor made and customized sector specific support. Specialisation of offerings from ecosystem support providers demonstrates a positive and natural progression in the state of the market. Some of such incubators/accelerators include Villgro & Duke Innovations which work with healthcare enterprises, KCIC which works with clean energy enterprises, MasterCard lab which works with agriculture enterprises and DFS lab which works with financial services enterprises.

The first group of incubators and accelerators in Kenya had heavily borrowed their support models from Silicon Valley but now they are contextualizing their models to fit current market/ geographical needs. Further, recently there is shift in focus to entrepreneurship amongst higher learning institutions and consequently, they have launched their own incubation centers. For example, University of Nairobi launched its incubation center called C4D lab, Kenyatta University has Chandaria Business and Innovation center. University of Nairobi also hosts annual Nairobi Innovation Week.

Kenya is home to more incubators, accelerators, service providers, and other ecosystem players than any other East African country; the country has over 70 ecosystem support providers.[23]

Key recommendations to strengthen the impact investment sector

SUPPLY OF CAPITAL

▲ **Impact investors in Kenya should develop blended finance structures combining different forms of capital, providers and instruments:** Despite the increase in number of funders and evolved landscape of intermediaries' such as fintechs; access to capital still remains a key challenge for enterprises in the country. Majority of funds focus on equity and notwithstanding the increasing number of enterprises, deal closures is low averaging around 20 for last five years. The current structure of investment which is akin to the Silicon Valley model needs to be contextualized for Kenya to achieve the tipping point for impact investing. Different funding structures and instruments including debt, mezzanine, guarantees and more patient risk-taking capital are required in this market. There has been an ever increasing need to create blended finance funding structures combining different forms of capital, providers and instruments in the Kenyan market. Different capital providers with differing risk and return appetites should come together to develop innovative structures matching the needs of businesses with the risks and stages growth.

Example:

- FAFIN is a US$65 million mezzanine fund for agriculture in Nigeria with partnerships from the Nigerian government, the German Development Bank, and Nigeria's Sovereign Investment Authority. Each of the party brought unique value proposition to the fund: the Nigerian government had the strategic vision for agricultural transformation and the power to see it through, the German Development Bank had prior experience setting up these types of funds, and the Sovereign Wealth Fund had the capital and know-how.[24]
- Kenya SME fund was launched in 2006 by Business Partners International in cooperation with IFC, East Africa Development Bank, European Investment Bank, Sarona Capital and CDC. It is a US$14.1million fund using blended finance instruments (i.e. mix of debt, equity and quasi-equity) for investing into small and medium sized enterprises. The fund also provides technical assistance to businesses that it invests in.

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21 Data from MSEA website

22 https://www.businessdailyafrica.com/news/Big-banks-Kenya-s-most-expensive-lenders/539546-3983692-139bdqmz/index.html

23 Intellecap, Fintrek Report- Investment Opportunities in Fintech in East Africa-2018

24 https://www.theafricaceoforum.com/en/ressources/lorem-ipsum-dolor-sit-amet-6/

- **Investors would benefit from spending more resources on outreach to find those deals which do not fit the traditional profile:** Impact investors in Kenya are increasingly investing in the same companies, so much so that over 70% of the capital deployed in the country in 2017 went to just 5 companies.[25] There is a need for impact investors to widen their horizon and invest in companies outside of their usual network and outside of the main Tier 1 cities.

  Example: Aavishkaar India, an impact investment fund, invests in high-risk enterprises serving low income populations in underserved geographies across India and South East Asia. It is usually the first external investor in its portfolio companies. Over the last 15 years, it has invested in over 50 companies and has US$ 400 Million AUM

- **Grant providers and philanthropists should introduce a milestone based or outcome-based grant system in the country:** Grant financing is much needed in the Kenyan entrepreneurial ecosystem to support the growth of micro and small enterprises. However, large amount of grant in the country has also resulted in some of the enterprises in the market being overly reliant on just grant financing for running their businesses. Their key focus is on seeking repeated grant financing and keep moving from one grant to another, using resources that might otherwise be used in the daily running and scaling of their businesses. There is a need for grant providers/ philanthropists to incorporate mechanisms such as milestone based grant funding, issuance of repayable grants or matching grants where enterprises are expected to match grants with their capital investments.

  Example: Africa Enterprise Challenge Fund (AECF) runs challenge program to identify and provide grant to enterprises in sectors such as agriculture and agribusiness, renewable energy and adaptations to climate change, rural financial services and communication systems that support the other focus sectors. It provides grants between US$ 100,000 and US$ 1.5 Million to enterprises; however grants are disbursed in stages dependent on the key milestones being met, which are agreed at the beginning of the grant disbursement process. It was launched in 2008 and has so far deployed US$ 356 Million, supporting 266 companies.

- **There are opportunities for Impact investors to provide venture debt instruments:** Venture debt is capital in the form of debt to high-risk businesses that lack assets or cash flow for traditional debt financing. It is more flexible and longer term than traditional form of debt. Stakeholders interviewed as part of this research, i.e. investors, enterprises, incubators, accelerators, mentioned the need for and lack of venture debt in the country. Many enterprises, especially in their early stages of growth, which require debt to scale their business, end up raising equity capital and giving up significant part of their business in the absence of venture debt options in the country. There is a need for impact investors to develop venture debt instruments targeting these early stage enterprises.

  Example:
  - **GroFin** is a debt fund that provides medium term venture debt and technical assistance to startups and early stage enterprises across Africa and Middle East. It has invested in 675 SMEs since its inception in 2004.
  - **IntelleGrow** is a venture debt fund, based out of India that provides debt to small and growing businesses. It has disbursed over US$ 185 Million across 280 venture debt deals so far.

DEMAND FOR CAPITAL

- **There is a need for increased awareness amongst social enterprises on the different instruments/mechanisms of impact investments:** Many social enterprises are not aware of how they can benefit from the different masterclasses / mechanisms / instruments available in the market. As a result, they end up only absorbing grant or traditional debt funding and not using other available mechanisms / instruments.

  Example:
  - **Good Finance (UK)** is a collaborative project to help improve access to information on social investments for charities and social enterprises.
  - **VC4Africa** provides fund raising and mentoring support to startups in Africa. It connects startups in Africa to a pool of international and local experts to whom they can reach out to for advice on topics such as financial instruments, fund raising process, business development, human resource and legal matters, all free of charge.

GOVERNMENT AND POLICY MAKERS

- **The government should recognize and define social enterprises:** There is no recognition or definition of social enterprises (SEs) in the current regulatory framework of Kenya and thus, they often run into a registration dilemma at the point of registering their entities. Currently, social enterprises in Kenya have the option to register themselves as limited liability companies, sole proprietorship, not-for-profit organizations, cooperative societies and corporations. As per the British Council 2017 report, 23% of the social enterprises register themselves as limited liability companies followed by 20% registering as sole proprietorship and 14% as not-for-profit organizations. In the absence of separate registration category for social enterprises, they prefer to register as limited liability companies as it gives them the opportunity to be listed on the national stock exchange in their later stages of growth. However, it also puts an obligation on them to abide by same tax and regulations as other established businesses and often results in creating additional financial burdens for these early stage enterprises.

- **There is a need for taking additional regulatory reforms by the government such as:**
  - **Make regulatory environment favorable for investment funds to be domiciled in the country**: There are large chunk of investments funds which have funding activities in Kenya but are domiciled/registered in other countries such as South Africa and/or Mauritius because of their tax incentives. The government of Kenya should make the regulatory environment much more favorable so as to attract these funds to register their funds in the country as opposed to in South Africa and/or Mauritius.

[25] Breaking the Pattern: Village Capital/BMGF Foundation, 2017 report

- **Develop a tiered regulatory structure**: The government should develop a tiered regulatory structure with different regulations and compliances for different size/stages of companies. For instance, startups can have limited regulatory compliances to adhere to and compliances keep on increasing/ changing as they grow and become bigger in size. The size of the company can be defined in terms of number of employees, years of operation or annual revenue.
- **Improve formulation and enforcement of Intellectual Property Rights (IPR) regulation**: There is a need for improvement in the formulation and enforcement of IPR regulation in Kenya. In the current regulatory framework, whenever there is an IPR-related dispute, arbitration will follow an industrial court process which is time consuming and often ineffective. It should consider putting in place a mechanism such as that of the Kenya Bankers Association (KBA) which arbitrates inter-banks' disputes.
- **Increasing listings on Growth Enterprise Market Segment**: Nairobi Stock Exchange (NSE) launched Growth Enterprise Market Segment (GEMS) in 2013 to provide more options finance to SMEs, especially long term funding. This could be a good exit option for impact investors who are looking to exit their investments through an Initial Public Offering (IPO) and listing on capital markets. However, there hasn't been much uptake of GEMS because of its current policies and framework. NSE should look to improve the GEMS model by enabling more firms to list on it.

MARKET BUILDING SUPPORT

- **Ecosystem support providers, together with investors, should develop pre-investment technical assistance support programs**: One of the biggest challenges cited by investors is the lack of enough investment ready enterprises in the country. This results in investors competing for a smaller pool of investment ready enterprises, distorting the market and leading to higher valuations. Whilst investors do provide post- investment support to enterprises for their growth and scale, there is a gap in pre-investment technical assistance support for early stage enterprises which can make them investment ready.
- **Incubators and accelerators need to develop support programs for enterprises outside of Nairobi**: Ecosystem support providers, i.e. accelerators, incubators are currently concentrated in Nairobi, whilst there are lots of high potential enterprises outside of Nairobi. There is a need for support providers to widen their reach and include enterprises outside of their regular network and reach. Collaboration with Non-Government organizations (NGOs) can also be crucial for support providers, as NGOs work deeply with communities in rural areas and can identify enterprises that are working to solve challenges on the ground. Support to enterprises outside of major cities can be provided through virtual incubation programs.

  Example: Realizing the lack of support for enterprises outside of tier 1 cities in East Africa, Intellecap developed an online platform called StartupWave, which provides virtual incubation support to enterprises. It assists enterprises in refining their business models, developing their value proposition, connecting the businesses to various service providers, and providing the information for various challenge and grant programs onlines. Currently, StartupWave has over 700 plus enterprises from across the continent and over 30% of them outside the main cities.
- **Accelerators and incubators need to innovate their business models to ensure long term sustainability**: Majority of accelerators and incubators in Kenya are currently reliant on grant funding for sustaining their operations and for running technical assistance support programs. The funding is drying up and support providers need to look for innovative business models that can sustain their operations.[26] Accelerators/incubators could introduce co-pay models where entrepreneurs pay a certain fixed amount to participate in the program, rather than it to be completely free. This will not only help gauge the entrepreneurs' 'skin in the game' but also serve as revenue source for the accelerators/incubators.
- **There is a need to develop Peer to Peer learning networks in the country**: Entrepreneurs interviewed as part of this research, highlighted the importance of peer to peer learning networks. They prefer such networks to validate their ideas, meet and learn from other entrepreneurs, develop partnerships and build greater visibility for their products and services. However, they also mentioned the lack of such networking opportunities. While there are many business forums and conferences, more suitable for bigger businesses, there are limited or no peer to peer learning opportunities for startups and early stage enterprises.

  Example: Initiatives such as Rwanda's Youth Connekt provide peer to peer learning opportunity to startups and early stage enterprises by connecting them and providing them a platform to interact with peers and mentors.

Conclusion

Initiatives to date have seen recent growth in the entrepreneurship sector in Kenya and emergence of impact investors, social enterprises, incubators, accelerators, support providers etc. however, the demand far exceeds the supply of support needed by the entrepreneurs.

The factors necessary for private investment into solutions to social and environmental challenges are clearly present in the Kenyan ecosystem. What remains to be seen is the pace at which investors, politicians and entrepreneurs will tap into this market and benefit from these conditions in a country ripe for change. The government's Big 4 Agenda may serve as a useful framework for private actors to link into national priorities.

The recommendations outlined in this paper are based on extensive secondary research, literature review and primary research conducted through interviews with 34 leading professionals in the impact investment sector in Kenya including fund managers, government and policy makers, entrepreneurs, incubators, accelerators etc., spanning a three month period in Q3 2018.

