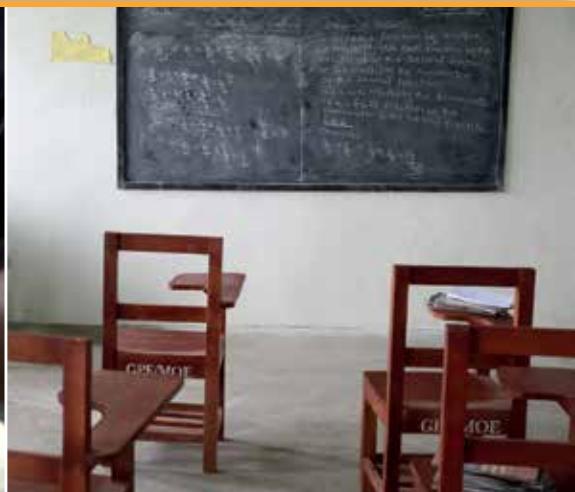
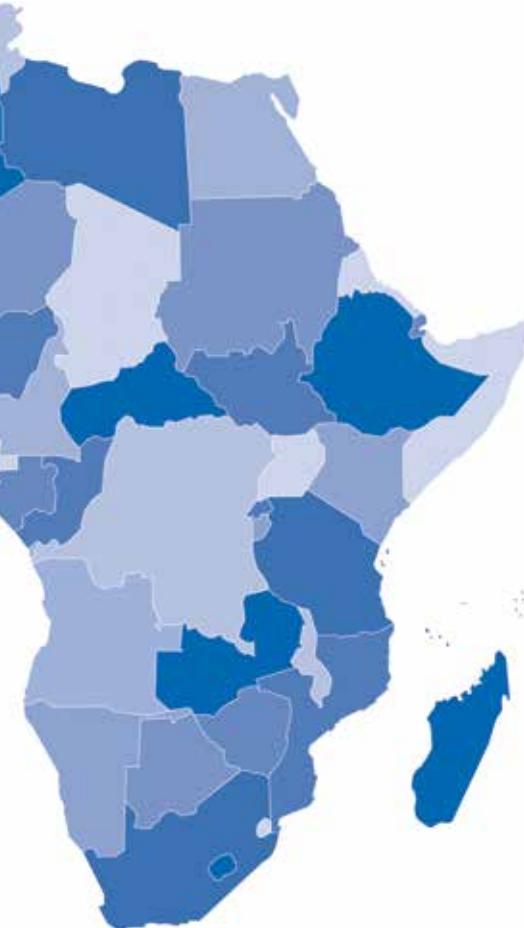




*Empowered lives.
Resilient nations.*



Impact Investment in Africa: Trends, Constraints and Opportunities

About this Report

In 2013, the United Nations Development Programme (UNDP), through its regional private sector unit African Facility for Inclusive Markets (AFIM), produced a flagship report on “Realizing Africa’s Wealth – Building Inclusive Businesses for Shared Prosperity”. This flagship report looked specifically at inclusive businesses in sub-Saharan Africa and introduced the ‘Inclusive Business Sector ecosystem Diamond’ framework. One of the key findings of this report was the need for impact investment – the allocation of capital into enterprises, funds and/or organizations with the expectation of a financial return and a positive environmental and/or social impact – to spur the growth of inclusive businesses in sub-Saharan Africa.

To understand the potential for impact investment in Africa, this ‘Impact Investment in Africa: Trends, Constraints and Opportunities’ report (herein after referred to as “this report”), reviews the current overall state of impact investing in Africa, highlighting key challenges to the sector and proposes strategies to increase the flows and quality of impact investment on the continent, especially those that are African led and mobilized. This report draws on the following streams of data:

 **Desk-based Literature Review:**

This report draws primarily on findings from literature review of published research on impact investment in Africa and across the globe.

 **Interview Consultations:**

Thirty-six actors and stakeholders including investors, intermediaries and sustainable social enterprise representatives in the African and global impact investment sector were consulted between September and November 2014.

 **Case Studies:**

A total of 8 case studies and additional illustrative examples of the practices of sustainable social enterprises were sourced from East, West and Southern African countries from desk-based literature review and 3 validation interviews.

 **Surveys:**

A total of 6 online surveys were administered to additional investors and intermediaries in the African impact investment sector.

 **Stakeholder Validations:**

The Working Draft version of the report was presented and discussed at four stakeholder validation meetings: The 7th African Union Private Sector Forum (Nairobi, 2014), the Sankalp Africa Forum (Nairobi, 2015); the African Grantmakers Network Assembly (Arusha, 2015) and the 3rd Financing for Development Conference (Addis Ababa, 2015). Based on these validations, the Working Draft document was enriched, complemented with further literature reviews and then finalized.

Information was collated to present an overall summary of impact investment trends on the continent from which conclusions and recommendations can be drawn to help advance the development of a more robust impact investment sector in Africa. This report depicts an industry that is still emergent and expanding, and consequently, should be seen as an initial assessment of a sector that is poised to change.



Impact Investment in Africa:

Trends, Constraints and Opportunities

I Foreword

Dear Reader,

The 70th United Nations (UN) General Assembly meeting in New York in September 2015 adopted the Sustainable Development Goals (SDGs) which offer the global agenda and key frameworks for priority areas and actions for its 179 member states over the next fifteen years. Similarly, the African Union (AU) is implementing its own continental "Agenda 2063" which aims to achieve a vision of "An Integrated, prosperous and peaceful Africa, driven by its own citizens and representing a dynamic force in the global arena" in 50 years.

These major undertakings call for transformative changes, and their level of ambition and complexity is unprecedented in history, especially with regard to the required amount of funding and technical resources to turn their noble aspirations into realities on the ground. A September 2015 study by the UN Sustainable Development Solutions Network (SDSN)¹ concluded that to deliver on the SDGs, developing countries will need to increase their level of public and private annual expenditures by some \$1.3 trillion. The same study noted that low income countries, the majority of which are located in Africa, will require US\$342-355 billion annually to deliver on the SDGs, but will not meet these huge investment needs with their own domestic resources, and consequently there will be a funding gap of approximately US\$130 -160 billion. Likewise ODA flows are not expected to grow from current levels but rather decline and take on new competitive forms such as "blended finance" and "climate financing". It is also clear that the approaches and strategies previously employed by development and traditional financial sectors are not adequate and have yet to match the challenges of new imperatives to support inclusive, equitable, sustainable and resilient growth and development.

All this makes it compelling for African countries to prioritize their own domestic capital formation and external resource mobilization efforts to address the huge funding gap. The 3rd Financing for Development Conference through the Addis Ababa Action Agenda² calls on all businesses and investors to apply their creativity and innovation to solving

sustainable development challenges, including the use of impact investment mechanisms and solutions. In Africa, which offers potentially the most exciting and largely untapped investment opportunity, we should harness the vast potential of Impact Investment models, by mobilizing and channelling the enormous amount of private finance to contribute to the achievement of Africa's transformational development goals.

This report is a survey that assesses the current key trends, constraints and opportunities that players of the nascent impact investment sector on the African continent face. It also features some evidence based examples from the sector on impact enterprises and practises that can be used to measure, increase and improve the Impact Investment field.

UNDP Regional Service Centre for Africa's (RSCA) Inclusive Growth and Sustainable Development Cluster, through its Private Sector (AFIM) Unit, has commissioned and led the development of this report in collaboration with the African Union Commission and other stakeholders in the sector. Here at the UNDP RSCA it is our hope that all relevant stakeholders at the national, regional, continental and international level will find this first report a good source of information to inspire ideas and initiate discussion for a joint collaborative effort for an Africa Impact Investment Action Plan. From our side we are committed to provide catalytic support to this goal, and we are working closely with all interested parties to move towards the emergence of Africa's strong and dynamic impact investment sector with its community members fully engaged, owning and leading these processes.



A handwritten signature in blue ink, appearing to read "Lebogang Motlana".