[26] Intellecap research

NIGERIA

Country Context

Nigeria is the most densily populated country in Africa, with a population of more than 196 million people and a total labor force of more than 58 million people[1]. Nigeria is the 8th largest producer and exporter of oil in the world, producing 37.45 Billion Barrels of oil per year[2]. As at the end of 2017, Nigeria had a Gross Domestic Product (GDP) of USD 375.771 Billion, which has been on the decline since 2014[3] due to shrinking of oil outputs. The GDP is however expected to grow, although slowly at a rate of 0.8%[4] as the Government seeks to catalyze the growth of non-oil sectors of the economy. In 2017, Foreign Direct Investments (FDIs) inflows into Nigeria stood at USD 3.5 Million, signifying a 24% drop from the year 2015[5].

TABLE 1:
FACT CHECKS FOR INVESTORS

FACTORS	INDEX SCORE	DESCRIPTION
GDP Growth (2017)	0.18%	Nigeria has had a decline in economic growth, from an all-time high of 9.19% in 2015 to 2.9% in July 2018.
Financial Access		There are 22 commercial banks in the country, 1023 licensed MFIs and 59 insurance companies.
Digital Access (2016)	25.7%	25.7% of the population in Nigeria are reported to be internet users.
Ease of doing business (2018)	145	Nigeria also ranked at position 145 in the 2017 Doing Business rankings.
Unemployment rate (2016)	13.4%	Youth (ages 15-24) unemployment rate stands at 13.4%
Inflation rates (2017)	16.5%	Inflation has significantly slowed from a high of 16.5% in 2017 to 11.14% in July 2018.
Corruption Index (2017)	148/180	Nigeria ranked 148 in the annual Corruption Perception Index of Transparency international.

1 World Bank Data, available at; https://data.worldbank.org/indicator/SP.POP.TOTL?locations=NG and https://data.worldbank.org/indicator/SL.TLF.TOTL.IN?locations=NG

2 OPEC: https://www.opec.org/opec_web/en/data_graphs/330.htm

3 World Bank Data, available at; https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=NG

4 World Bank Data, available at; https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=NG

5 According to UNCTAD data, investments worth USD $ 494, 583 were channeled into Nigeria from foreign sources in 2015.

The Impact Investment Landscape in Nigeria

SUPPLY OF CAPITAL

Development Financial Institutions (DFIs) lead in deploying capital.

DFIs account for 96% of total capital deployed directly in the country (USD 1.9 billion)[6] and private impact investors account for USD 79 Million. The majority of identified impact investors (both DFIs and private impact investors) who are active in Nigeria are headquartered outside of Nigeria[7]. There are only a few impact funds which have local presence. Most investors in Nigeria expect returns of between 13% and 17% Internal Rate of Return (IRR) in their equity and quasi-equity deals[8]. This is higher than the 9.5% global benchmark return rate[9]. This is attributable to high perceived risks that are associated with investing in Nigeria including macro-economic and currency volatility[10].

A large majority of impact investors haven't made exits yet and look into trade sale/strategic acquisition as preferred mode of exit[11].

Profitable exits are infrequent as there are few secondary investors because most impact investors invest in growth stage enterprises that might still be to early stage for secondary sale or IPO after the investment horizon. It is however important to note that because Nigeria has a much more developed stock market (compared to other markets in Africa), Initial Public Offerings (IPOs) can offer exit option for investors in Nigeria[12].

Impact fund managers find difficulty raising domestic capital to invest in social enterprises[13].

Most of the capital invested into social enterprises in Nigeria is raised internationally. This is because domestic investors believe that impact investing must always result in major compromise on financial returns. Fund managers would therefore find raising capital difficult, and typically rely on foreign DFIs. The majority of capital for impact investors originates from foreign sources[14]. In 2015, there was only one (identified) impact investor that relied significantly on local sources of capital[15].

6 Global Impact Investing Network (GIIN): The Landscape for Impact Investing in West Africa – Nigeria Chapter (2015)

7 All other DFIs with the exception of the Bank, Bank of Industry, New Nigeria Development Company, Nigeria Export Import Bank, Bank of Agriculture, Federal Mortgage Bank of Nigeria, National Economic Reconstruction Fund, The Infrastructure Bank

8 Global Impact Investing Network (GIIN): The Landscape for Impact Investing in West Africa – Nigeria Chapter (2015)

9 Global Impact Investing Network (GIIN): The Landscape for Impact Investing in West Africa – Nigeria Chapter (2015)

10 The economy in Nigeria has experienced sharp highs and lows in the past 3 years. According to the World Bank, the GDP has been on a sharp decline the GDP has taken a fall from 2014 (USD $ 568 Billion) to USD $ 375 Billion in 2017.

11 Global Impact Investing Network (GIIN): The Landscape for Impact Investing in West Africa – Nigeria Chapter (2015)

12 Intellecap Research

13 Global Impact Investing Network (GIIN): The Landscape for Impact Investing in West Africa – Nigeria Chapter (2015)

14 Global Impact Investing Network (GIIN): The Landscape for Impact Investing in West Africa – Nigeria Chapter (2015)

15 The Tony Elumelu Foundation that relies on the philanthropy of Tony Elumelu.

The Nigerian diaspora is a powerful source of impact capital. According to the World Bank, personal remittances into Nigeria have been growing year on year despite a slump in 2016[16]. More than USD 22 Billion was received in 2017 by Nigeria in remittances and Nigerians in the Diaspora have year on year contributed more to Nigeria's economy than 34 of the 36 states. Furthermore, in 2017 – the government, through the first ever diaspora bond in Nigeria raised USD 300 Million in efforts to fund part of its budget deficit. The rising trend in remittances is because of the increasing number of Nigerians in the diaspora – in 2017 there were an estimated 15 million Nigerians living as diaspora in different parts of the world[17]. There are also increasing opportunities for the Nigerian diaspora business community to develop its commercial presence and invest and contribute to socio-economic transformation of Nigeria. The overseas population is increasingly being looked to as a source of capital for the economy.

The government in Nigeria is increasingly playing a part in the supply of impact capital.
The government, through the establishment of its Development Financial Institutions such as the Bank of Industry (BOI) in 2001, and through state funds such as the Lagos State Employment Trust Fund in 2016, is trying to cover the financing gap. The low level of intermediation of impact capital has necessitated the emergence of development financial institutions, federal and state funds to support low income populations. This has proven to be a success, for example, the BOI in 2016 invested USD 230,000 in Nigeria's first ever social innovation fund. This fund was promoted by Nigeria's startup incubator, Co-Creation Hub (CCHub).

DEMAND FOR CAPITAL

Small and Medium enterprises (SMEs), including social enterprises, comprise of 96% of all Nigerian businesses and investors recognise these enterprises as key drivers of economic growth and job creation in Nigeria.[18]

Enterprises in Nigeria find it difficult to access financing from commercial lenders
Commercial lenders often have heavy collateral requirements that enterprises cannot meet. Even if the financing is available, it is often too expensive for these enterprises to take it and sustain it.[19] Further, there are very few angel investors or venture capitalists in Nigeria especially given the size of the economy.

The largest recipients of capital (by size and number of deals) have been those in the in energy, manufacturing, ICT and financial services sectors.
DFIs predominantly invest into the energy, manufacturing, and information and communications technology (ICT) sectors. Deals in these sectors represent a combined total of approximately USD 1.3 billion or 68% of total DFI capital deployed. Private impact investors, meanwhile, strongly favor financial services—microfinance, in particular, ICT, and agriculture —through small deals of less than USD 5 million. These sectors account for USD 51 million or 65% of capital deployed in the portfolio of private impact investors[20].

REGULATORY ENVIRONMENT

Whilst regulatory change incentivizing impact capital have been successful, stringent regulation has had the opposite effect[21].
There are quite a number of legislative instruments that seek to impose tax obligations on both the supply and demand of impact capital. For example, Legislation such as the National Information Technology Development (NITD) Act[22] that was enacted in 2007 and the Tertiary Education Trust Fund (TETFund) Act[23] that was enacted in 2004 impose tax obligations[24] to companies operating in Nigeria, thereby lowering earnings of impact enterprises. However, the Venture Capital (Incentives) Act provides tax reliefs on individual investments into venture projects, however, the TETFund and NITD Fund tax obligations target the profits of Venture capital firms thereby being counterproductive to the Venture Capital Incentives Act.

The Central Bank in Nigeria has been issuing currency controls and regulations[25] that restrict the use of foreign currency in Nigeria.
The Export Promotion Council in Nigeria was established in 1977 to steer the country away from an oil focused economy and towards the export of other commodities. However, currency controls in 2014 and 2015[26] by the Central Bank are working against the efforts of the Export Promotion Council to catalyze the involvement of impact enterprises (which are not involved in the upstream oil sector)[27] in the economy which will earn the country foreign exchange. For instance, The Central Bank of Nigeria (CBN) in November 2014 and 2015, devalued the currency and in 2015, it published a list of transactions that would no longer be eligible to access foreign exchange in the official Nigerian forex market. It also curtailed the use of foreign currency-denominated Nigerian bank cards.

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16 World Bank Data: More than USD $ 19 Billion was received by Nigeria in 2016 in remittances.

17 Nigerian Foreign Affairs and Diaspora Office: https://www.vanguardngr.com/2017/03/15-million-nigerians-diaspora-dabiri-erewa/

18 Global Impact Investing Network (GIIN), December 2015, The Landscape for Impact Investing in West Africa

119 Global Impact Investing Network (GIIN): The Landscape for Impact Investing in West Africa – Nigeria Chapter (2015)

20 GIIN: The Landscape for Impact Investing in West Africa – Nigeria Chapter (2015)

21 For example; the Venture Capital (Incentives) Act provides tax reliefs on individual investments into venture projects. However, there are impositions of Company Income, TETFund, NITD Fund tax obligations that target the profits of Venture capital firms thereby being counteractive to the incentivization idea as a whole.

22 This act establishes National Information Technology Development Agency to plan, develop and promote the use of Information technology in Nigeria.

23 This act establishes the TETFund, an intervention agency charged with the responsibility for managing, disbursing and monitoring the education tax to public tertiary institutions in Nigeria.

24 Section 12 of the NITD Act imposes a levy of one percent of the profit before tax of companies and enterprises enumerated in the Third Schedule to this Act with an annual turnover of Third Schedule N 100,000,000 to be credited to the NITD fund. On the other hand, Section 2 of the TETFund Act imposes a 2% tax on assessable company profits in Nigeria.

25 Reuters, available at; https://www.reuters.com/article/nigeria-investment-imf/investors-concerned-about-nigeria-controls-but-have-not-given-up-imf-idUSL8N1OD59Q

26 ICEF Monitor, available at; http://monitor.icef.com/2016/03/nigeria-tightens-foreign-exchange-controls-to-limit-use-for-study-abroad/.

27 According to a KPMG report, the upstream oil sector is the single most important sector in Nigeria and accounts for more than 90% of the country's exports. According to a 2015 GIIN report, over $ 581 Million has been channeled into non-upstream and renewable energy impact enterprises involved in power generation and petrochemicals.

INTERMEDIARIES OF CAPITAL

Crowdfunding can be a powerful tool for economic growth and as means for raising capital for startups/early stage businesses, however a ban has been put on it by the Government

Crowdfunding can be a powerful tool for economic growth and wealth in developing countries in general. In Nigeria crowdfunding could be a great tool to kick-start organizations and individuals.

In 2015, Nigeria accounted for between seven and eight million US dollars of crowdfunding activity in Africa[28]. However, in 2016 the Securities and Exchange Commission put a temporary end to equity crowdfunding in Nigeria[29] which rendered related crowdfunding platforms defunct. This further widens the funding gap to social enterprises in Nigeria.

ECOSYSTEM SUPPORT PROVIDERS

Nigeria enjoys a relatively heavy presence of ecosystem support providers compared to other Sub-Saharan countries, with most support players being based in Lagos and Abuja.

Nigeria has strong presence of ecosystem support providers though many focus on towards incubators and accelerators who support earlier stage enterprises. A considerably smaller number provide support to growth stage enterprises who may require support in scaling[30]. Key players include:

- Incubators and accelerators such as 44ONG, Passion Hub, Enspire, Impact Hub, Outlier Venture Lab, CoLab, Accelerate Lab, Premier Hub, Uplift Hub, 365 NEXT, Start Innovation Hub Founders Hub, Leadpath, IDEA, Startpreneurs, CBN-EDC South West Nigeria, CC Hub, TribeHub, Ayada Lab, L5 Lab, Roar Nigeria, Hebron Startup Lab, Startup Nigeria, TipHub, Wennovation Hub and the GreenLab Microfactory.
- Research and knowledge organizations such as Dalberg, Palladium, McKinsey and Company, Bain and Company, Boston Consulting Group (BCG), Deloitte, KPMG, Ernst & Young, Pricewaterhouse Coopers (PwC) and Fragg Investment Management.
- Knowledge platforms such as the Aspen Network of Development Entrepreneurs (ANDE), Lagos Angel Network, Fintech Association of Nigeria, Association of Non-Bank Microfinance Institutions, South/South-East Angel Network, Private Sector Health Alliance of Nigeria, StartUp South West and the Business Innovation and Growth (BIG) Platform.
- Capacity builders and technical assistance providers such as Dalberg, Technoserve, National Enterprise Development Programme, Small and Medium Enterprise Development Agency of Nigeria (SMEDAN), Enhancing Financial Innovation & Access (EFInA), Africa Management Services Company (AMSCO) and the GEM Project.

Educational institutions out of urban cities of Lagos and Abuja are playing a role of ecosystem support providers.

Covenant University launched Hebron startup lab in 2017, which stood as the first incubation hub in a university. The University of Nigeria followed suit in 2017 - with the launch of Roar Nigeria Hub. A notable trend with the education-embedded startup hubs and labs is that both are established by educational institutions that are based out of the major cities in Nigeria. These educational institutions are able to set up support resources for entrepreneurs based outside these cities because of their ability to leverage on their strategic positioning and existing infrastructure. Whilst Hebron is fully funded and managed by Covenant university, Roar hub managed to land a partnership and funding from Facebook to help run its operations.

KEY CHALLENGES IN NIGERIA

- **Lack of investable enterprises:** Building a pipeline of investment-ready enterprises is the most common concern for impact investors as it is difficult to identify enterprises with the legal and operational documents required[31].
- **Lack of available financing options**: There are very few angel investors or venture capitalists in Nigeria, especially considering the size of the economy[32].

RECOMMENDATIONS

The following recommendations surface from impact investment landscape analysis of Nigeria

- **Supply of capital**
  - **Co-Investments with local HNWIs:** The angel investing space in Nigeria is still nascent, with only two active angel investor networks. However, there are an estimated 15,400+ high net worth individuals in Nigeria[33]. Supply side players need to make a deliberate effort to co-invest with the already existing high number of local high net worth individuals. These angel investors would come in earlier than most funds are currently set up to do – this could unlock more sources of impact capital like equity investors.
  - **Investments by Government:** Local state government agencies/authorities would benefit from establishing more impact funds to invest in social enterprises. These funds will provide a reachable capital source and channel for otherwise marginalized entrepreneurs who are not based in urban centers. Most of the investors in Nigeria lack a local presence. The few with a local presence in Nigeria are based in Lagos, Abuja and Kaduna.

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28 Crowdfunding Hub: Crowdfunding Potential for Nigeria report (2017)

29 Quartz: (https://qz.com/africa/761175/nigerian-startups-cant-raise-money-through-crowdfunding-because-of-antiquated-laws/) - The Securities Exchange Commission in Nigeria cited the lack of an appropriate legal governance framework as the main factor that led to the ban.

30 The GSMA Tech Hubs Landscape report of 2018 estimates a total of 55 tech hubs in Nigeria. Nigeria also enjoys presence of the Big 4 accounting firms (KPMG, PwC, EY and Deloitte) as well as the bulge bracket management consultancy firms such as McKinsey and Bain whose services may be out of reach of early stage enterprises.

31 GIIN: The Landscape for Impact Investing in West Africa – Nigeria Chapter (2015)

32 GIIN: The Landscape for Impact Investing in West Africa – Nigeria Chapter (2015)

33 New World Wealth: Africa's Wealthy Class 2015

- **Tap into burgeoning diaspora by lifting the ban on crowdfunding:** The Securities and Exchange Commission should consider revising or relaxing its ban against crowdfunding platforms. Crowdfunding platforms have proven to be highly effective channels of impact capital to entrepreneurs. They present a great opportunity to channel capital into social enterprises from the diaspora base.

Ecosystem Providers

- **Collaboration between supply side players and ecosystem support players:** This will help supply side players get a better understanding of the social and investment context in Nigeria. Collaboration could be through joint efforts to train conventional investment professionals in impact investment as well as share their learnings, insights and knowledge from other emerging markets.
- **Collaboration between the different players in the ecosystem support players:** The ecosystem support space is dominated by early stage incubators and accelerators with few technical assistance support providers who tend to support later stage enterprises. Ecosystem support players would benefit from collaborating to create a range of professional services for small and growing businesses at an affordable rate to attract more social enterprises.

Government

- **Incentivization for angel investing:** Government agencies could play a role in incentivizing high net worth individuals and corporations to invest in social entrepreneurs.
- **Currency policies:** The Central Bank of Nigeria could setting specific exchange rates (which might be fixed) for impact investments, as is already done for religious travels.

RWANDA

Country Context

Rwanda is situated in the Great Lakes region of central Africa with a population of approximately 11.8 million people, according to the 2017 census. The Rwandan economy has experience strong growth from 1995 to present, allowing for a recovery from the 1994 genocide. Annual economic growth averages more than 10% in the decade after 1995 with some variation and currently stands at around 7.6%[1]. While services and agriculture sectors have expanded significantly in the last few years, manufacturing remains a problem. About 75% Rwandans are engaged in agriculture and about 39% reportedly live below the national poverty line[2]. Donor aid, political stability, relatively low corruption and pro-investor policies have contributed to Rwanda's recent economic growth. Key foreign exchange earners include tourism and export of coffee, tea and minerals. Key challenges facing the Rwandan economy include low agricultural productivity, an insufficiently skilled workforce, a landlocked geography and limited infrastructure.

TABLE 1:
FACT CHART FOR INVESTORS

FACTORS	INDEX SCORE	DESCRIPTION[3]
GDP Growth (2016)	5.9%	Rwanda's GDP growth rate has been increasing from 2014 (7.6%) to 8.9% in 2015 and dipped in 2016
Financial Access (2012)	72%	72% of Rwandan adults were financially included.42% of whom were formally served (23% served by commercial banks and 33% served by non-bank formal institutions) and 58% used informal financial mechanisms
Digital Access (2016)	39.5%	39.5% of the population in Rwanda are reported to be Internet users
Ease of doing business (2018)	41	Rwanda rose 15 places in the ease of doing business from 2017 after the implementation of 5 reform programs
Unemployment rate (2018)	16%	The unemployment rate in Rwanda decreased to 16% in 2018 from 16.7% in 2017.
Inflation rates (2018)	2.8%	The IMF 2018 Projected Consumer Prices (% Change) stands at 2.8% with the national institute statistics of Rwanda averaging the annual inflation rate between August 2018 and August 2017 as 2.1%
Corruption Index (2017)	48	Rwanda ranked 48th in the annual CPI of transparency international

The Impact Investment Landscape in Rwanda

SUPPLY OF CAPITAL

While private impact investments have increased in recent years, Development Finance Institutions (DFIs) investments have declined over the last five years as foreign governments began to distance themselves from Rwanda after UN allegations of political interference in the DRC[4].
Rwanda accounts for about 7% of all deals, 4% of the disbursements and 3% of the private impact capital disbursed in the East African region[5]. According to the GIIN 2013 study, at least 38 deals were made by private impact investors resulting in about USD 44 million of capital disbursed in Rwanda while 43 deals were made by Development Finance Institutions resulting in USD 371 million of capital disbursed in Rwanda. The supply side of impact capital in Rwanda includes at least 94 active private impact capital vehicles managed by 69 investors[6].

[1] Country Profile – Rwanda, by UNESCO & SIDA.

[2] Congressional Research Services, Feb 7, 2018.

[3] http://hdr.undp.org/en/countries/profiles/RWA, IMF: Inflation rate, World Bank Overview

[4] Global Impact Investing Network & Open Capital Advisors, Landscape for Impact Investing in East Africa, Aug '15.

[5] Global Impact Investing Network & Open Capital Advisors, Landscape for Impact Investing in East Africa, Aug '15.

[6] Global Impact Investing Network & Open Capital Advisors, Landscape for Impact Investing in East Africa, Aug '15.

There have been very few impact investment deals of small ticket sizes in Rwanda even though most of the enterprises are relatively small scale establishments.
The Rwandan MSME Development Policy[7] defines micro enterprises as having an annual turnover of less than 0.3 Million RwF and employing between 1 and 3 employees, small enterprises having an annual turnover of 0.3 to 12 million RwF and employing between 4 and 30 employees. These 2 categories themselves account for about 97.8 of the private sector in Rwanda[8]. Most enterprises in Rwanda employ only 1-2 people and are relatively small scale establishments. According to a GIIN study of 2013, there have been only about 17 deals in the below USD 250,000 category by private Impact Investors and another 5 in the below USD 1 million category for the DFI Direct Investment deals in Rwanda[9]. Most Rwandan businesses only require a small amount of capital to achieve early growth but most often are not able to able to attract investors due to the low levels of sophistication.

DEMAND OF CAPITAL

Roughly 70% of the population of Rwanda is under 35 years of age, and they are highly entrepreneurial. Social enterprises are registered as private companies as well as NGOs in Rwanda. In Kigali, women entrepreneurs represent 43.2% of all entrepreneurial activity[10] although this number is much smaller in rural areas. Social enterprises are most visible in the energy sector, especially in rural service provision[11]. This is because most household resources are spent on energy and this has also been one of the priority sectors for the government of Rwanda.

Overall, entrepreneurial activity is highly concentrated within Kigali primarily due to the presence of better transport and communication infrastructure in the capital as compared to the rest of the country.

More than two-thirds of micro, small and medium sized enterprises in Rwanda are not formally registered.
There are currently about 72,000 MSMEs operating in Rwanda[12] accounting for approximately 98% of all businesses, contributing to 55% of the total GDP and employing about 41% of the population[13]. Yet only about one third of them are formally registered. Most of them started off as micro businesses which grew or were formed to supplement the income of middle to upper income households and weren't incentivized to register their enterprises at a later stage. It is difficult for the government policy for SMEs to be comprehensive and implementable if most businesses are not officially registered with the government.

Impact investment helps to fill an important credit gap that currently exists in the market.
Impact Investors are critical pipeline builders in Rwanda because commercial banks alone cannot fill the credit gap that exists for MSMEs in Rwanda today. According to a study carried out by MicroSave, 79% enterprises surveyed in Rwanda said that financial institutions did not meet their financial needs, 53% demanded working capital loans to finance their businesses while 37% expressed the need for investment, assets and vehicle finance to expand their businesses[14]. The same study also found that about 90% of the enterprises surveyed had accounts with formal financial institutions. This shows that, although the level of financial inclusion among Rwandan enterprises is relatively high, they are not able to benefit from financial institutions in the form of credit services. This is because of the following main reasons:

- High Lending Rates: The Rwandan bank lending rate has been among the highest in the region over the past decade[15].
- Collateral requirements and long processing periods: Commercial banks in Rwanda typically have high collateral requirements (3-5 times of borrowing) and can take 6 months to process, making it difficult for Social Enterprises to access funding commercial funding.
- Limited potential to fund projects: Commercial loans can only fund 30% of the total project size[16]. This means that bank loans would need to be supplemented with other credit sources. Interest rates for these are about 18% as compared to 26% charged by MFIs[17].

Thus, the practical availability of bank financing is limited. This situation leaves most of the MSMEs in Rwanda to meet their total funding requirement using the founders' own capital and borrowings from friends and family. Given the current financial landscape of Rwanda, it is clear that commercial banks cannot be the only source of credit for entrepreneurs and impact investors can be critical to filling the existing credit gap and facilitate business growth.