Mr. Lebogang Motlana
Director, UNDP Regional
Service Centre for Africa

¹ <http://unsdsn.org/resources/publications/sdg-investment-needs/>

² Please see the full Addis Ababa Action Agenda. Available at: <http://www.un.org/esa/ffd/ffd3/>

II Acronyms

Acronym	Full	Acronym	Full	Acronym	Full
AAF	African Agriculture Fund		Information and Communications	SDGs	Sustainable Development Goals
AfDB	African Development Bank	ICT	Technology	SDSN	Sustainable Development Solutions Network
AFIM	African Facility for Inclusive Markets	IFC	International Finance Corporation	SECO	Switzerland State Secretariat for Economic Affairs
ANDE	Aspen Network of Development Entrepreneurs	IGSDC	Inclusive Growth and Sustainable Development Cluster	SGB	Small and Growing Business
AUC	African Union Commission	IHS	International Housing Solutions	SICAV	Societe d'Investissement a Capital Variable (Open-end Collective Investment Scheme)
AUM	Assets Under Management	IIL	Injaro Investments Limited	SIB	Social Impact Bond
B4D	Business for Development	IISD	International Institute of Sustainable Development	SICAR	Societe d'Investissement en Capital a Risque (Risk Capital Investment Company)
BIA	Bridge International Academies	IIX	Impact Investment Exchange Asia	SIDA	Swedish International Development Corporation Agency
B Corp	B Corporation	IMF	International Monetary Fund	SIFEM	Swiss Investment Fund for Emerging Markets
BiD	Business in Development Network	IP	Intellectual Property	SME	Small and Medium-Sized Enterprise
Network		IPO	Initial Public Offering	SMME	Small, Micro and Medium-Sized Enterprise
BoP	Base of the Pyramid	IRIS	Impact Reporting and Investment Standards	SOVEC	Social Venture Capital Fund
BRIIX	Brazil Impact Investing Exchange	LBS	Lagos Business School	SRI	Socially Responsible Investment
CAP	Common African Position	LGT	Liechtenstein Global Trust	SSA	Sub-Saharan Africa
CDC	Commonwealth Development Corporation	LPG	Liquid Petroleum Gas	SSX	Social Stock Exchange
CSI	Corporate Social Investment	KPMG	Klynveld Main Goerdeler and Peat Marwick International	SVX	Social Venture Connexion
CSR	Corporate Social Responsibility	MBA	Masters of Business Administration	TEEP	Tony Elumelu Entrepreneurship Programme
Danida	Danish International Development Agency	MCE	Social	Teachers Insurance and Annuity Association-College Retirement Equities Fund	
DGIS	Directoraat Generaal Internationale Samenwerking (Netherlands Ministry of Foreign Affairs)	Capital	MicroCredit Enterprises Social Capital	UFF	United Farmers Fund
DEG	German Investment and Development Corporation	MENA	Middle-East and North Africa	UN	United Nations
DFATD	Canadian Department of Foreign Affairs Trade and Development	MFI	Microfinance Institutions	UNCDF	United Nations Capital Development Fund
DFI	Development Finance Institution	MSME	Micro, Small and Medium Enterprise	UNDP	United Nations Development Programme
DFID	Department for International Development	MYC4	My Care For	UNEP	United Nations Environment Programme
DRC	Democratic Republic of Congo	NASDAQ	National Association of Securities Dealers Automated Quotations	UNESCO	United Nations Educational, Scientific and Cultural Organization
DWM	Developing World Markets	NEPAD	New Partnership for Africa's Development	UNFPA	United Nations Population Fund
EAIF	Emerging Africa Infrastructure Fund	ODA	Official Development Assistance	UN-Habitat	United Nations Human Settlement Programme
EIB	European Investment Bank	OECD	Organisation for Economic Co-operation and Development	UNPRI	United Nations Principles for Responsible Investing
ESG	Environmental Social and Governance	OPIC	Overseas Private Investment Corporation	UNSIF	United Nations Social Impact Fund
EVCA	European Private Equity and Venture Capital Association	PAHF	Pan-African Housing Fund	US	United States
FAO	Food and Agriculture Organization of the United Nations	PEC	Persistent Energy Capital	USAID	United States Agency for International Development
FDI	Foreign Direct Investment	PIC	Public Investment Corporation	UVC	Unique Venture Capital Management Company Limited
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (Netherlands Development Finance Company)	PIDG	Private Infrastructure Development Group	VC4AFRICA	Venture Capital for Africa
GCI	Global Competitiveness Index	PPD	Public-Private Dialogue	WEF	World Economic Forum
GDI	Gender Development Index	PPP	Purchasing Power Parity	WHO	World Health Organization
GDP	Gross Domestic Product	PVMTI	Photovoltaic Market Transformation Initiative	YSB	Yunus Social Business
GEF	Global Environment Facility	R&D	Research and Development		
GEPF	Government Employees Pension Fund	RDFI	Re-Designing Development Finance Initiative		
GGV	Gray Ghost Ventures	REGMIFA	Regional Micro, Small and Medium Enterprise Investment Fund for Sub-Saharan Africa		
GHIF	Global Health Investment Fund	RSCA	Regional Service Centre for Africa		
GHS	Ghana Housing Solutions Limited	SA	South Africa		
GIIN	Global Impact Investing Network	SAILIN	Southern African Impact Investing Network		
GIIRS	Global Impact Investing Rating System	SBS	Strathmore Business School		
GIZ	German Society for International Cooperation	SCA	Societe en Commandite par Actions (Partnership Limited by Shares)		
HDI	Human Development Index	SDC	Swiss Agency for Development and Co-operation		
I&P	Investisseurs et Partenaires				

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III Executive Summary

The 'Impact Investment in Africa: Trends, Constraints and Opportunities' report (herein after referred to as "this report"), seeks to support the development of the African impact investment sector by exploring the trends, challenges and opportunities for impact investment in Africa.

Impact investment today constitutes one of the more proactive and promising approaches on the responsible investment continuum, representing a huge opportunity to contribute to the implementation of the Sustainable Development Goals (SDGs), as well as the funding of inclusive and green businesses. This report therefore aims to contribute to UNDP's growing body of knowledge products and solutions and in this case, to highlight innovative finance vehicles that contribute to inclusive growth in Africa as discussed in our 2013 "Realizing Africa's Wealth – Building Inclusive Businesses for Shared Prosperity" Report ³.

The African Impact Investment Landscape

Impact Investments are defined as investments that are made to generate a measurable social and environmental impact alongside financial returns ⁴. Since the term was coined at the Rockefeller Foundation's 2007 Bellagio Conference, the impact investment industry has steadily grown. The Global Impact Investing Network (GIIN) estimated that in 2012 an approximate US\$8 billion of assets were committed to impact investments by 99 surveyed investors. In 2015, 146 investors reported that they had approximately \$60 billion worth of assets under management in the impact investment sector - \$10.6 billion of which they had committed in 2014. Fund managers invested 63 percent of the assets considered in the 2015 report ⁵. This report highlights key trends in the global impact investment industry illustrating that while there has been progress in the overall development of the impact investment market, the support sector ecosystem continues to be systemically under-developed, and features particular challenges and opportunities unique to the African context.

³ UNDP African Facility for Inclusive Markets. 2013. *Realizing Africa's Wealth*. Available at: <http://www.undp.org>

⁴ This is the Global Impact Investing Network's definition of impact investing. It can be found in the Glossary of Key Terms.

⁵ Saltuk, Y; El Idrissi, A; Bouri, A; Mudaliar, A; Schiff, H. 2015. *Eyes on the Horizon: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact Investing Network. <http://www.thegiin.org/>

Impact Investment in Africa



As with global impact investment trends, practice remains nascent in Africa but has the potential to grow and significantly contribute to the continent's economic growth and development objectives. African governments have historically supplemented public spending with inflows of official development assistance (ODA) from developed and other emerging markets, in order to meet the basic service needs of their populations. The 2008 financial crisis and the resultant volatility of ODA inflows left the governments of many African economies vulnerable to unpredictable fluctuations in available public expenditure. Studies have shown that declines in ODA lead to subsequent declines in public spending on development priorities, which could potentially jeopardize poor households' ability to access necessary basic good and services⁶. Therefore, there is ample room for private sources of capital to play a larger role in improving access to these services in Africa.

Over the last decade, private financial flows⁷ to Africa started to rise, growing from 63 percent of total external resources in 2002-06 to over 70 percent in 2010-14⁸. As private flows increase and traditional ODA declines, African governments will need to harness this increased private investment to address socio-economic challenges by finding market-based solutions that address the priority areas of the African Union Commission's (AUC) Agenda 2063.

Impact investment has the potential to complement public spending and ODA, by crowding-in private sector capital and skills to reduce African economies' vulnerability to external shocks, providing a market-based solution to address socio-economic needs, and allowing ODA inflows and public spending to focus on addressing social needs for which there is no viable market-based solution. In 2014, Africa received 15 percent of impact investment Assets Under Management (AUM)⁹, with sub-Saharan Africa constituting the second highest regional allocation, globally. North Africa and the Middle East conversely were not identified as key future destinations for investment. This prominent position in impact investment is anticipated to strengthen, with sub-Saharan Africa identified as the geographic area most surveyed investors intend to increase their allocations to in 2015¹⁰.

The profile of Africa's impact investors primarily includes fund managers and asset management funds, development finance institutions and donors, private equity managers, institutional investors and foundations. Investments have tended to focus on those sectors where the government cannot adequately deliver social services, such as healthcare, education and finance and where a viable market solution can provide goods and/or services¹¹.

⁶ 2011. UNDP. Overview. Towards Human Resilience: Sustaining MDG Progress in an Age of Economic Uncertainty. <http://www.undp.org/>

⁷ Private flows consist of flows at market terms financed out of private sector resources and private grants. OECD Glossary of Statistical Terms

⁸ AfDB, OECD, UNDP. 2015. *Chapter 2: External financial flows and tax revenues for Africa*, *African Economic Outlook*. African Economic Outlook. Available at: www.africanoutlook.org

⁹ This percentage is calculated by adding the total percentage of sub-Saharan Africa AUM (14%) to half the total percentage of Middle-East & North Africa AUM (1%), assuming North Africa represents half the AUM for that region. From the 2015 Impact Investor Survey conducted by the Global Impact Investing Network and J.P. Morgan

¹⁰ Saltuk, Y.; El Idrissi, A.; Bouri, A.; Mudaliar, A.; Schiff, H. 2015. *Eyes on the Horizon: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact Investing Network. Available at: <http://www.thegiin.org/>

¹¹ Bugg-Levine, A; Emerson, J. 2011. Impact Investing: Transforming How We Make Money While Making a Difference.



Assessing Impact Investment in Africa

This report discusses the trends and identifies the key challenges to growing the impact investment sector in Africa. It provides recommendations to resolve these challenges as a first step towards developing an action plan and associated roadmap for impact investment in Africa.

Fundamentally, impact investment in Africa is yet to realize its potential, largely due to an under-developed support sector ecosystem. As a support sector ecosystem is a complex system of relationships between interrelated and interdependent actors, the action plan and roadmap will need to take into consideration the challenges, and in turn, facilitate collaborative solutions.

To this end, the following key challenges are discussed in this report:

Difficulty Sourcing Viable Investments that meet Both Financial and Social/Environmental Objectives as a Result of Limited Capacity of Sustainable Social Enterprises

Low deal flow is partly due to the limited number of sustainable social enterprises or impact investees able to demonstrate a sufficient track record and capacity development in accordance with the risk appetite of impact investors. This is coupled with limited ability to measure and report adequately on impact performance where such capacities do exist.

Limited Innovative Fund and Deal Structures

Finding deals and funds that align with investors' risk and return expectations is a challenge. Deal and fund structures that incorporate instruments such as "first loss reserves" and guarantees can mitigate this risk, but are still a challenge to source in Africa.

Difficulty Exiting Investments

Value in private equity investments in the traditional financial markets is sought and realized through an exit point at which the investor sells their stake in a firm. This can be done through Initial Public Offerings (IPOs) as the end point of the funding value chain. While Africa had the second highest number of impact investment exits (17 percent) of the 10 geographies surveyed by the GIIN in 2015, the only exit via IPO was reported in South Asia, with none reported in Africa. The majority of exits were via sale to a strategic buyer, with most African exits being realized by investors seeking below market (closer to market) returns. In the more developed markets of Europe, exits were realized by investors seeking market-rate returns¹². The challenge of finding profitable and varied exit options stems from the fact that most African capital markets are still at a relatively early stage of development.

12 Saltuk, Y; El Idrissi, A; Bouri, A; Mudaliar, A; Schiff, H. 2015. *Eyes on the Horizon: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact Investing Network. <http://www.thegiin.org/>



Poor Visibility and Credibility of Sustainable Social Enterprises in the Absence of a Sustainable Social Enterprise “Label”

Currently, most sustainable social enterprises in Africa operate without a ‘label’ that provides them with external, third party identification against an agreed sustainable social enterprise definition. There is currently no sustainable social enterprise ‘label’ or legal categorization available across Africa that can fulfil this important function and provide legitimacy and credibility to sustainable social enterprises, give investors and customers comfort around mission protection and social value creation and in turn enable sustainable social enterprises to attract investment and clientele.



Limited Capital Supply Across the Risk/Return Spectrum

As with sustainable social enterprises¹³ globally, those in Africa have even more limited access to funding particularly at their early stages of implementation, suggesting a low appetite for risk and reinforcing the funding gap at this critical stage of development. Only 9 percent of capital committed to impact investment by 2015 GIIN survey respondents was invested in venture and early stage businesses¹⁴.



Unclear Regulatory Environment

One of the key challenges facing the impact investment sector ecosystem in all African countries is to create an enabling and stable regulatory and policy environment for both investors and sustainable social enterprises. Currently African enterprises are generally challenged by a poor environment for doing business, and investors constrained by under-developed financial markets.



Poor Linkages Between Sustainable Social Enterprises, Entrepreneurs, Investors and Innovation Networks

The majority of Africa’s sustainable social enterprises are not members of professional associations or other formal networks, which makes finding investible enterprises and entrepreneurs a challenge for investors¹⁵. In addition, sustainable social enterprises themselves may operate outside of the more established innovation and enterprise development networks commonly employed in low-income and developing economies to improve rates of entrepreneurship and in turn, development of job-creating small and medium enterprises. Furthermore, sustainable social enterprises may have limited access to academic and research institutions focusing on research and development (R&D) that can be developed into goods and services for markets.



Poor and Inconsistent Impact Measurement Practice

Measuring, understanding and improving the impact created by an investment are central to the definition of impact investment, but continue to be a challenge for investors and sustainable social enterprises alike in Africa¹⁶. Currently, there is a lack of consistency and standardized reporting frameworks and metrics that sufficiently cater for the impact information needs within the market. The sector still requires a standard approach to measure performance against clear impact criteria, targets and deliverables.

13. Please see Glossary of Key Terms for definition

14 Saltuk, Y; El Idrissi, A; Bouri, A; Mudaliar, A; Schiff, H. 2015. Eyes on the Horizon: The Impact Investor Survey. J.P. Morgan Social Finance and Global Impact Investing Network. <http://www.thegiin.org/>

15 Dalberg Global Development Advisors. 2011. Impact Investing in West Africa. Dalberg Global Development Advisors. Available at: www.assets.rockefellerfoundation.org

16 Bridges Ventures. 2014. Investing for Impact: A Strategy of Choice for African Policymakers. Bridges Ventures and the African Private Equity and Venture Capital Association <http://www.bridgesventures.com/>

This report discusses these challenges from the perspective of each player in the sector ecosystem, followed by an outline of relevant applicable recommendations to address them and realize a thriving African Impact Investment market as a key part of its broader private sector. The recommendations made centre on strengthening the pipeline of viable impact investment prospects that are able to meet both the financial and social and/or environmental objectives of impact investors; creating an enabling regulatory and policy environment in which impact investment can thrive; strengthening impact investor capacity and practice; developing and fostering appropriate infrastructure for the impact investment sector and enhancing and developing impact measurement practice and standards.



1 The Impact Investment Landscape

1.1 The Emergence of a Sector

Defining Impact Investing

"Impact investments are investments made in companies, organizations and funds with the intention of generating measurable social and environmental impact in addition to financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances"...

"Impact investments can be made across asset classes, including but not limited to cash equivalents, fixed income, venture capital and private equity."

GIIN¹⁷

Impact investors aim to finance ventures that will result in a positive social and/or environmental impact in addition to their positive financial return. The term "Impact Investing" was coined in 2007 in an initiative led by the Rockefeller Foundation - giving a name to various social investment methodologies that had been developing and in use, in some instances, for decades. In an initial effort to help coordinate and standardize the sector and to address the ambiguity and potential confusion stemming from such varying definitions of impact investing, the Rockefeller Foundation established the GIIN in 2009. In 2011, the GIIN further developed their definition of impact investing to include the following three criteria:

Intentionality: Impact investors aim to address a social and/or environmental challenge. This motivates them to support businesses they believe can tackle challenges, such as poverty, water, sanitation, primary education, health, land degradation habitat loss and others.

Investment with return expectations: Impact investments have financial return expectations. Depending on the investors, different levels of financial returns – from capital preservation to market-rate – are acceptable.

Impact measurement: Apart from standard financial reporting, investors commit to measuring and reporting against social and environmental impact objectives. This contributes to accountability of investment strategies¹⁸.

¹⁷ Global Impact Investing Network. 2009 – 2014. *About Impact Investing*. Global Impact Investing Network (GIIN) Available at: <http://www.thegiin.org/>

¹⁸ Ibid



Drivers of Impact Investment

A number of trends contributed to the initial interest in and momentum behind impact investment, a few of which are discussed below:

Growing Recognition of the Need for Responsible Finance

The 2001 and 2008 global financial crises, as well as an increased recognition of the importance of Socially Responsible Investment (SRI), increased public and regulatory pressure on corporations and financial institutions¹⁹. Specifically, institutional investors, asset managers, and corporations have been required to increase accountability on how their capital flows are managed. Some countries have put in place regulatory controls to encourage responsible investment practices, and many initiatives have called for responsible and accountable deployment of capital in ways that address environmental and social challenges e.g. the United Nations Principles for Responsible Investing (UNPRI). As of 2014, 1,276 institutional asset managers, with combined assets of over \$45 trillion, had signed up to the UNPRI (up from \$4 trillion in 2006)²⁰.

Impact investing can be viewed as one manifestation of the drive towards the incorporation of broader considerations beyond the financial bottom line into investment decisions.

Growing Recognition of Private Capital's Potential to Supplement Philanthropic Funding and Goals

Donors and philanthropic communities were some of the earliest drivers of impact investment, and as this report will highlight, development institutions continue to dominate the sector in Africa. The philanthropic community's interest in impact investment stemmed from a desire to create long-term social and/or environmental impact both through supporting traditional welfare organizations and finding enterprise models that would provide sustainable models to deliver on this impact²¹. This in turn highlighted the important role private capital and skill could play in delivering on these impact goals.

Public Sector's Need to More Efficiently Deliver Products and Services

Impact investment also presents an opportunity for public sector actors to use their resources and deliver products and services more efficiently by externalizing product and service delivery that can be delivered at a cheaper cost and often at a higher quality. The pay-for-success type models of Social Impact Bonds (SIBs) and Social Success Notes are centred on this premise²². Impact investment therefore presents an opportunity for governments to save more and deliver products and services to more people at better quality.