REGULATORY ENVIRONMENT

The Rwandan Government has, in recent years, formulated strong pro private sector policies that social enterprises and impact investors can benefit from.
The Government of Rwanda launched the Second Economic Development and Poverty Reduction Strategy covering fiscal years 2013/14 to 2017-18. This strategy aims to implement the 2020 Vision including a target of becoming a middle-income country by 2020, reducing poverty to below 30%. The private sector is seen as paramount to achieve these goals. As a result, there are many strategic policies that have been implemented to improve the business environment and competitiveness in Rwanda in the last few years as described below:

- **Setting up of Rwandan Development Board**: In 2008, the Government established the Rwandan Development Board, in order to fast track development projects as well as to encourage new investments. This was done by consolidating several government agencies including the Rwanda Investment and Export Promotion Agency, the Rwanda Commercial Registration Service Agency, the Human Resource and Institutional Capacity Development Agency, the Rwanda Information and Technology Agency and the Rwandan Office of Tourism and National Parks[18].

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7 Rwanda SMEs Development Policy, June 2010.

8 SMEs Product Cluster in Rwanda, Ministry of Trade and Industry.

9 Global Impact Investing Network & Open Capital Advisors, Landscape for Impact Investing in East Africa, Aug '15.

10 The Sustainability of Businesses in Kigali, Rwanda. 4th August 2017.

11 Social Enterprise Ecosystem Country Profile, Rwanda, World Bank, April 2017.

12 MSMEs in Rwanda, Available here.

13 MicroSave briefing Note #170, MSME Finance in Rwanda, March '17.

14 MicroSave briefing Note #170, MSME Finance in Rwanda, March '17.

15 National Bank of Rwanda

16 MicroSave briefing Note #170, MSME Finance in Rwanda, March '17.

17 Social Enterprise Ecosystem Country Profile, Rwanda, World Bank, April 2017.

18 https://www.africalegalnetwork.com/wp-content/uploads/2015/12/Rwanda-Investment-Guide-2015.pdf

The RDB also plays an active role promoting investment and improving business conditions, regulations, privatization policies, etc. It is highly influential and reports directly to the President of Rwanda. The formulation of the RDB helps both social entrepreneurs and investors and acts as a one stop center to get all necessary business approvals and permits. The process of incorporation, immigration and certification can be completed quickly, and it is an initiative that has seen business reforms initiated by the business community.

- **Setting up of the International Diaspora Fund:** In 2012, the Government launched a fund to attract investments from the international diaspora called 'Agaciro' which means dignity in Kinyarwanda, the official language of Rwanda[19]. This created a common platform whereby HNWIs from the international diaspora could contribute to investing in ventures that have the potential to create social impact in Rwanda.[20]
- **Tax Incentive for Investors:** Many attractive tax incentives are also present for impact investors looking to invest in Rwanda to motivate them to invest in Rwanda:
  - 7 year corporate income tax holiday for selected sectors like manufacturing, ICT, energy and health services for a company investing at least 50 million USD.
  - Capital gains tax does not need to be paid by a registered investor.
  - 0% Corporate Income tax for companies planning to relocate their headquarters to Rwanda.
  - 15% preferential corporate income tax for key selected strategic sectors i.e. exports, energy, transport, ICT and financial services.
- **Ease of Business Registration:** In 2016, Rwanda made starting a business easier by improving the registration process. Registering a social business in Rwanda can be done online, within 24 hours completely free of cost thereby decreasing the effort that a social entrepreneur needs to put in in order to register his/her business.
- **Expansionary Monetary Policy:** On the supply side, the Central Bank implemented a policy in the first half of 2017 to support growth in private sector credit including MSMEs. Consequently, outstanding credit due to private sector increased by 12.9% in 2017 against 9.1% in 2016. This implied that the MSMEs had a small increase in their ability to access credit than they did prior to this policy change.
- **'Made in Rwanda' Program:** It was launched in 2014, with the aim of encouraging Rwandan citizens to buy goods and services from both local and foreign companies located in Rwanda. Under this program, 3 new garment companies established their factories in 2017. The following fiscal incentives were introduced under this scheme in order to encourage local industries and entrepreneurs who would otherwise face stiff competition from imported products and services to set up their businesses within the country:
  - Capital machinery used in textile and leather industry will pay import duty of 0%
  - Tax rate of certain raw materials will be 0%.
  - The Government maintains a high tax on second hand clothes being imported in an effort to protect locally manufactured garments.
- **Setting up of Free Economic Zones (FEZs)**: The Rwandan government has put in place special economic zones on the outskirts of Kigali. These zones are designed to accommodate large manufacturing industries and have access to road networks, fiber internet and water facilities. Entrepreneurs in the free economic zones (FEZs) are exempted from paying import duties and this helps them bring down their transportation costs significantly. These zones offer better infrastructural facilities and reduced tax rates to entrepreneurs thereby increasing their potential to set up and scale their businesses.
- The Rwandan government through the National Bank of Rwanda has steadily cut lending rates over the years thereby encouraging commercial banks to do the same in order to boost lending to the private sector and also encourage investments by rendering debt cheaper.

The government has made a lot of efforts with the above stated regulations and others to promote exports by introducing quality seals to make products import grade. The overall regulatory climate in Rwanda for impact investors is well supported. The government's efficiency has been praised worldwide[21].

INTERMEDIARIES OF CAPITAL

Rwanda has few intermediaries, though the Government has been playing a role in the intermediation of capital. There were 472 MFIs working in Rwanda as of December 2016; of which 17 have limited liability company status and 455 are SACCOs (savings and credit cooperatives)[22]. As is the case for other countries in the region, banks are one of the key intermediaries of impact capital.

The Development Bank of Rwanda (DBR) offers different guarantee funds for individuals and organizations running sustainable development projects. The guarantee funds that exist in Rwanda include the *Agriculture Guarantee Fund (AGF), Small and Medium Enterprises (SME) Guarantee Fund, Business Plan Competition (BPC)* and the *Hang'umurimo Program*, and *Guarantee Funds for the Youth and Women*. The guarantees cover loans from 5 million to 500 million Rwandan francs (USD 5700 USD – USD 500,000).

Further, in order to help address the existing credit gap, the Government of Rwanda and the Development Bank of Rwanda have set up a guarantee fund called "*Business Development Fund (BDF)*" which functions as an independent company. BDF mainly works with cooperatives and associations who come up with viable business projects, and for which it provides the guarantee to obtain a loan from a commercial financial institution. It also provides lines of credit, grants, quasi-equity as well as consulting and training services.

On the private sector side, the following are the main intermediaries of capital in Rwanda:

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19 https://www.theguardian.com/global-development/2014/apr/03/rwanda-20-years-on-how-a-country-is-rebuilding-itself

20 Rwanda Development Board Publication.

21 Global Impact Investing Network & Open Capital Advisors, Landscape for Impact Investing in East Africa, Aug '15.

22 Access to Finance, Rwanda. Available here.

- In 2018, the AFDB provided a 30 million USD loan to the *Rwandan Innovation Fund* which is aimed at providing equity financing for technology enabled small and medium sized enterprises.
- The Rwanda SME Fund run by Business Partners International, IFC, Stichting DOEN and Rwanda Enterprise Investment Company provides financing of up to USD 1 million through secured loans, unsecured cash flows and minority equity financing to SMEs.

ECOSYSTEM SUPPORT PROVIDERS

There are different types of ecosystem players that exist in the Rwandan market, most of which are common to the East African region, although these are far fewer in number than those present in Kenya and Uganda. Many of them operate in Rwanda but are based elsewhere in the region like Nairobi or Kampala. Support is skewed towards early stage ventures[23] and sometimes investors tend to provide their own incubation services to circumvent this. There are currently very few business plan challenges and investor networks that operate in Rwanda.

KEY CHALLENGES IN RWANDA

- For Rwandan social entrepreneurs and small businesses, the main challenges faced include collateral to obtain loans, high tax rates, lack of information technology skills and access, high interest rates and high transportation costs, lack of management skills and proper education and training and the lack of a comprehensive support network. Some of these have been further highlighted below:
  - **High Import and Transportation Cost for Social Enterprises:** Due to the landlocked nature of the country, transportation costs are usually high. Rwanda has the highest imported freight service costs in the region. It is also dependent on the infrastructure and administrative procedures of neighboring country coastlines like Kenya and Tanzania[24]. This increases the cost of production for enterprises since raw materials are now more expensive to source and this affects profits margins of the enterprise unless the shift this burden to the end beneficiaries by increasing cost of final products. This is the primary reason for why the manufacturing sector in Rwanda is not well developed.
  - **Social Entrepreneurs face Difficulty in Accessing Commercial Credit:** High interest rates and the lack of collateral are key issues in Rwanda. The rates of interest for credit from commercial banks vary from 18% in commercial banks and as high as 26% for MFIs, while the value of the collateral requested by the financial institution should be at least 3 times the value of the loan in question[25]. This makes it hard for small business to gain access to commercial credit that can enabling them to scale.
  - **Lack of experienced, qualified local staff to join social enterprises:** Rwanda's higher education does not prepare graduates the skill sets that most social enterprises are looking for. There have been some skill development programs that have been initiated by the government of Rwanda (E.g. SEEP – Skill, Employability and Entrepreneurship Program) but there remains work to be done.
- **Exclusive focus on collateral for bank loans, leading to a credit gap:** Collateral requirements are a major barrier that prevents social enterprises from accessing loans. Bank lending is based solely on collateral instead of some weight also being given on cash flows and credit history. The requirement for property (land and house) is often the only form of collateral.
- **Inadequate Banking Infrastructure in Rwanda**: This serves as a challenge both for impact investors as well as businesses looking for access credit.
- **Lack of Investment Ready Opportunities for Impact:** Even though the ecosystem players present in Rwanda support existing enterprises in building their institutional and financial capacities, there are a limited number of investment ready businesses in Rwanda especially for larger ticket size deals owning to the lack of comprehensive financial record keeping and management skills within early stage enterprises.

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[23] Global Impact Investing Network & Open Capital Advisors, Landscape for Impact Investing in East Africa, Aug '15.

[24] An Investment Guide to Rwanda, Opportunities and Conditions, 2012. UNCTAD (United Nations Conference on Trade and Development.

[25] MicroSave briefing Note #170, MSME Finance in Rwanda, March '17. Available here.

RECOMMENDATIONS

The following recommendations surface from impact investment landscape analysis of Rwanda

Demand Side:

- **Expanding to other countries in the region by forging meaningful partnerships:** Since the total Rwandan market is only about 12 million people, social enterprises should look towards expanding into neighboring markets like Burundi and Congo, both of which are in close proximity to the capital city and well connected. This will add another 30 million potential customers and could help to leverage some useful synergies[26].

- **Increased Focus on Development of Local Social Enterprises in Rwanda:** Although the government has taken some steps to encourage local entrepreneurship (For example, the 'Made in Rwanda' program mentioned above), the majority of the social impact capital continues to be diverted towards social enterprises that have their headquarters overseas. Deliberate and sustained efforts need to be made in incentivizing local Rwandan bred social enterprises both with capital as well as skill development[27].

- **Improve managerial, financial and other relevant skills for local enterprises**: Managerial and financial skills training options need to be explored in order to develop local capacities[28]. Using local staff also enables the social enterprise team to quickly adapt to changing situations on the ground due to increased familiarity with the local context.

Supply Side:

- **Lower Financing Thresholds:** Most enterprises in Rwanda employ only 1-2 people and are relatively small scale establishments. Thus, more impact funds that provide lower financing thresholds (<=$100K) should be encouraged and promoted to help bring more SMEs into the impact investing pipeline and bridge the access to credit gap that currently exists especially for small ticket sizes.

- **Improve Access to Loans by through Process Re-Engineering:** Banks in Rwanda take an average of 2 months to process loans. This can frequently extend up to 6 months. Banks should review their operational systems, identify process bottlenecks and work towards expediting and re-engineering these in order to make the whole process more streamlined and speedy. Additionally, the criteria adopted for loan disbursements should also focus on credit history and cash flows instead of solely on collateral requirements in the form of property and land.

Government

- **Proactive Role in Promoting RDB as a one stop shop:** The Investor's Perception Survey of 2018 for Rwanda found that many international respondents (86%) had not heard of the RDB. However, 80% of the companies were happy to be contacted by RDB to discuss FDI opportunities in Rwanda. Business partnership services and market research were the most important services that investors would like[29]. The Government should take a more proactive role in reaching out to investors through the RDB and raising awareness about the investment opportunities in Rwanda while simultaneously being ready with market research insights and joint venture opportunities.

- **Incentivize Registration of MSMEs:** The government needs to provide incentives for all MSMEs to be registered with the government since it will be unable to create a comprehensive and implementable MSME policy without this.