¹⁹ Bugg-Levine, A; Emerson, J. 2011. *Impact Investing: Transforming How We Make Money While Making a Difference*.

²⁰ Ibid

²¹ Ibid

²² 2014. *Social impact bonds: Private finance that generates social returns*. European Parliament. Available at: www.europarl.europa.eu

1.2 The Current Status Quo: Key Characteristics of the Sector and Impact Investment Activity

A Spectrum of Investment Practice

Impact Investment has emerged as an approach to investment within the context of a spectrum of investment approaches and a relative range of investees, depending on the return and value creation expectations of investors, which inform their investment decisions. Capital deployed can be categorised according to a spectrum of investment approaches based on the particular social, environmental and financial objectives of the investors.

Figure 1 below depicts the spectrum of investment approaches within which impact investment operates:

Social value	>	"Blended" social & financial value	>	Financial value
Philanthropy	Impact Investment	Socially Responsible Investment	Responsible Investment	Traditional Investment
Capital seeks to create positive social &/ or environmental impact & does not seek financial return	Investments that seek measurable social &/ or environmental impact alongside financial returns	"Negative screening" to exclude investments not compliant with ESG	Investments that acknowledge ESG factors	Investments that only seek financial return

Source: Author's illustration

Figure 1. Spectrum of Investment Approaches

Capital seeking to create social and/or environmental value alone is generally classified as philanthropy, whereas investments that aim to create measurable social and/or environmental value along with financial returns are considered impact investments. Impact investments are distinguished by the demonstrable intention to balance social and/environmental objectives with financial objectives. Socially responsible investment and responsible investment approaches also consider the broader impact of the underlying investments, however the extent to which they demand social and/ environmental value vary, becoming relatively less proactive as the investor's interests become more commercially oriented.

As different investors will seek greater or lesser social and/or environmental returns relative to their financial return expectations, these expectations will ultimately determine the type of investees that they invest in. Impact investment capital is therefore deployed across a range of enterprise types that feature differing business model approaches, legal structures and relative profit distribution policies based on the specific purposes and needs of the enterprises. This in turn affects the type of value created and returns yielded, providing a range of potential investees available to impact investors based on their specific interests.

Figure 2 below illustrates the investment spectrum in terms of the range of enterprises that would receive investment capital relative to the type and specific blend of value the investors are seeking to create:

Social value		> "Blended" social & financial value			>			Financial value	
Charities		Sustainable Social Enterprises				Profit-maximising Businesses			
Grants only: No trading, includes traditional philanthropy	Majority grants & some trading revenues	Potentially sustaina- ble social enterprise (>75 percent in trading revenues)	Breakeven: all income from trading revenues	Profitable sustainable social enter- prise: surplus reinvested (no loss, no dividends)	Profitable social enterprise: surplus profit distribution	Responsible business (consider ESG, value chain restructuring)	Strategic social investment (percent of profits allocated to CSR / CSI)	Mainstream Market Company	

Adapted from: John Kingston, CAF Venturesome by Pieter Oostlander, Shaerpa & EVPA (2010) & Principles for Social Investment Secretariat and United Nations Global Compact (2012) Foundations of Social Investment www.unglobalcompact.org

Figure 2. Spectrum of Investees

Social institutions that exist entirely to create social value are classified as charities. The term charities also includes those organizations whose income is derived solely from grants as well as those that engage in some trading of goods and/or services and earn some revenue from these activities, but still derive the majority of their income from grant capital.

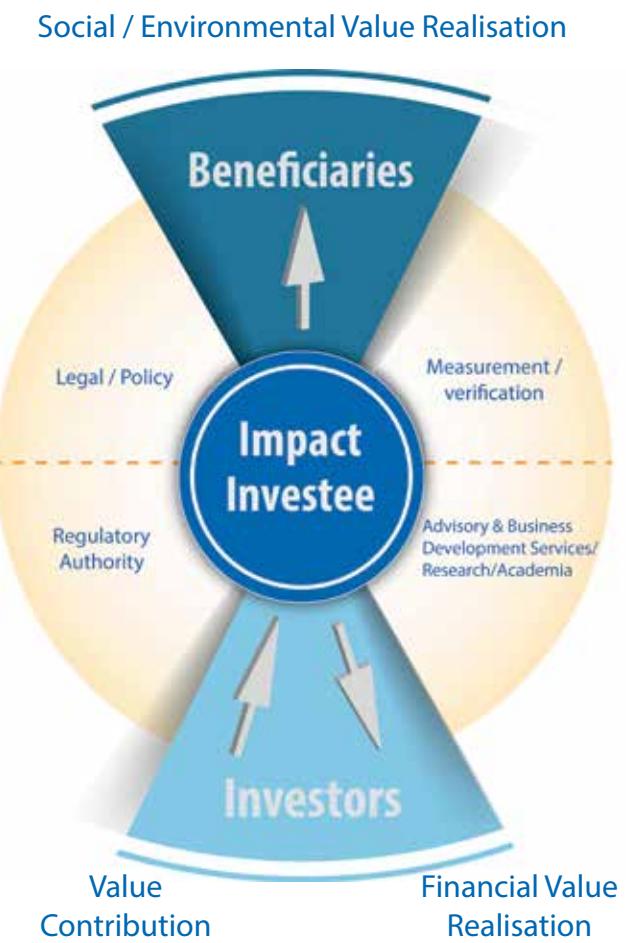
Sustainable social enterprises create both social and financial value, moving away from structural dependency on grants. Such enterprises range from those sustainable social enterprises that generate the majority (over 75 percent) of their income from trading goods and/or services, to those sustainable social enterprises that make a profit from trading activities and distribute this surplus profit to shareholders. This category also includes sustainable social enterprises that breakeven i.e. do not generate a profit, but whose income is entirely derived from trading activities, as well as those enterprises who are profitable, but re-invest their profits into the enterprise and therefore do not distribute dividends to shareholders.

Finally, enterprises whose primary objective is to maximize their profit include: responsible businesses that consider environmental, social and governance (ESG) factors in their operational decision-making; those that allocate a percentage of their profits to corporate social responsibility (CSR) activities outside of their core business and enterprises that do not incorporate social value creation objectives into their operations at all. In the current global financial climate, these 'traditional' mainstream market companies are less common, with increasing momentum behind practices such as integrated reporting and brand costs for being seen as socially or environmentally irresponsible or even harmful. Within this climate, enterprises increasingly seek to be seen as responsible, even if from a purely marketing and branding perspective. Equally, there is increasing momentum behind business models and approaches such as inclusive business that are being adopted by sustainable social enterprises and profit-maximising enterprises alike. Such business models seek to integrate low-income communities into their operations as customers, suppliers within their value chains, or as distributors and retailers. These can be found in sustainable social enterprises as part of their core mission and purpose, but also in more traditional enterprises, where specific products and services are developed using inclusive business approaches.

Therefore, impact investments – while a distinct investment approach – can be made across a range of asset classes and into a range of enterprises, provided the enterprise generates a social and/or environmental impact. In order for impact investments to create the blended value they intend to, all actors within the impact investment sector ecosystem must work cohesively.

The Impact Investment Sector Ecosystem

The impact investment sector is characterized by an ecosystem of interconnected and interdependent actors who interact through a complex series of relationships as illustrated in Figure 3 below.



Source: Author's illustration

Figure 3. Impact Investment Sector Ecosystem Actors

These participants work in concert to create social and environmental value (returns), which are ultimately realized at the beneficiary level and financial value that is realised in the form of financial returns that flow back to investors. Figure 3 illustrates the main high-level segments or categories of sector ecosystem participants that may play multiple roles at various stages of the value creation process. It is important to note that as these participants are interconnected and interdependent, one cannot look at segments of the sector ecosystem in isolation, and strategies to realize the potential of impact investment need to consider the various players and how best to catalyse and contribute to an enabling environment across the board.

Each segment of the sector ecosystem represents a group of participants and individual value chains that can be described as follows:

- The investor value chain: where value is contributed and invested into the 'sustainable social enterprise' or impact investee where social service delivery occurs. The investor value chain broadly includes, but is not limited to: capital contributors, asset owners, asset managers, wealth advisors and consultants, investment funds, crowd-funding platforms, depository institutions, private placement platforms, stock exchanges, social venture capital funds, foundations, private equity funds, etc.



The beneficiary value chain: where value from the particular intervention, products, services of the impact investee is ultimately realized in the form of social and/or environmental returns. This value chain includes, but is not limited to: directors and employees of the sustainable social enterprise; consumers or direct beneficiaries of the particular good or service as well as indirect beneficiaries of the particular good or service including the environment.

These primary participants in impact investment operate within a broader context of value addition and value calculation, as well as the broader regulatory and legal environment in which impact investment occurs. In terms of value addition, one should consider academic and training institutions that provide training and skills to supply a pipeline of prospective social entrepreneurs with the capacity to find business solutions to social and environmental challenges. Such institutions, along with research and science parks are also critical players in terms of innovation and the development of intellectual property that can be commercialised by impact investees. The commercialisation of innovation is itself dependent on a range of relationships between academia, governments and industry. Strong and well-functioning relationships within this 'triple helix' are critical to the innovation system on which many social and environmental solutions are dependent.

Impact investees are faced with the same challenges as the Small and Medium-Sized Enterprise (SME) sector to successfully establish themselves, manage to grow and reach maturity and viability as an investment on platforms such as stock exchanges. Consequently, advisory service providers such as business incubators and accelerators, business development service providers, mentors and technical assistance service providers are critical players in contributing to the success potential of impact investees, as are professional industry networks that will foster knowledge sharing.

Value calculation in terms of measurement and verification is an equally important segment of the impact investment sector ecosystem, which relies on impact measurement and verification (in addition to financial information) to make investment decisions, as well as to hold investees accountable for their impact and financial targets. Consequently, participants here would include those intermediaries that conduct due diligence - both impact and financial - upfront to determine the viability of prospective impact investments, as well as involvement in reporting on impact throughout the life of the investment²³. Another player is intermediaries that are responsible for verifying impact in the form of audits and verification assessments. The particular approach to measurement and reporting may be unique to the specific impact investee or conform to a range of reporting frameworks, standards and ratings that are currently available in the market.

The broader legal and policy frameworks applicable at a regional or national level, and indeed the regulatory authorities responsible for implementing those laws and policies play an equally important role in the sector ecosystem. Responsive and enabling policies are critical to supporting the growth potential of impact investees (and SMEs more broadly) as well as the financial markets on which these entities rely. Regulatory authorities are in turn essential to ensuring the conduct of participants in relation to applicable laws and policies.

²³ Investors will typically conduct financial due diligence rather than hire an intermediary to perform this function, however sometimes financial due diligence will be outsourced together with broader impact due diligence

Impact Investment Activity and Trends

The 2015 JP Morgan and Global Impact Investing Network (GIIN) survey of 146 impact investors revealed that they were collectively managing US\$60 billion in impact investments²⁴. This amount is higher than the \$46 billion managed by 125 investors in 2014. Direct comparisons from one year to the next cannot be made as each survey drew data from a slightly different set of investors, however overall results showed a general growth in impact investments²⁵.

Fund managers represented the largest category of respondents in 2015 followed by foundations, diversified financial institutions, DFIs, pension funds and family offices²⁶. In spite of their relatively low representation in terms of number of respondents, DFIs were generally shown to be a key source of capital. In 2015 they comprised 5 percent of survey respondents and managed 18 percent of assets, second only to fund managers who invested 63 percent of AUM but made up 57 percent of respondents²⁷.

Results from 2015 showed that investors generally focus their allocations in emerging markets and that sub-Saharan Africa is primed to see an increase in impact investment in the future. While investors tended to be headquartered in developed country markets, 51 percent of AUM were allocated to emerging markets and, the highest number of respondents to the 2015 survey reported having an allocation in sub-Saharan Africa. Sub-Saharan Africa also emerged as the region that the highest number of respondents (29) planned to increase allocations to in future, followed closely by East and South East Asia (28) and Latin America & the Caribbean (27).

Currently, the vast majority of capital invested by the 146 respondents was directed at companies in the growth or mature stage and made in the form of private debt and equity. In spite of expressed interest in pay-for-performance instruments (13 respondents indicated an intention to increase allocation to these types of instruments), they remain a very small part of overall AUM with only 0.2 percent of assets invested in this way. Regarding the sector focus on investments, 49 percent of investments reported on in 2015 focused on housing, microfinance, and general financial services (excluding microfinance). Given the microfinance industry's historic prominence as a target sector for impact investment, it is interesting to note that microfinance and financial services (excluding microfinance) saw declines in the proportion of AUM allocations from approximately 28 percent to 21 percent, and 19 percent to 15 percent, respectively²⁸. This change may indicate a general evolution of the impact investment industry and investment practice where additional experience has been gained structuring deals in sectors that were less familiar to investors²⁹.

²⁴ Saltuk, Y; El Idrissi, A; Bouri, A; Mudaliar, A; Schiff, H. 2015. *Eyes on the Horizon: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact Investing Network. <http://www.thegiin.org/>

²⁵ Saltuk, Y; El Idrissi, A; Bouri, A; Mudaliar, Pease, M. . 2013. *Perspectives on Progress: The Impact Investor Survey*. J.P. Morgan and Global Impact Investing Network. Available at: <http://www.thegiin.org/> Social Finance and Global Impact Investing Network. <http://www.thegiin.org>

²⁶ Saltuk, Y; El Idrissi, A; Bouri, A; Mudaliar, A; Schiff, H. 2015. *Eyes on the Horizon: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact Investing Network. <http://www.thegiin.org/>

²⁷ Saltuk, Y; El Idrissi, A; Bouri, A; Mudaliar, A; Schiff, H. 2014. *Spotlight on the Market: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact Investing Network. <http://www.thegiin.org>

²⁸ Ibid

²⁹ This direct comparison was made using data from a sub-sample of the same 82 respondents from the 2014 and 2015 GIIN impact investor surveys.

²⁹ Saltuk, Y; El Idrissi, A; Bouri, A; Mudaliar, A; Schiff, H. 2015. *Eyes on the Horizon: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact Investing Network. <http://www.thegiin.org>.

Generally the 2015 survey implied that the impact investment sector ecosystem is gradually developing, but fundamental constraints related to building a robust pipeline of investible businesses, a limited supply of capital across the risk/return spectrum and challenges sourcing varied and profitable exit options remained. Impact measurement – central to the practice and indeed the definition of impact investment – was still perceived to be important but difficult to carry out. Ninety-nine percent of the 146 investors reported to measure the impact of their investment and on the whole indicated that they valued impact performance tracking. However attributing impact to their investment as well as keeping measurement costs low emerged as key difficulties in impact measurement practice. At the moment, 67 percent of investors who measure impact reported that their investment teams were responsible for conducting this measurement. While an increasing number of investment teams receive impact measurement training, there is still a need to standardize impact measurement approaches and frameworks, and to strengthen the role of third party intermediaries to verify practice³⁰.

The trends above generally indicate that the impact investment sector is continuing to see market activity, however, this industry still only constitutes 0.2 percent of an estimated \$210 trillion global capital market³¹. To reach its potential, the sector's ecosystem will need to continue to develop. This holds equally true for the African impact investment industry, which has the potential to contribute to addressing some of the continent's social service needs.



30 Ibid

31 McKinsey Global Institute. 2011. *Mapping global capital markets*. McKinsey Global Institute. Available at: <http://www.mckinsey.com>

1.3 Africa: Poised to Realize the Benefits of Impact Investment

Drivers of Impact Investment in Africa

Sustained Economic Growth

The African continent is comprised of 54 countries, populated by over one billion people and spread over 30 million square kilometres (making it the second largest continent in the world). Each country has a unique history, economic growth trajectory and potential for impact investment, however this section will focus on the key overarching trends that can be generalized to indicate potential to drive impact investment across the continent.

The past decade has seen a turnaround in African economic growth. From 1980 to 1989 Africa's Gross Domestic Product (GDP) grew by an average 1.8 percent per annum, by 2.6 percent per annum between 1990 and 2000, and by 5.3 percent per year between 2000 and 2010³². Supported by sound economic policies, debt relief, stronger institutions, and high investment, many countries in sub-Saharan Africa have now sustained 5-6 percent growth rates during 2000-2012, and are in the process of reducing poverty rates and improving living conditions. The International Monetary Fund (IMF) predicted that between 2011 and 2015, 7 out of the 10 fastest-growing economies in the world (in terms of GDP) would be in Africa. In April 2015 the IMF warned that the growth trends seen in recent years would slow to 4.5 percent, but at the moment, Africa remains one of the fastest growing regions in the world³³.

This economic growth is producing a growing African middle class that is now estimated at 350 million people³⁴. Along with rapid urbanization and a growing labour force, household consumption – particularly from this burgeoning middle class – has been the major driving force behind economic growth accounting for 62 percent of GDP. In turn, this growth has contributed to a growing demand for development in industry and infrastructure³⁵.



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³² United Nations Conference on Trade and Development. 2014. *Economic Development in Africa Report 2014: Catalysing Investment for Transformative Growth in Africa*. United Nations Conference on Trade and Development. Available at: <http://unctad.org/>

³³ International Monetary Fund. 2015. *Regional Economic Outlook: Sub-Saharan Africa – Navigating Headwinds*. International Monetary Fund. Available at: www.imf.org

³⁴ Aissa, M; Mubila, M; Lufumpa, C. African Development Bank. 2011. *The Middle of the Pyramid: Dynamics of the Middle Class in Africa*. African Development Bank Group. Available at: www.afdb.org

³⁵ United Nations Conference on Trade and Development. 2014. *Economic Development in Africa Report 2014: Catalysing Investment for Transformative Growth in Africa*. United Nations Conference on Trade and Development

Increased Investment Capital

Capital is flowing into the African continent at a steady rate. Over the past decade, overall foreign direct investment (FDI) targeting the continent has steadily grown, partly driven by a continued interest in natural resources. Inflows into East Africa for instance, have generally increased due to recent discoveries of oil and gas in Kenya, Uganda and Tanzania³⁶. Some flows into sub-Saharan Africa are now targeting consumers instead of extractive industries as well as countries unaccustomed to this capital – such as Ethiopia and Mozambique. 2014 also saw improved investor confidence in countries previously affected by the Arab Spring of 2011, and Egypt and Morocco saw growing levels of FDI inflows. While 2014 in particular saw some slow-down of global FDI due to weak economic growth, which negatively affected FDI flows to Africa for that year, overall levels of inflows remained above the pre-2008 levels³⁷.