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26 Global Impact Investing Network & Open Capital Advisors, Landscape for Impact Investing in East Africa, Aug '15.

27 Social Enterprise Ecosystem Country Profile: Rwanda, World Bank Group, April 2017. Available here.

28 Global Impact Investing Network & Open Capital Advisors, Landscape for Impact Investing in East Africa, Aug '15.

29 Rwanda Investors Perception Survey 2018, Available here

SENEGAL

Country Context

Senegal has a population of more than 15.85 million people and a total labor force of more than 5.18 million people[1]. At the end of 2017, Senegal had a Gross Domestic Product (GDP) of USD 16.37 Billion[2] expected to grow at a rate of 6.8%[3] due to increased activity in the services sector, contributing 53.76% to the national GDP. In 2017, Foreign Direct Investments (FDIs) inflows into Senegal stood at USD 532 Million[4], largely due to the strategic position of the port of Dakar that serves as a major transport and economic hub to francophone West Africa. Senegal ranks at number 140 in the World Bank's Ease of doing business index[5] an improvement from position 147 in 2016, partly due to reforms made by the government to ease the registration of property[6] and starting a business[7].

TABLE 1:
FACT CHART FOR INVESTORS

FACTORS	INDEX SCORE	DESCRIPTION
GDP Growth (2017)	6.8%	The economy has slowed, the GDP growth rate closed FY 2017 at a rate of 6.8% and further slumped to -0.4% in January 2018.
Financial Access		There are 16 commercial banks in the country, 21 licensed MFIs and 19 insurance companies.
Digital Access (2016)	25.6%	25.5% of the population in Senegal are reported to be internet users.
Ease of doing business (2018)	140	Senegal ranks 140 having moved one place up from 2017.
Unemployment rate (2017)	5.7%	Youth (ages 15-24) unemployment rate stands at 5.7%.
Inflation rate (2017)	1.41%	Inflation has significantly slowed from 1.41% at the end of 2017 to -0.8% in July 2018.
Corruption Index (2017)	66/180	Senegal ranked 66 in the annual Corruption Perception Index of Transparency International.

The Impact Investment Landscape in Senegal

SUPPLY OF CAPITAL

By 2015, Senegal had received the fourth highest amount of declared impact investment in West Africa, behind Nigeria, Ghana, and Côte d'Ivoire.
Development Finance Institutions (DFIs) constitute a major share of direct impact investment, accounting for USD 535 million or 97% of total capital deployed across 53 deals. Private Impact investments account for USD 16 million in declared investments across 21 deals[8].

Only a handful of Senegalese enterprises have been participating on the Bourse Régionale des Valeurs Mobilières SA[9] (BRVM), none of them identify as impact enterprises per se[10].
Senegal is a member of the West African Economic and Monetary Union (WAEMU), which confirms its participation in the regional stock exchange Bourse Régionale des Valeurs Mobilières (BVRM). By the end of 2015, there were only two Senegalese companies on the BVRM[11] that is the Bank of Africa Senegal and Sonatel, with the latter accounting for an estimated one third of the total market capitalization[12]. Three years down the line, the number of Senegalese companies on the BVRM has grown to 8 companies, which is still a low number.

This is attributable to the fact that successful Senegalese businesses are typically individual or family owned businesses and have a general reluctance towards equity investors[13]. This reluctance is therefore extended to the capital markets where ownership of their businesses will be touted and exposed to public participation.

1 World Bank Data, available at; https://data.worldbank.org/indicator/SP.POP.TOTL?locations=SN and https://data.worldbank.org/indicator/SL.TLF.TOTL.IN?locations=SN

2 World Bank Data, available at; https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=SN

3 World Bank Data, available at; https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=SN

4 UNCTAD Senegal Fact Sheet (2018)

5 World Bank: Ease of Doing Business 2018

6 Senegal has made the registration of property easier by lowering the costs of transferring property and by reducing the time to transfer and registering property.

7 Senegal has made starting a business more affordable by reducing the notary fees for company incorporation.

8 GIIN: Impact Investing Landscape in West Africa – Senegal Chapter (2015)

9 A regional stock exchange serving the 8 WAEMU countries including Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger and Senegal

10 These include Orabank, Total Senegal, the West African Development Bank, Bank of Africa Senegal, SONATEL, Port Autonome de Dakar and Etat Du Senegal.

11 http://topforeignstocks.com/2016/06/30/a-review-of-west-african-regional-stock-exchange/

12 The Economist, available at; http://country.eiu.com/article.aspx?articleid=511604435&Country=Benin&topic=Economy&subtopic=Fore_4

13 GIIN: Impact Investing Landscape in West Africa – Senegal Chapter (2015)

DEMAND FOR CAPITAL

Micro Small and Medium enterprises (MSMEs) form a backbone of Senegalese economy.
MSMEs represent 90 percent of Senegalese enterprises, contribute 33 percent of the country's gross domestic product and employ 42 percent of its population[14]. Impact Investors target MSMEs in Senegal as they play a significant role in creating social and economic impact in the society. Most impact investors target early and growth stage enterprises[15]. Enterprises in the Infrastructure, Energy and Manufacturing sectors receive more investments from DFIs than those in Agriculture, Water and Sanitation and Education[16]. According to a 2015 GIIN report, enterprises in Infrastructure received approximately USD 204 Million over 13 deals. Those in the Energy sector received USD 109 million over 9 deals and those in the manufacturing sector received USD 93 million over 5 deals.

On the other hand, enterprises in the Financial Services and Agriculture sectors received more investments from private impact investors than their counterparts in the construction, health and manufacturing sectors[17]. According to a 2015 GIIN report, enterprises in Financial services received approximately USD $ 10 Million over 9 deals. Those in the Agriculture sector received USD $ 3 million over 7 deals.

The economy in Senegal is powered by informal industries.
Informal enterprises[18] in Senegal have year on year contributed more than 40% of the national GDP and accounted for 90% of job creation and 80% of total employment[19]. Cultural and religious inclinations in Senegal continue to drive informalization.

REGULATORY ENVIRONMENT

The Government of Senegal has following bodies which govern the investment and entrepreneurship space in the country.

- Bureau d'Appui à la Création d'Entreprise (APIX), the government provides a one-stop shop in charge of securing efficient and timely approval of investment incentives through the Investment Code and Free Export Enterprise Status.
- Banque Nationale pour le Développement Economique SA (BNDE), the government commercial small business bank has a capitalization of USD 45 million, of which 70% is intended to explicitly benefit SMEs with target interest rates of 9% to 10%.
- Fonds de Garantie des investissements Prioritaires (FONGIP), the government partners with commercial banks, and in 2015 had deployed USD 25 million in guarantee funds alongside international DFI actors providing similar instruments (AFD and IFC). FONGIP intends to reach a portfolio of at least 70% SMEs.

The Senegalese government has also been putting in place policy incentives to promote foreign investments.
In 2015, the Senegalese government created policies that ensured greater protection of minority investors[20]. Shareholders of companies in Senegal are now able to remove members of the board of directors without cause before the end of their term and their approval must be sought by buyers of new shares.

In 2016, it simplified the process of starting a business by reducing the minimum capital requirement, enabled creation of a new company structure that is cheaper and faster to incorporate. In 2018, Senegal made starting a business more affordable by reducing the notary fees for company incorporation.

INTERMEDIARIES OF CAPITAL

Concepts that earlier applied to the insurance market are being extended to the Senegalese MFI space.
The Senegalese insurance market has traditionally been characterized by cooperatives and community based organizations commonly known as mutuelles. Mutuelles provide effective health financing by pooling financial resources and risks across communities. In 2005, there were more than 833 recognized mutuelles. This number has grown with the adoption of the concept by the MFI market[21] where microfinance products are being offered to individuals in groups.

Digital lending in Senegal is increasingly tied to partnerships. MFIs are trying to survive by applying high touch or adding a personal touch to their offerings, implementing strategies that boost customer relationships.
According to the World Bank[22], the mobile penetration in Senegal had reached 99.9% in 2015, translating to more than 14 million subscribers. By mid-2016, the mobile penetration rate reached about 117% and there were more than 15 million mobile subscribers at the end of 2017. As such, mobile money technology has seen a significant increase in usage.

Digital Financial Services (DFS) players and MFIs have taken advantage of this growth. For example – In 2011, Manko, an intermediary in banking operations, partnered with Yobantel, a Mobile Network Operator (MNO) to enable mobile based bank accounts. Wari, a mobile payments enterprise, has partnered with post offices, MFIs, NGOs, petrol stations and telcos to boost their customer reach and base. Further, the agency banking model is common in the MFI space in Senegal with a number of MFIs choosing to partner with post offices and other localized set ups to reach their existing and new customer bases.

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14 SME Finance Forum: IFC Financing to Micro, Small, and Medium Enterprises in Sub-Saharan Africa (2013)

15 GIIN: Impact Investing Landscape in West Africa – Senegal Chapter (2015)

16 GIIN: Impact Investing Landscape in West Africa – Senegal Chapter (2015)

17 According to a 2015 GIIN report, enterprises in Financial services received approximately USD $ 10 Million over 9 deals. Those in the Agriculture sector received USD $ 3 million over 7 deals.

18 These denote businesses that are not registered with or taxed by the government.

19 A 2013 IMF report estimated that 55% of the Senegalese economy was powered by the informal sector. In 2015, GIIN reported that the informal sector contributed upto 58% to the national economy. Reports available at; http://www.nationalplanningcycles.org/sites/default/files/planning_cycle_repository/senegal/ndp_senegal.pdf and https://thegiin.org/assets/upload/West%20Africa/04%20Senegal%20Chapter.pdf

20 Shareholders of companies in Senegal are now able to remove members of the board of directors without cause before the end of their term and their approval must be sought by buyers of new shares.

21 MFIs such as Crédit Mutuel du Senegal and ACEP (Credit and Savings Alliance for Production) are based on the *mutuelles* concept.

22 World Bank Data, available at; https://data.worldbank.org/indicator/IT.CEL.SETS?locations=SN

ECOSYSTEM SUPPORT PROVIDERS

Senegal has a growing ecosystem support space[23]

The number of incubators and accelerators in Senegal has been accelerating. However, it should be noted that majority of these support providers are tech focused i.e. they were either set up to support tech enterprises or to boost digital literacy and tech expertise in Senegal. These include CITIC, Innodev Mobile Senegal, Jjiguene tech, Defaral Sa Labo, Coders4Africa, jokkolabs and hubsocial.

Corporations and fund managers are also playing an ecosystem support role.

Societe Generale, a global banking institution, launched the African Innovation Lab in 2016 to enhance, and provide very early stage capital in the form of prizes to winners of hackathons[24]. Grofin, a private impact investor impact investor, also launched in 2018, provides technical assistance support to enterprises in Senegal.

KEY CHALLENGES IN SENEGAL

- **Impact investors cite a lack of investable enterprises in Senegal**[25]**.** This is attributable to the fact that many SMEs in the country lack well-developed business plans, standardized monitoring systems, administrative structures, predictable operations and adequately skilled employees.
- **The economy in Senegal is powered by informal industries**. The informal sector in Senegal contributes upto 58% of the national GDP[26] and accounts for 80% of total employment in Senegal. It is reported that cultural and religious inclinations in Senegal further drive this trend. 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[27].
- **Lack of awareness about impact investment instruments**[28]. There is a lack of understanding about the different financial instruments available to social enterprises. Additionally, equity investments are particularly unpopular due to the loss of ownership of what is frequently a family business, intended to be handed down to other generations.