Africa has also seen a steady increase of domestic savings in recent years that can add to capital available for investment. Historically, African countries have relied on foreign sources of capital in the form of FDI, ODA, debt and remittances to complement and often compensate for domestic sources of investment. Gradually, the economies of Africa are beginning to build up the domestic savings reserves that will help to spur investment, and eventually impact investment on the continent³⁸. In addition, remittances present an additional potential source of investment capital as these have increased by six times since 2000. These flows to Africa are estimated to reach \$64.6 billion in 2015 with Nigeria and Egypt as the primary recipients³⁹.

Declining Available Official Development Assistance and Public Sector Funding

The financial landscape has changed considerably in Africa since 2000. Despite improvement and growth in key areas such as foreign investment, remittances and tax revenue collection, domestic resource mobilisation remains low and ODA is expected to decrease to \$54.9 billion in 2015. More than two-thirds of the states in sub-Saharan Africa, the majority of which are low-income countries, will receive less aid in 2017 than in 2014⁴⁰.

"[S]hortfalls in aid along with aid volatility impact macro-economic balances, potentially generating growth volatility and causing reductions in government spending on poverty reduction and development priorities. This is especially important since studies show that aid shortfalls in aid-dependent countries are frequently followed by reductions in government spending"⁴¹.

Consequently, government decision-makers in African economies need to consider and capitalise on alternative sources of revenue and investment in order to effectively manage and respond to macro-level shocks and decreases such as the decline in ODA. In this context, impact investment provides an opportunity to increasingly assist African nations with a means of subsidising service delivery to address development priorities.

36 The GIIN and Open Capital Advisors. 2015. *The Landscape for Impact Investing in East Africa*. The Global Impact Investing Network and Open Capital Advisors. Available at: <http://6www.thegiin.org/>

37 Ernst & Young. 2015. *EY's Attractiveness survey. Africa 2015: Making Choices*. Ernst & Young. Available at: <http://www.ey.com>

38 United Nations Conference on Trade and Development. 2014. *Economic Development in Africa Report 2014: Catalysing Investment for Transformative Growth in Africa*. United Nations Conference on Trade and Development. Available at: <http://unctad.org/>

39 AfDB, OECD, UNDP. 2015. *Chapter 2: External financial flows and tax revenues for Africa, African Economic Outlook*. African Economic Outlook. Available at: www.africaneconomicoutlook.org

40 AfDB, OECD, UNDP. 2015. *Chapter 2: External financial flows and tax revenues for Africa, African Economic Outlook*. Available at: www.africaneconomicoutlook.org

41 UNDP. 2011. *Overview. Towards Human Resilience: Sustaining MDG Progress in an Age of Economic Uncertainty*. Available at: www.undp.org

Demand for Basic Services and Goods

Despite the continent's economic growth, many African countries still face significant development challenges. According to 2011 World Bank data, 46.5 percent of people in sub-Saharan Africa live on less than US\$1.25 Purchasing Power Parity (PPP) per day⁴². Income inequality within countries remains high, and improved access to key aspects of human development such as health and education have not kept pace with economic growth. Social and economic exclusion of vulnerable groups such as women, rural populations and the youth persist and create skewed distributions of income. Africa's Human Development Index (HDI)⁴³ levels are low. Even though there was some improvement from 0.40 to 0.50 from 1990 to 2013, the continent's HDI score still remained lower than world averages of 0.60 in 1990 and 0.70 in 2013. Access to health and education are the key determinants of the HDI, which indicates that these are two critical areas for the continent to address.

In addition, Africa's performance on gender and income equality still remains low. Africa is the region with the second highest income inequality within countries, following Latin America and the Caribbean. Income inequality is a symptom of the uneven human development trends reflected in the continent's HDI score and Africa's limited adequate social protection services. In addition, income inequality trends also tend to highlight geographic inequalities with rural populations being less likely to have access to education and healthcare. Finally, Africa continues to score low on gender empowerment – a cross-cutting issue – as reflected in the Gender Development Index (GDI⁴⁴) scores for a number of countries. In 39 African countries the GDI was 87 percent, meaning that the HDI value for African men in these countries was 13 percentage points higher than for women. Overall, Africa needs to improve access to basic services and provision of social protection services if it is to realize inclusive growth and reduce inequality. At the moment the essential services related to human development are out of reach for most of the population and social protection services remain under-funded and ill-coordinated⁴⁵.

In response to these enduring human development challenges, Africa's leadership and the international development community have identified key areas for intervention. In 2013, the AUC articulated a shared vision for Africa for the next 50 years, called Agenda 2063, committing to work towards a sustainable and equitable growth path for the continent. In 2014 African Heads of State also outlined the areas of the recently ratified SDGs – known as the Common African Position (CAP) on the post-2015 Agenda - that are a priority for the continent and agreed to speak with one voice in pushing the continent's development agenda. All of Africa's expressed priorities from innovation and economic growth, people-centred development, environmental sustainability, peace, security and partnerships to finance development are reflected and emphasized in the SDGs. Agenda 2063 has been made an integral part of the SDGs, reflecting an opportunity for the continent to focus its own investment needs and priorities with the support of the international community on those areas that will address Africa's deepest challenges. The following two boxes explain the AUC Agenda 2063 and CAP on the post-2015 Sustainable Development Goals and those areas in which focused action is needed to accelerate the continent's development.

42 The World Bank. 2011. *Poverty & Equity Regional Dashboard: Sub-Saharan Africa Regional Indicators*. The World Bank Group. Available at: www.povertydata.worldbank.org

43 "Human Development Index is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and hav[ing] a decent standard of living". The HDI is the mean of these three dimensions measured by life expectancy, years of education and Gross National Income per capita. The United Nations Development Programme. *Human Development Index*. Available at: www.hdr.undp.org

44 "The Gender Development Index measures the gender gap in terms of achievement of the three basic dimensions of human development for women and men" *Africa Economic Outlook*. African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme. Available at: www.africaneconomicoutlook.org

45 African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme. 2015. *African Economic Outlook*. African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme. Available at: www.africaneconomicoutlook.org

African Union Commission Agenda 2063⁴⁶

Agenda 2063 is the 50-year African Union vision and action plan for the structural transformation and rejuvenation of the continent, which contains seven aspirations to guide concrete objectives, including:

1. A prosperous Africa based on inclusive growth and sustainable development
2. An integrated continent, politically united and based on the ideals of Pan-Africanism and the vision of Africa's Renaissance
3. An Africa of good governance, democracy, respect for human rights, justice and the rule of law
4. A peaceful and secure Africa
5. An Africa with a strong cultural identity, common heritage, shared values and ethics
6. An Africa whose development is people-driven, relying on the potential of African people, especially its women and youth, and caring for children
7. Africa as a strong, united and influential global player and partner

Common African Position on Post-2015 Development Agenda⁴⁷

The Common African Position (CAP) on the post-2015 Development Agenda was launched by the African Union on 31 January 2014 at the 22nd Ordinary Session of the Assembly of the Union in Addis Ababa, Ethiopia.

The CAP identified the issues of importance to Africa within the post-2015 Sustainable Development Goals and aimed to engage with the post-2015 Development Agenda with one unified voice. The issues were sourced using a consultative process involving the executive and legislative arms of government, the private sector, civil society organizations, trade unions, and academia, as well as selected international organizations and agencies including the UN and African multilateral institutions. The CAP reiterates the need for inclusive and people-centred economic growth, and strongly emphasizes that structural transformation will necessarily underpin this growth. In particular focused development of Africa's infrastructure and continued industrialization is highlighted as fundamental to the continent's achievement of its development goals. The CAP elucidates Africa's position within the following six pillars:

Structural economic growth with an emphasis on inclusive growth, sustainable agriculture, nutrition and food security as well as the diversification of each country's economy. The primary aim of this pillar is to grow each country's economy in a way that generates decent employment and sustainable livelihoods by developing the private sector as well as enhancing agricultural production, food self-sufficiency and resilience to climate shocks.

Science and technology in order to enhance Africa's Research & Development (R&D) and Innovation capacity. This pillar emphasizes investment in technology via the improvement of science and ICT education as well as strengthening the financial and regulatory environment to support scientific research and the protection of intellectual property.

People-centred development with the ultimate objective of poverty alleviation, gender equality and universal access to essential services such as education and healthcare. This pillar calls for the empowerment of all people in particular those who may be vulnerable such as children, the elderly, people living with disabilities, displaced persons and women.

Environmental sustainability to ensure the conservation and responsible management of the continent's natural resources including land, water, as well as risk mitigation against climate change and natural disasters.

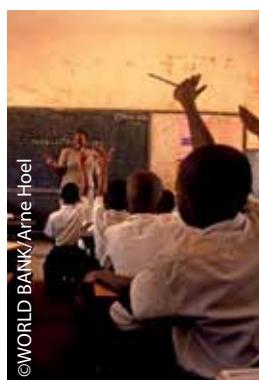
Peace and security ensured by preventing the outbreak of armed conflicts as well as addressing the root causes – social exclusion, discrimination and good governance – of conflict.