RECOMMENDATIONS

The following recommendations surface from an analysis of the impact investment landscape in Senegal

- **Government**
  - The corporate income tax in Senegal is currently capped at 30% - which is higher than the average corporate income taxation in other African countries[29]. This higher rate is an impediment to impact investments as it reduces the earnings of the impact enterprises and investors, realized after the expenses incurred in setting up the businesses. To incentivize the impact ecosystem, this rate can be revised downwards.
  - Tax obligations associated with the registration of new enterprises constitute some of the key reasons for a large informal sector in Senegal. Policies stipulating tax holidays for newly formed and/or newly registered enterprises have the potential to incentivize the burgeoning informal enterprises to move towards formalization without the fear of the taxman's noose.
  - Government agencies in Senegal enjoy privileges such as zero taxation, and a wider reach to all geographies in the country. This presents an opportunity for government participation in setting up catalytic funds in partnership with private sector impact players to invest in vacuumed spaces such as very early stage enterprises, and enterprises based out of Dakar, that are otherwise excluded by a large majority of suppliers of impact capital due to the apparent ticket size, enterprise stage focus or a geographical mismatch.
- **Others**
  - Investors and ecosystem players can make efforts to demystify misconceptions related to equity based investments in enterprises by organizing workshops to train and inform entrepreneurs of diverse sources of capital available to them. This will help reduce enterprise bias against equity related investment instruments.
  - Ecosystem support players and investors can collaborate to provide technical assistance and handholding support to enterprises to improve on their efficiency. These programs when financed by the supply side players can then also be a source of their pipeline of investable projects.
  - For the Demand side, advocacy for special tax rates and/or tax incentives for operating impact-oriented organizations can incentivize enterprises in Senegal to focus on impact creation as compared to return generation to offset the already high corporate taxes imposed on businesses.

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23 According to a 2015 GIIN report, Senegal had an estimated 11 ecosystem support players in 2015. According to the GSMA tech hubs landscape report (2018), Senegal has 12 tech hubs (a growth from 2 tech hubs in 2015) and 16 other ecosystem support players.

24 https://www.societegenerale.com/fr/content/societe-generale-accelere-sa-strategie-innovation-en-afrique

25 GIIN: Impact Investing Landscape in West Africa – Senegal Chapter (2015)

26 "Skills for Employability: The Informal Economy," Dalberg and Results for Development (2012)

27 GIIN: Impact Investing Landscape in West Africa – Senegal Chapter (2015)

28 Ibid

29 The average corporate income tax rate in Africa is 28.73%. The Tax Foundation: https://taxfoundation.org/corporate-income-tax-rates-around-the-world-2017/

UGANDA

Country Context

Uganda is a landlocked country in East Africa with a democratic republic form of government. The population of Uganda is around 35.6 Million; it has high population density compared to other African countries, with most people concentrated in the southern and central parts. Agriculture is the predominant sector, employing 80% of the workforce. Since 1990, Uganda's economy is characterized by investments in infrastructure, low inflation, export promotion (coffee being the main item of export) and information and communication technology services. Real GDP product growth was 5% in 2018, expected to rise to 6% in 2019[1]. Unemployment rate was as high as 9.4% in 2014[2].

TABLE 1:
FACT CHART FOR INVESTORS

FACTORS	INDEX SCORE	DESCRIPTION[3]
GDP Growth (2016)	4.6%	Average annual growth was 4.5% in the five years to 2016, compared to the 7% achieved during the 1990s and early 2000s.
Financial Access (2017)	16%	Only 16% of the adult population keeps their savings as formal deposit in institutions, including banks, micro finance institutions and savings and credit institutions. Up to 60% of adult Ugandans still keep their savings at home, and more than 65% are unable to access formal financial institutions for credit.
Digital Access (2017)	45.4%	According to the Communications Commission of Uganda, the internet penetration increased from 43.8% to 45.4% indicating a 1.6% increase
Ease of doing business (2018)	122	Uganda dropped in its ranking from 115 in 2016
Unemployment rate (2017)	2.1%	The unemployment rate measured as a percentage of the total labor force stood at 2.1%, a steady increase from 1.9% in 2015
Inflation rates (2018)	3.6%	The IMF 2018 Projected Consumer Prices (% Change) at 3.6%, down from 5.5% in 2016
Corruption Index (2017)	151	Uganda ranked 151th in the annual CPI of Transparency International

The Impact Investment Landscape in Uganda

SUPPLY OF CAPITAL

Uganda accounts for more than 20% of the total investment activity taking place in the East African region[4].
There is a growing presence of venture capital and impact investing funds in Uganda. According to a GIIN 2013 study, at least 139 impact deals were made by private impact investors resulting in more than USD 300 million disbursed while 79 deals were made by Development Finance Institutions (DFIs) resulting in USD 879 million USD disbursed in Uganda. The supply side of impact capital in Uganda includes at least 119 impact capital vehicles, 82 private impact investors, 89 MFIs (Microfinance Institutions) registered under the Association of Micro Finance Institutions of Uganda, SACCOS (Savings and Credit Co-operatives) as well as a few commercial banks[5] including Centenary Bank, Diamond Trust Bank and DFCU Bank. Some of the key highlights of the impact investment sector in Uganda are:

- Debt instruments account for about 38% of the total financial support received while equity, mezzanine and others account for 39%, 15% and 26% respectively. Uganda has the highest lending rate in East Africa, which reached a record high of more than 26% in 2012 and 23% in 2013. The collateral requirements combined with high interest rates make debt investments expensive for businesses, and there is a limited range of financial instruments available on the supply side further increasing the existing credit gap.
- Roughly about 40% of private impact deals are made in the agriculture and services sectors.[6]

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[1] World Bank Country Overview.

[2] CIA World Factbook.

[3] http://www.worldbank.org/en/country/uganda/overview,IMF: Inflation rate, http://hdr.undp.org/en/countries/profiles/UGA

[4] Global Impact Investing Network & Open Capital Advisors, Landscape for Impact Investing in East Africa, Aug '15.

[5] Uganda Entrepreneurial Ecosystem Map, March 2017, Aspen Network of Development Entrepreneurs.

[6] Global Impact Investing Network & Open Capital Advisors, Landscape for Impact Investing in East Africa, Aug '15.

DEMAND FOR CAPITAL

Even though Ugandans are said to be the most entrepreneurial people in East Africa, MSMEs in Uganda are characterized by high mortality rate caused by unfulfilled credit needs leading to fewer instances of enterprises achieving scale.

The percentage of Ugandan adults who own a new business or will soon own one is 35.5% (Total early stage entrepreneurial activity), a figure unusually high for Uganda as compared to the African average[7]. The Ugandan SME policy of 2015 estimates that there are about 1,100,000 enterprises in Uganda employing 2.5 million people (~7% of total population) and accounting for 90% of the entire private sector, generating over 80% of the manufacturing output that contributes 20% to the GDP of the country.

Yet, the mortality rate for Ugandan MSMEs is over 40% per annum[8]. This implies that for every new business being established, another is closed within a year of its operation. Studies show that only about 8% of all Ugandan MSMEs have been around for 15 years or more[9]. According to the Global Entrepreneurship Monitoring Study of 2014, only 2% Ugandan entrepreneurs expect to employ 20 people or more in the next 5 years.[10]

Most MSMEs in Uganda are caught in the 'missing middle' where they are too big for microfinance and yet too small and risky for impact investors.

Most enterprises in Uganda are predominantly informal and young, with about 50% of them less than 5 years old implying that there is a concentration in earlier stages. According to a report by B-space, 70% of all Ugandan enterprises can be categorized as micro, 20% as small and 10% as medium[11] Since 70% of Ugandan enterprises fall in the micro category (employing up to 4 people with annual sales/revenue turnover or total assets not exceeding Uganda shillings 10 million), they fail to access financial resources because they are evaluated based on financial and accounting records which are either missing or inaccurate. The study found that currently, around 70% of MSMEs in Uganda have unfulfilled credit needs, 41% need working capital loans, and 29% expressed the need for investment (capital assets) and vehicle finance to help expand their business[12].

Even though it seems like there are funds operating across all key financing ranges, there is a disproportionately higher need for funds at or below the USD 100,000 range[13]. There are a few relatively low ticket size existing funds like Yunus Business Fund, Mango Fund, Root Capital and the Government of Uganda Youth Fund which was started to support youth led enterprises including those where entrepreneurs are between 18 to 35 years of age. Yet, these don't seem to be enough to meet the current funding needs for enterprises at these early stages of growth.

On the other end of the spectrum, most MFIs only lend up to 13-26 million Ugandan shillings[14], but the typical size of the loan is 2.6 million shillings or less (~ $700 USD)[15].

REGULATORY ENVIRONMENT

Uganda does not have any specific policy recognizing a separate legal or statutory form for social enterprises. Social enterprises in Uganda can register in the form of Company Limited by Guarantee (CLG), Company Limited by Shares (CLS) or NGOs[16]. Some of the Government bodies that regulate the investment and SME sectors are:

- In general, the Ugandan Investment Code Act governs all investing activity in Uganda and is formulated and implemented by the Ugandan Investment Authority. The Uganda Investment Authority (UIA) is the prime public sector incubator and investment promotion agency mandated to initiate and support measures that enhance investment in Uganda. It also advises the government on appropriate policies conducive for investment promotion and growth.
- The Directorate of MSMEs is a new Directorate under the Ministry of Trade, Industry and Cooperatives (MTIC) and is also tasked with coordinating, supporting, developing and promoting the implementation of the MSMEs Development Policy Strategic Framework for 2015-2025[17]. Aside from this, they are also tasked with the formulation of the MSME policy for sustainable wealth creation and socio-economic transformation, promoting industrial research, product development and innovation, value addition and appropriate technologies including ICT, promote product and service standards for quality assurance etc.
- The Microfinance Support Centre (MSC) which is under the direct supervision of the Ministry of Finance in Uganda facilitates access to affordable financial services and strengthens management capabilities of MFIs and SMEs.
- Some of the other support institution and affiliated departments include Investment and Private Sector Development in the Ministry of Finance, Planning and Economic Development (MFPED), Makerere University Entrepreneurship Centre etc.

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7 Uganda's TEA (Total early stage entrepreneurial activity) was 35.5% compared to 13.8% in USA.

8 Trust Africa, 'Promoting Alternative Finance for SMEs in Uganda', August 2013

9 MicroSave Briefing Note#169, MSME Finance in Uganda; Status & Opportunities for FIs. Mar '17. Available here

10 The Entrepreneurship and Enterprise Growth Landscape, Uganda. Argidius, June 2016 (Pg 12). Available here.,

11 Mapping the Impact Investment Space in Uganda, a report by Oxfam Novib Impact Investments. Available here.

12 MicroSave Briefing Note#169, MSME Finance in Uganda; Status & Opportunities for FIs. Mar '17. Available here

13 Mapping the Impact Investment Space in Uganda, A report for Oxfam Novib Impact investments. Available here.

14 Approximately equal to $3500 USD - $7000 USD.

15 Mango Fund, Business Loans Opportunities in Uganda, Available here.

16 Social Enterprise Ecosystem Country Profile, Uganda, World Bank Group, Available here

17 Uganda MSME Policy, June 2015. Available here.

The current policy and regulatory environment in Uganda creates significant barriers to entry for new businesses and does not provide an entrepreneur with adequate incentives to register their businesses.
In 2016, Uganda ranked 122 out of 189 countries with a score of 66.64 in the World's Ease of doing business ranking. Starting a business in Uganda requires 15 different procedures, takes 27 days on average, and 39.7% of per capita income[18]. Corruption and high tax rates were found to be the biggest factors that make it harder to do business in Uganda[19].

Corruption is believed to be one of the main inhibiting factors for business in Uganda. According to the Corruption Perceptions Index of 2017 published by Transparency International, Uganda ranked 151th out of 180. Uganda's perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean) was 26 according to this study[20].

Another challenge facing enterprises in Uganda is the unsupportive government policy framework, in terms of the bureaucracy and taxes[21]. Despite a number of existing tax incentives, it is estimated that paying taxes takes 209 hours a year, and the total tax rate for enterprises is about 36.5% of profit[22] which is a major disincentive for a variety of stakeholders to enter this space. It is estimated that around 5% of GDP is lost annually in Uganda due to tax leakages since tax avoidance is also a major problem. Only one third of Ugandan enterprises pay taxes. Interactions with public authorities are typically long and bureaucratic and thus enterprises tend to avoid it altogether. A comprehensive MSME policy cannot be formulated without bringing all MSMEs into the tax fold so that they are all accounted and planned for. However, Uganda does provide some incentives for foreign and local investors to place capital in the country including free access to industrial in priority sectors, and VAT exceptions on certain products[23].

INTERMEDIARIES OF CAPITAL

Intermediaries in Uganda include Microfinance institutions (MFIs) and some public and private sector intermediaries.
Some of the main intermediaries of capital that exist in Ugandan include:

- Microfinance Institutions: Most MFIs lend up to 13-26 million Ugandan shillings[24], but the typical size of the loan is 2.6 million shillings or less (~ $700 USD)[25]. For example, DFCU bank offers investment club accounts through which less than 100 people can pool in their money to invest in ventures they deem profitable. The Investment Club Association of Uganda (ICAU) is another such club where there is no minimum cap on investment, and SMEs can get as low as $10,000 for their business[26].
- Public Sector Intermediaries: On the public sector front, Microfinance Support Center (MSC) is the manager of Government of Uganda's micro credit funds. It facilitates access to affordable financial services and helps strengthen managerial capacities of microfinance institutions and SMEs. Most recently, the Small and Medium agribusiness fund was commission by the EU and the Ugandan government specifically targeting agribusiness SMEs. This is because agriculture is a high impact business in Uganda with 80% of the population dependent on it.
- Organizations supporting Intermediaries: Some other organizations which are engaged with the intermediation of impact capital include *BiD Network* (consisting of institutional and angel investors) which conducts investor trips and helps mobilize capital for SMEs in Uganda, *Financial Access* which specializes in financial services, agribusiness and renewable energy, supporting all phases in the financing process including deal assessment and investment readiness, and *Angels Initiatives* which typically offers a combination of tailored financing and management support etc.

ECOSYSTEM SUPPORT PROVIDERS

Uganda has a vibrant impact ecosystem support system. The main incubators and accelerators providing space, training and mentorship to enterprises in Uganda are Enterprise Uganda, FinAfrica, GrowthAfrica, Hive Colab, Inclusive Business Accelerator, Outbox Hub, SEED, SPRING Accelerator, Tech 4 Development, Tony Elumelu Foundation, Unreasonable Institute East Africa, Venture Labs East Africa, Village Enterprise and Yunus Social Business Foundation Uganda[27].

Overall, in spite of a relatively large number of ecosystem players, social enterprises in Uganda are still not be investment and credit ready. According to the GIIN study of 2013, entrepreneurs struggle to identify high quality service providers, and ecosystem players struggle to adequately explain their services to entrepreneurs.

KEY CHALLENGES IN UGANDA

- High Mortality Rate among MSMEs leading to fewer instances of enterprises achieving scale: The mortality rate for Ugandan MSMEs is over 40% per annum[28]. This implies that for every new business being established, another is closed within a year of its operation. This is primarily because of the capital constraints faced by the MSMEs that prevent them from being able to scale. Studies show that only about 8% of all Ugandan MSMES have been around for 15 years or more[29]. According to the Global Entrepreneurship Monitoring Study of 2014, only 2% Ugandan entrepreneurs expect to employ 20 people or more in the next 5 years.

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18 The Entrepreneurship and Enterprise Growth Landscape, Uganda. Argidius, June 2016. Available here.

19 World Economic Forum, Global competitiveness Index 201Ban7-18. Available here.

20 https://www.transparency.org/country/UGA

21 World Economic Forum, Global competitiveness Index 201Ban7-18. Available here.

22 The Entrepreneurship and Enterprise Growth Landscape, Uganda. Argidius, June 2016. Available here.

23 Global Impact Investing Network & Open Capital Advisors, Landscape for Impact Investing in East Africa, Aug '15.

24 Approximately equal to $3500 USD - $7000 USD.

25 Mango Fund, Business Loans Opportunities in Uganda, Available here.

26 http://www.ugandainvest.go.ug/investmentclubs/

27 The Entrepreneurship and Enterprise Growth Landscape, Uganda), June, 2016. Available here.

28 Trust Africa, 'Promoting Alternative Finance for SMEs in Uganda', August 2013.

29 MicroSave Briefing Note#169, MSME Finance in Uganda; Status & Opportunities for FIs. Mar '17. Available here

- High level Tax Leakage and Tax Avoidance: The biggest challenge facing the impact investing space in Uganda is the unsupportive policy framework, in terms of the bureaucracy and taxes[30]. It is estimated that around 5% of GDP is lost annually in Uganda due to tax leakages. Tax avoidance is also a major problem with only one third of Ugandan enterprises paying taxes. Interactions with public authorities are typically long and bureaucratic encouraging entrepreneurs to avoid it altogether.
- Lack of Investment Ready Opportunities in the country: Since most Ugandan businesses are concentrated at the early stages, they usually lack a comprehensive strategy to scale their operation, have poor financial management and accounting structures in place etc. This means that in most cases, they are not investor ready.
- Lack of Access to Finance: According to a survey done by MicroSave, 70% of Ugandan entrepreneurs surveyed had unfulfilled credit needs. Loan sharks exist who can provide a significant amount of money quickly with limited due diligence but they tend to charge very high rates of interest which make it hard for them to become a long-term financing option.
- Lack of skilled personnel to be employed by Social Enterprises: Many social enterprises face challenges in recruiting lower level staff due to competition with donors and NGOs. Further, fresh graduates lack the necessary multi-faceted skill set[31].
- Corruption: This is one of major challenges confronting businesses in Uganda. According to the Corruption Perceptions Index of 2017 published by Transparency International, Uganda ranked 151th out of 180. Uganda's perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean) was 26 according to this study[32].

RECOMMENDATIONS

The following recommendations surface from an analysis of the impact investment landscape in Uganda

Demand Side

- Customize financial products: There is an urgent need to cater to the demand for MSME credit using customized financial products that are best suited to the MSME profile in order to combat the high mortality rate reported among MSMEs to help them scale.
- Incentivize registration of enterprises: Research suggests that two thirds of Ugandan entrepreneurs do not pay taxes. Majority of micro and small businesses are not registered given the cumbersome registration process, and the simultaneous high taxation implications act as a significant deterrent. Giving entrepreneurs incentives to complete business registration by simplifying the process as well as easing the tax burden on MSMEs will go a long way in increasing the rate of registration of these businesses.

Government

- Explore innovative ways to bridge the existing credit gap: The lack of banking infrastructure makes it difficult for banks alone to cater to the credit need. Hence, to enable operational efficiency and ensure cost minimization, the government can look towards electronic and mobile banking as well as non-traditional delivery channels and distribution arrangements such as agents to facilitate[33] access to affordable finance. Furthermore, what is needed is a deliberate effort to promote subcontracting, supply credits, prepayments and resource transfers, financial guarantees, as well as export credit guarantees[34].
- Forge Key Partnerships: Efforts need to be made to form and maintain good relationships between local and foreign investors. Limited partnerships have impeded the performance of FDI in key sectors of the economy i.e. infrastructure (roads, energy, ICT) and Tourism[35].
- Increase investment in infrastructure: The inadequate supply of capital in infrastructure is the fourth biggest reason that affects Uganda's Ease of Doing Business ranking[36]. The government can help mitigate this by increasing investments in infrastructure, both inside and outside Kampala.

Supply Side

- Lower Financing Thresholds: More than 60% of the individual deals made in Uganda are under USD $1 million. There is an opportunity for impact funds that provide lower financing thresholds (<=$100K) to help bring more SMEs into the impact investing pipeline, from where they can grow and scale up towards higher thresholds. This will help bridge the credit gap that currently exists especially for small ticket sizes.
- Leverage technical assistance facilities to enchance the level of investment readiness of businesses: Usually funded by DFIs and other supply players, technical assistance programs can help make small businesses ready for an investment both in terms of people and processes.

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[30] World Economic Forum, Global competitiveness Index 201Ban7-18. Available here.

[31] Social Enterprise Ecosystem Country Profile, Uganda, World Bank Group, Available here

[32] https://www.transparency.org/country/UGA

[33] MicroSave Briefing Note#169, MSME Finance in Uganda; Status & Opportunities for FIs. Mar '17. Available here

[34] Promoting Alternative Finance for SMEs in Uganda. August 2013. Available here.

[35] Investment Partnerships for Embedding Foreign Domestic Investments in Uganda, Feb 2014. Available here

[36] World Economic Forum, Global competitiveness Index 201Ban7-18. Available here.

ZAMBIA

Country Context

Zambia has a population of more than 17 million people[1] and a total labor force of more than 7 million people[2]. At the end of 2017, Zambia had a Gross Domestic Product (GDP) of USD 25.8 Billion[3], expected to grow[4] at an annual rate of 4%[5]. In 2017, FDI inflows into Zambia stood at USD 1,091 Million, signifying a 39% rise from the year 2016[6], investments that were largely driven by participation of China in the Zambian economy. Zambia ranks at number 85 in the World Bank's Ease of doing business index[7] partly due to reforms made by the government to enhance access to credit[8] to boost cross-border trade[9].

TABLE 1:
FACT CHART FOR INVESTORS

FACTORS	INDEX SCORE	DESCRIPTION
GDP Growth (2017)	4%	The economy recovered from a slump of 3.4% in 2016, growing rather slowly to 4% by the end of 2017.
Financial Access		There are 19 commercial banks in the country, 32 licensed MFIs and 24 insurance companies.
Digital Access (2016)	25.5%	25.5% of the population in Zambia are reported to be internet users.
Ease of doing business (2018)	85	Zambia ranks 85 having moved up four places from 2017
Unemployment rate (2016)	13.51%	Youth (ages 15-24) unemployment rate stands at 13.51%
Inflation rates (2017)	6.58%	The inflation rate slowed to 6.58% towards the end of 2017 but rose to a high of 7.8% in June 2018.
Corruption Index (2017)	96/180	Zambia ranked 96 in the annual Corruption Perception Index of Transparency international.

[1] World Bank Data, available at: https://data.worldbank.org/indicator/SP.POP.TOTL?locations=ZM

[2] World Bank Data, available at: https://data.worldbank.org/indicator/SL.TLF.TOTL.IN?locations=ZM

[3] World Bank Data, available at: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=ZM

[4] According to the 5th National Development Plan, the government aims at boosting e conomic growth in Zambia through policy interventions relating increased investments to grow the agriculture, tourism, manufacturing and energy sectors as well as improving mining activities, public economic infrastructure in transport and communication especially in rural areas.

The Impact Investment Landscape in Zambia

SUPPLY OF CAPITAL

The majority of Zambia's impact capital has been coming from Development Finance Institutions (DFIs).
DFIs have taken the lead in investing in Zambia with their financial might and ability to deploy huge chunks of capital, making investments in large scale energy, financial services and mining sectors[10]. On the other hand, private impact investors have been focusing on agriculture, financial services and housing sectors[11]. Average DFI deal sizes in Zambia have been of an upside of USD 16 million. In 2016, Zambia received over USD 1.7 billion DFI[12], a number which has grown since. Even though private impact investors have mostly committed less than USD 1 million per deal, there has been a rise in the number of impact investors looking to invest in Zambia[13]. However, only a handful of these investors have local offices[14] in the country, with a larger majority operating on fly-in-fly-out model.[15]

Investment funds looking at smaller ticket sizes are adopting a 'build, not buy' strategy.
Investors in Zambia are unable to find a steady pipeline of investable enterprises[16]. To address this challenge, they beginning to work companies at an earlier stage of development with a more intensive 'hands-on' approach. Investors like Grofin, Business Partners and Kukula Capital have manifested these efforts by rolling out technical assistance support programs, by actively getting involvement in the management of the investee enterprises, and by ensuring the presence of in-country teams to support portfolio companies.

DEMAND FOR CAPITAL

[5] World Bank Data, available at: https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=ZM

[6] According to UNCTAD Zambia Fact Sheet (2018), investments worth USD $ 663 Million were channeled into Zambia from foreign sources in 2015.

[7] World Bank: Ease of Doing Business 2018

[8] Zambia has strengthened access to credit by introducing a new Movable Property Act and by setting up a new collateral registry. The new law implemented a functional secured transactions system. The collateral registry is operational, unified geographically, searchable by a debtor's unique identifier, modern, and notice based.

[9] Zambia has made exporting and importing easier by implementing a web-based customs data management platform called ASYCUDA World.

[10] According to a 2016 GIIN report - energy, financial services and mining sectors accounted for an estimated USD 469, 280 and 256 Million of impact capital.

[11] Agriculture, financial services and housing sectors accounted for an estimated USD $ 42, 29 and 64 Million of impact capital

[12] GIIN: The Landscape for Impact Investing in Southern Africa – Zambia Chapter (2016)

[13] Intellecap estimates the number of investors (both DFI and private impact investors) who invest in Zambia to be more than 40.