Finance and partnership enhancement to grow Africa's finance base through domestic resource mobilization, maximizing the use of innovative finance models and promoting beneficial trade and investment partnerships.

46 African Union Commission. 2014. *Agenda 2063: The Africa We Want*. African Union Commission. Available at: <http://agenda2063.au.int/55> African Union Commission. 2014. *Common Africa Position on the Post-2015 Development Agenda*. African Union Commission. Available at: <http://agenda2063.au.int/>

47 African Union Commission. 2014. *Common Africa Position on the Post-2015 Development Agenda*. African Union Commission. Available at: <http://agenda2063.au.int/>

There is potential for investment market-based solutions and opportunities – in the form of sustainable social enterprises – to provide a sustainable path to overcome the persistent challenges to meeting basic needs and service delivery towards greater gains in human development on the continent. Specifically, we highlight below some examples of service delivery needs/gaps in key sector in Africa, to which sustainable social enterprises are implementing viable market solutions. Improved service provision in the areas of education, health (including water and sanitation), agriculture and food security, energy access, affordable housing, financial inclusion and infrastructure would contribute to reductions in inequality, gains in human development and improvements in resilience and protection against vulnerability to shocks. The examples below provide an indication of the potential of sustainable social enterprises and collaborative public-private partnerships projects to emerge and absorb impact investment capital for the achievement of broad based human development goals.



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Education

Access to education remains a substantial challenge in Africa. In 2012, 56 million sub-Saharan Africans aged 15 to 24 (equal to one third of the population), had not completed their primary school education⁴⁸. Drivers for low education levels include insufficient investment in schools, teachers, and textbooks, as well as reliance by low-income households on additional income generated by children and youth. The consequences of low levels of access to education are significant as education plays an important role in determining future employment prospects, and represents one of the main paths to escaping poverty and contributors to human development gains.

Bridge International Academies, East Africa

As one example of a sustainable social enterprise working to address access to education, Bridge International Academies (BIA) – is re-engineering the business model of delivering basic education. BIA operates an ultra-low-cost private school (US\$6.5 a month) in East Africa and has become the world's largest chain of primary and pre-primary schools - with 359 academies and over 100,000 students.

BIA started in Kenya in 2009 and is now in four countries in the region. They developed an innovative "Academy-in-a-box" franchise model that can be easily replicated and scaled up. As a result, BIA is opening a new school every 2.5 days. Leveraging technology and data, BIA creates efficiencies both in terms of costs and quality. BIA invests in world-class curriculum and training development and this systemization frees Academy Managers to focus on the critical work of overseeing classroom instruction or building relationships in the local community. BIA received early investment from impact investors including the Bill & Melinda Gates Foundation and UK Department for International Development (DfID) and then secured growth capital from larger financial institutions, such as the International Finance Corporation (IFC)⁴⁹.

48 United Nations Educational Scientific and Cultural Organization. 2012. *One third of young people in Sub-Saharan Africa fail to complete primary school and lack skills for work*. United Nations Educational Scientific and Cultural Organization. Available at: www.unesco.org

49 Bridge International Academies. 2013. Available at: <http://www.bridgeinternationalacademies.com>



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Healthcare, Water and Sanitation

The World Health Organization (WHO) estimates that approximately 47 percent of the African population has low or no access to basic health care services⁵⁰. In addition, more than 800 million Africans do not have adequate sanitation services and almost 300 million live without access to clean and safe water, with devastating effects on their health and quality of life⁵¹. Therefore, a solution to this disease burden would help to address fundamental health challenges, which in turn affect key areas for development, such as access to education, employment and labour productivity.

Living Goods, East Africa

Living Goods was established in 2007 to sell essential healthcare products through a door-to-door operating approach. Today there are more than 1,000 Living Goods community health promoters working in Uganda and Kenya through a micro-franchise model. The health promoters go door-to-door in rural neighbourhoods selling malaria medicine, fortified cereals, vitamins and soap and larger items such as stoves, solar lanterns and bed nets.

The community health promoters are trained to identify women who are pregnant, children who are sick and those suffering from malnutrition. They encourage breastfeeding, vaccinations and prompt treatment of common afflictions such as diarrhoea, and refer clients to health clinics as necessary. Living Goods sets its prices 20 to 40 percent below local retailers in an effort to better service its target clientele. According to Living Goods, its agents treated 62,000 children, supported 25,000 pregnancies, sold 37,000 units of vitamin-fortified foods and distributed 30,000 clean stoves to clients in 2012.

Living Goods initially received grant capital from foundations, which was followed by investment capital from investors including the Omidyar Network, and the company reached break-even in 2011⁵².

⁵⁰ World Health Organization . 2004. *World Medicines Situation Report*. World Health Organization. Available at: <http://www.who.int>

World Health Organization . 2011. *World Medicines Situation Report*. World Health Organization. Available at: <http://www.who.int>

⁵¹ Global Environmental Outlook. 2000. *Chapter 2. Africa*. Available at: <http://www.unep.org/>

⁵² Living Goods. 2016. Available at: <http://livinggoods.org/>

Bank, D. 2014. *Living Goods : Selling Health Door-to-Door*. Impact Alpha. Available at: <http://impactalpha.com/>



Agriculture and Food Security

Approximately 21 percent of Africa's population is malnourished⁵³. Hunger and poor food security lead to under-nutrition, with dire consequences on health, well-being, and economic capacity and growth.

Furthermore, as the dominant source of income in Africa, agriculture is most likely to impact economic growth. Africa contains 60 percent of the world's uncultivated arable land, approximately 70 percent of the population is directly employed in the sector, and it accounts for approximately 30 percent of the region's GDP⁵⁴.

However, the share of income from this output is highly unequal, with most countries in Africa exhibiting a large, under-resourced subsistence agricultural sector characterized by low productivity. This is typically featured alongside a smaller and more productive commercial agricultural sector that is geared towards exports. Furthermore, those countries lagging behind in terms of human development tend to have relatively higher proportions of subsistence agriculture⁵⁵.

Sekaf, Ghana

Gender inequality in Africa is often connected to agriculture i.e. land ownership and productivity. Weak property rights and tenure security reduce incentives for women to invest in their land. In addition, women tend to operate smaller, less sophisticated farms, and earn less income from their agricultural produce.

In Ghana it is estimated that 600,000 rural women earn income from collecting Shea nuts. Processed Shea nuts are commercially profitable due to growing demand from the international food and cosmetic industries. However, because of the effort involved in taking nuts to market, most women become 'price takers', settling for a low price rather than carrying the products back home. Most of the profit is therefore retained by intermediaries and processors, with very little income trickling down to the farmers who produce the nuts.

Sekaf is a Ghanaian sustainable social enterprise which processes Shea nuts and improves farmers' likelihood of getting a fair price. Through an investment from Injaro Fund, Sekaf now employs over 250 women and buys Shea nuts and Shea butter from approximately 2,500 women. By helping these women with loans, training and quality control expertise, it has directly increased productivity and the quality of products for which producers receive a fair price. In turn, this provides employment security and economic empowerment for cooperative members. As a result, some members of Sekaf cooperative societies have been able to send their children to school for the first time⁵⁶.

53 Food & Agricultural Organization. 2015. *The State of Food Insecurity in the World*. Food & Agricultural Organization. Available at: www.worldhunger.org

54 African Development Bank Group. 2014. *Inclusive Growth: An Imperative for African Agriculture*. African Development Bank Group. Available at: www.afdb.org

55 Ibid

56 Sekaf Ghana. 2008. Available at: <http://www.sekafghana.com>



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Energy Access

More than 700 million people (two-thirds of the population) in Africa live without access to electricity⁵⁷. Access to energy for cooking, lighting and heating therefore remains a key challenge for many African households with many relying on the traditional use of solid biomass - firewood and charcoal and dried animal dung - for cooking. Marketing and distribution channels for cooking gas (liquid petroleum gas, or LPG) remain under-developed. Unfortunately, cooking with these solid fuels has significant negative environmental and health implications including potential risks for pneumonia among children and chronic respiratory disease among adults. For households living off the grid, kerosene lamps are the primary lighting source—an expensive technology that is also unsafe, because kerosene is flammable as well as poisonous when inhaled or ingested. Ghana-based enterprise, Toyola Energy, has developed an effective business for selling efficient cooking stoves through a decentralized sales agent model. Since its founding in 2006, Toyola has sold over 100,000 stoves and 6000 solar energy products. Toyola is now expanding into other countries in West Africa⁵⁸.