[14] These include Kukula Capital, Grofin and AgDevco

[15] Ibid

[16] GIIN: The Landscape for Impact Investing in Southern Africa – Zambia Chapter (2016)

The majority of social enterprises in Zambia are at the early stage of business, with fewer in the growth and mature stages[17].
Most of the impact businesses in Zambia do not survive their first few years[18] due to hard hitting challenges such as lack of capital and an enabling business environment. On the other hand, most impact investors in Zambia have been targeting growth and mature enterprises[19], typically investing in enterprises existing for between four and ten years[20]. This leaves a very few number of growth enterprises that are ready and able to absorb impact capital and scale their impact.

REGULATORY ENVIRONMENT

The Government of Zambia is increasingly involved in catalyzing impact investment through policies and legislation.
The government established the Zambia Development Agency in 2006 to foster economic growth and development in the country, by promoting trade and investment through an efficient, effective and coordinated private sector led economic development strategy. The Zambia Development Agency (ZDA) takes center stage in regulating and overseeing most if not all of the investment activities[21] in Zambia. The agency was formed after an amalgamation and privatization of agencies[22] that served a development purpose. The existence of the ZDA itself is an enabling factor for investments due to privileges accorded to investors. For example, investors who are issued with licenses by the ZDA are eligible to own land in Zambia. Further, the ZDA assists investors to obtain self-employment permits and residential permits in the event that such investors have invested a minimum of USD 250,000 or equivalent in convertible currency and employ a minimum of 200 people in managerial and technical positions. The ZDA will also assist such investors to obtain work permits for up to five (5) expatriates.

The government also established the Citizens Economic Empowerment Commission fund in 2006 to uplift citizens who have suffered marginalization. The commission and fund are meant to level the playing field and raise the citizens to a position where they can effectively participate in the national economy.

INTERMEDIARIES OF CAPITAL

The MFI sector is growing, and is becoming a formidable intermediary of impact capital in Zambia.
Zambia currently has 33 registered microfinance institutions. This growth has been propelled by the government's policy to drive financial inclusion in Zambia, precisely through the National Financial Inclusion Policy and the National Development Plan. MFIs complement commercial banks and insurance companies by providing services and products to underserved rural households, MSMEs and agro-enterprises in Zambia[23].

Zambia has seen an influx of shylocks[24] and unscrupulous lenders who charge high interest rates (sometimes more than the banks) thereby defeating the purpose of financial inclusion. The upsurge in shylocks, unscrupulous lenders is attributable to a notable vacuum in legislations governing credit. For instance, the Money Lenders Act (Zambia's flagship legislation on matters credit and lending) is silent on individual lenders. Consequently, impact enterprises who are seeking fast and easy credit run at a risk of falling into the trap of these "illegal lenders". These illegal lenders also are a crude competition for intermediaries of impact capital for example MFIs thereby locking them out of business.

ECOSYSTEM SUPPORT PROVIDERS

Entrepreneurship ecosystem support sector is still at early stages in Zambia
There are few ecosystem support players in Zambia[25]. Moreover, all of the aforementioned incubators and accelerators (with the exception of Timbali Technology Incubator) are based in Lusaka. Entrepreneurs based outside Lusaka do not have sufficient support system to rely on. This is also a disadvantage to foreign investors (constituting majority of investors in Zambia) who want to source for high quality pipeline of investable enterprises outside Lusaka. However, the concentration is gradually increasing[26], and entrepreneurs are able to access various types of services, a privilege that was not available 5 years before.

There are overlaps within different providers in the ecosystem support scene.
Many research and management consulting firms in Zambia not only offer advisory services to impact investors but also offer technical assistance and capacity building support services to enterprises. Impact Africa, a knowledge platform, announced its plans in 2018 to help enterprises access and raise capital. This signifies gaps within the ecosystem support space, and as a result, ecosystem support providers are going over and above their main verticals to fill these gaps.

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17 GIIN: The Landscape for Impact Investing in Southern Africa – Zambia Chapter (2016)

18 Benjamin Katubiya: https://www.linkedin.com/pulse/expose-why-many-zambian-business-fail-benjamin-c-katubiya/

19 According to GIIN; Growth enterprises have functioning business models, and are looking to develop new products / services or expand into new markets. Mature enterprises are those that are profitable with developed and recognizable brands.

20 Ibid

21 The ZDA Act gives powers to the ZDA in key areas of trade development, investment promotion, enterprise restructuring, development of green fields' projects, small and enterprise development, trade and industry fund management, and contributing to skills training development.

22 These agencies were the Zambia Investment Centre (ZIC), Zambia Privatization Agency (ZPA), Export Board of Zambia (EBZ), Small Enterprise Development Board (SEDB) and Zambia Export Processing Zones Authority (ZEPZA)

23 Agri-ProFocus Zambia: A Market Study on Microfinance Services in Zambia (2014)

24 https://www.daily-mail.co.zm/lusaka-shylocks-making-soaring-business/

25 There are less than 40 locally based ecosystem support providers. On the other hand, according to the GSMA tech hubs landscape report (2018) - South Africa, a close geographical counterpart to Zambia has 59 tech hubs.

26 A 2016 GIIN report estimated a total of 16 ecosystem support players. There are currently 37 ecosystem support players in Zambia

KEY CHALLENGES IN ZAMBIA

- Access to capital is the primary challenge facing businesses in Zambia[27]. Commercial banks are often unwilling to lend to the private sector and frequently have high collateral requirements.
- Lack of adequate infrastructure presents a significant hurdle to enterprises thus incurring high distribution costs. For example, 78 percent of Zambians lack electricity[28]. This however presents an opportunity for the creation of infrastructure-independent innovations and enterprises such as e-commerce sites and mobile apps.
- High interest rates pose a challenge to enterprises seeking capital from lenders. Most lenders charge rates close to the interest rate cap of 24 percent with Microfinance institutions offering higher interest rates that are capped at 42 percent. This locks away SMEs who look to raise long term capital.
- Zambia does not recognize freehold ownership. In order for foreign nationals to hold leasehold land, they must meet at least one of the following conditions: (a) be a permanent resident of Zambia, (b) meet the Zambian Development Authority's (ZDA's) definition of an investor, (c) be a company registered under the Companies Act with at least 75 percent local shareholding.

RECOMMENDATIONS

The following recommendations surface from impact investment landscape analysis of Zambia

Supply of capital

- Blended Finance: There is need for collaboration between Foundations/DFIs and local fund managers to create catalytic funds to channel early stage friendly impact capital[29]. This presents a win-win situation not only for the foreign investors who benefit from the local presence and the on-ground experience of local fund managers but also for the entrepreneurs who can have access to diverse sources of capital from very early stages in the growth cycle.
- DFIs and fund of fund managers need to partner with local MFIs and channel on-lending capital facilities that have clear terms and conditions on interest charged and loans provided. Such terms might include affordable maximum caps of interest rates to be offered to SMEs. This in-turn ensures that such sources of capital stay affordable and favorable for SMEs.

Ecosystem support providers

- There is need for the establishment of more early stage support programmes such as enterprise challenge programmes, business plan competitions and grant financing facilities. Enterprise challenge programmes work well for young and growing entrepreneurial ecosystems as they provide less demanding forms of supporting very early stage enterprises either through monetary rewards, technical support and/or the much needed mentoring support.
- There is also an apparent need for pipeline and lead generation platforms/systems for investments: Zambia has a limited number of supply side players with a local presence[30]. It follows that deserving entrepreneurs are underprivileged as they are unable to gain exposure to the vast network of foreign investors who lack local presence but are eager to channel capital. A connect between local impact enterprises and foreign impact investors is needed. Such a platform will also be of great benefit to foreign impact investors who are actively looking to invest in Zambia.

Government

- Advocacy can encourage the government to liberalize its regulations such as restrictions on foreigners owning land in Zambia: Policies that bar foreign investors from owning land are an impediment to impact investments. This is because the inflow of foreign impact capital (especially in debt investments) is sometimes met with requirements such as collateral including land. Foreign investors' lack of access to land that is presented as a security bars both the supply and demand side from participating in impact creation.
- The government and policy makers should consider revising the corporate income tax rate downwards: The Corporate Income Tax (CIT) rate in Zambia is currently pegged at 35%[31]. This rate reduces the returns for both the demand and supply side players thereby becoming a barrier to doing business and impact investing in Zambia.
- Public-Private consultation framework and system: The government and key impact investing policy makers should establish a clear framework that encourages consultations between public bodies and ecosystem stakeholders. Such consultations and dialogue should take place before the enactment of policies, and after such enactment for monitoring the evaluation of success and feasibility. Such an initiative will result in stable policies that catalyze impact investments in Zambia.
- Necessity of a formal land documentation system: This system will go a long way in enabling the creation of securities against a land, and further provide a much clearer and transparent land dispute resolution mechanism, promoting the protection of investors and also improving access to SME finance.

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27 GIIN: The Landscape for Impact Investing in Southern Africa – Zambia Chapter (2016)

28 Alliance for Rural Electrification, Power Sector Market Brief: Zambia, http://www.ruralelec.org/fileadmin/DATA/Documents/06_Publications/Market_intelligence/AEEP_Zambia_Power_Sector_Market_Brief_EN.pdf; International Renewable Energy Agency, Zambia: Renewables Readiness Assessment 2013, http://www.irena.org/DocumentDownloads/Publications/RRA_Zambia.pdf.

29 Such capital might be channeled either by way of small size ticket sizes or at affordable rates (in the case of debt) or longer investment horizons (for equity investments) and/or tied to technical assistance support.

30 There are only 3 fund managers with local offices (Kukula Capital Grofin and Agdevco) and only one DFI (Bank of Zambia) with a local presence.

31 The corporate income tax (CIT) rate is one of the highest in the world. This rate is indeed higher than the average CIT rate in Africa which stands at 28.7% (https://taxfoundation.org/corporate-income-tax-rates-around-the-world-2017/)

CONCLUSION

There is a positive momentum in Africa which has resulted in the growth of the impact investment sector. The challenges it faces to continue growing also offer opportunities to various impact investment ecosystem players. Some of these opportunities are:

- **Use of Innovative financing instruments:** The nascent entrepreneurial culture in African countries means many entrepreneurs in the region prefer debt to other instruments. Across the region, entrepreneurs who are not comfortable with the concept of equity or dilution of ownership could be funded instead through innovative funding instruments such as tiered venture debt, and matching grant guarantees.
- **Recognition of Social Enterprises:** In most African countries, social enterprises are not recognized as a separate legal entity. A favorable regulatory environment in addition to a separate recognition will also consist of targeted incentives for the enterprises. and those investing in them.
- **Unlocking domestic capital and promoting angel investments:** Angel investing is still a nascent concept in Africa. Promoting angel investments will go a long way in supporting early stage enterprises in the region and providing them access to local capital which they are currently lacking. Further, angel investors often come from a variety of backgrounds and can provide expertise on markets, customers and competitors, sales channels, in addition to facilitating potential partnerships for these enterprises through their personal networks.
- **Building a pipeline of investment-ready local entrepreneurs:** Due to the dominance of foreign investors in impact investing, there is need for more inclusion of local entrepreneurs in the pipeline.. Impact investors seem to go for 'what is familiar', resulting in well-connected and well-articulated expat entrepreneurs receiving the bulk of the capital, while local entrepreneurs face challenges convincing the investors of their business model. There is need for more inclusion of local entrepreneurs in the pipeline.
- **Boosting pre-investment technical assistance providers:** To address enterprise related challenges, especially in regard to building up a pipeline of local entrepreneurs, there is a need for more pre-investment technical assistance that supports enterprises in the capital raising process and provides support with building ancillary skills such as management and leadership, human resource management, and financial reporting.
- **Strengthening capital facilitation and transactions:** 90% of start-ups do not survive the first year[1]. While a number of service providers exist, the ecosystem is fragmented and enterprises and investors find it difficult to navigate the ecosystem. The number of venture capital funds and private equity funds has been increasing; however, early stage enterprises still find it difficult to raise capital as they are not always "investment ready". Bridging this gap requires structured facilitation and intermediation by ecosystem support providers.
- **Building robust capital markets:** Most investors look for exit options and with very few examples, it is a challenge for investors to see the growth potential in their investments. With such constrained liquidity in the market, investors are forced to deliberate exit options prior to the investment.

[1] http://fortune.com/2014/09/25/why-startups-fail-according-to-their-founders/

Notes