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Infrastructure

Infrastructure development is critical to economic growth and development on the African continent, and remains one of the main obstacles to productivity. In spite of Africa's impressive economic growth over the last 5 years, the continent has consistently ranked behind other regions in the World Economic Forum's Global Competitiveness Report. The 2014-2015 Global Competitiveness Report saw sub-Saharan Africa receive the lowest average Global Competitiveness Index (GCI) score and highlighted low infrastructure development and limited skills development opportunities for young Africans as key reasons for this ranking⁵⁹. The African Development Bank (AfDB) estimates that Africa spends an average of \$45 billion a year on infrastructure and that most of the capital funding this investment is from external or foreign sources. Therefore, in order for the continent to continue its infrastructure development, a sustained level of investment as well as effective mechanisms through which to place that investment are necessary. For this reason the AfDB derived the African Infrastructure Development Index that ranks and analyses individual country progress in developing infrastructure⁶⁰. The aim is for this index to facilitate evidence-based allocation of investment – both national government budgets and external capital - into infrastructure. Provided the achievement of positive and measurable social and/or environmental impact is central to investments in infrastructure, these can be classified as impact investments and African governments in Africa can leverage this financing to achieve their development objectives.

57 Africa Energy Outlook. 2014. *Energy in Africa Today*. International Energy Outlook. Available at: www.iea.org

58 Toyola Energy. 2009. Available at: <http://www.pciaonline.org>

59 World Economic Forum. 2014. *Global Competitiveness Report 2014 – 2015*. World Economic Forum. Available at: <http://reports.weforum.org/>

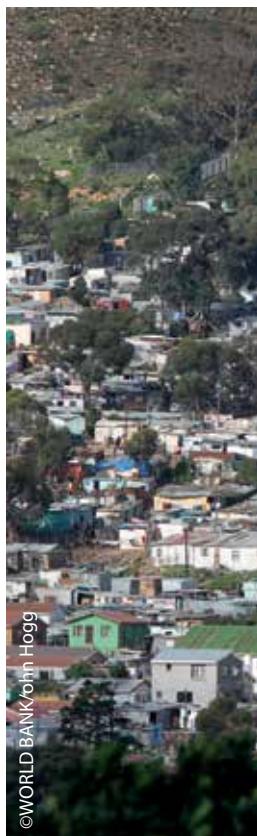
60 African Development Bank. 2013. *African Infrastructure Development Index*. African Development Bank. Available at: <http://www.afdb.org/>



Financial Services

Despite the recent financial sector growth in Africa over the past decades, many individuals and firms are still excluded from access to financial services in African countries. According to the African Development Bank, less than one in four Africans have a bank account at a formal financial institution⁶¹. This includes owning a bank account or having access to credit, savings programmes, or insurance.

This analysis shows that available African financial services lag behind other developing economies in terms of cost-structure, distance to bank, and documentation requirements, which are all important obstacles to increasing access to financial services⁶². Poor access to basic financial services reinforces the cycle of poverty and can eventually weaken the pace of the country's economic growth and development. For instance, the majority (64 percent) of Nigeria's adult population do not have access to formal financial services. Pagatech leverages a mobile banking platform to enable its clients to save, remit funds, purchase airtime units and pay their bills via mobile phone or through a network of retail agents. These money transfers are generally made at a lower cost than that of more mainstream providers. To date Pagatech has attracted over 3 million clients. Thanks to an accessible platform, Pagatech is able to reach populations that would likely be otherwise unable to access this financial service⁶³.



Access to Affordable Housing

Urbanization is a strong component of Africa's economic growth. With an annual urbanization rate of 3.5 percent over the past two decades, African cities are the fastest growing in the developing world. Currently, about 40 percent of the continent's one billion people live in cities and towns, and by 2030 it is estimated that 50 percent of Africa's population will be living in an urban environment⁶⁴. One of the central challenges created by Africa's rapid urbanization is poor-quality housing units, or "urban slums", in some of the continent's cities. The African slum population is estimated at 400 million people representing 40.2 percent of its population⁶⁵. Furthermore, as urbanization grows the demand for housing rises. Yet the majority of the new urban residents do not have access to suitable housing solutions or mortgages that can finance house ownerships.

One example of an initiative to begin to address this housing shortage is the Building in Stages Programme implemented through a partnership between Habitat for Humanity and a Malawian microfinance institution (MFI). This programme was launched in Malawi in 2005 and facilitates the construction of new houses and repairs existing homes through incremental stages. This allows low income families to improve their living conditions over time based on the availability of their resources. To date, this initiative has facilitated the completion of 200 homes and has served over 5000 clients in the country⁶⁶.

61 African Development Bank. 2013. *Financial Inclusion in Africa*. African Development Bank. Available at: <http://www.afdb.org>

62 Ibid

63 Pagatech. 2016. Available at: <https://www.mypaga.com>

64 United Nations Settlements Programme. 2010. *The State of African Cities*. Available at: <http://www.unhabitat.org>

65 Ibid

66 United Nations Human Settlement Programme. 2013. *Where We Build: Malawi*. United Nations Human Settlement Programme. Available at: <http://www.habitat.org>

In sum, the opportunities and need for service delivery in these key areas, combined with the pressing need for African governments to find solutions to improve their financial resilience, represent an array of market opportunities that social entrepreneurs may capitalize on. To ensure impact investment delivers on its potential, Africa's impact investors, policymakers and other sector ecosystem actors will need to consider the specific social and/or environmental impact they seek to derive that will best address the continent's needs in healthcare, education and many of the other areas outlined above. This may call for both an overarching guide on impact investment practice relevant to the continent, and one specific to the context of each country and community, in addition to a careful consideration of the varied impact investee models and practices that will achieve Africa's specific development objectives. Investments should ultimately address the developmental challenges the continent deems most important.



Supply of Impact Investment Capital in Africa

The practice of investing for impact is not new in Africa, with some institutions having been active in providing finance to enterprises generating social and environmental benefits for decades. For example, the Aga Khan Fund for Economic Development has been providing impact capital in the region since 1965, and as outlined before, DFIs and foundations have a history of deploying capital on the continent.

As interest in the impact investment sector has grown, so too has demand for data on amounts and trends of AUM. In particular, comprehensive data on impact investment data in Africa is not available. As is the case with many published reports on Africa, research to date segments sub-Saharan Africa from North Africa, which is generally grouped with the Middle East as a region. Therefore providing a complete and detailed assessment of impact investment in the continent as a whole is not done in this study. Detailed information on impact investment in the East Africa sub-region has recently been published by the GIIN and Open Capital Advisors and previously on West Africa by Dalberg Global Development Advisors. The GIIN is currently pursuing an updated study of West Africa, and similar research for Southern Africa in order to provide greater levels of insight. Therefore, this mapping draws primarily on a literature review of currently published data. This again indicates the budding state of the industry in Africa and growing investor interest in understanding the sub-regional and continental markets. As this body of knowledge is still developing, it is estimated that many more organizations are active in this field than have thus far been identified.

According to the GIIN's 2015 impact investing survey of 146 investors, current AUM in Africa total approximately US\$9 billion, representing approximately 15 percent of the global collective AUM⁶⁷. Sub-Saharan Africa represents the second largest AUM by geography at 14 percent after North America. The same survey also indicated that Sub-Saharan Africa is the region the highest numbers of surveyed investors intend to increase investments into⁶⁸. That is, Sub-Saharan Africa is a significant region in terms of current impact investment activity and it seems as though its position will continue to increase relative to other regions. Comparatively, North Africa represents a very small share of impact investments, though given its regional grouping with the Middle East, it is difficult to determine its precise contribution. The Middle East and North Africa (MENA) region accounts for 2 percent⁶⁹.

⁶⁷ This percentage is calculated by adding the total percentage of Sub-Saharan Africa AUM (14%) to half the total percentage of Middle-East & North Africa AUM (1%), assuming North Africa represents half the AUM for that region.

⁶⁸ Saltuk, Y; El idrissi, A; Bouri, A; Mudliar, A; Schiff, H. 2015. *Eyes on the Horizon: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact Investing Network. Available at: www.thegiin.org

⁶⁹ Ibid



The following overview of AUM in Africa in general, as well as East and West Africa specifically uses data from 2013 as this is the most complete. In 2013 an estimated \$7.4 billion of AUM were invested in Africa⁷⁰ according to responses from 124 surveyed investors⁷¹. \$1.6 billion of impact investments were disbursed in East Africa in the same year, and an estimated \$3.2 billion of impact investments were deployed in West Africa annually⁷². While assessments of impact investment activity in East and West Africa were conducted using different methodologies, and therefore cannot be aggregated, this data does provide an overall guideline on amounts of impact investment in each sub-region. Investments in both sub-regions tend to focus in agriculture, and given the sub-region's track record of innovation in financial service provision⁷³, investments in East Africa also concentrate on financial services. Conversely, although sectors such as health and education are identified as key for Africa's human development, they continue to attract relatively low levels of impact investment. Education, healthcare and consumer goods were the 3 sectors allocated the least amount of capital by investors active in East Africa (less than \$ 100 million), and similarly West African trends show that education and health did not receive significant investments. This largely agrees with global impact investment trends, where healthcare is allocated 6 percent, and education 3 percent of total AUM⁷⁴.

⁷⁰ This estimation is calculated by adding the total percentage of sub-Saharan Africa AUM (15%) to half the total percentage of Middle-East & North Africa AUM (1%), assuming North Africa represents half the AUM for that region and multiplying the total for sub-Saharan Africa and North Africa (16%) by total reported AUM (\$ 46 billion).

⁷¹ Bouri, A; Mudaliar, A; Schiff, H. 2014. *Spotlight on the Market: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact investing Network. Available at: www.thegiin.org.

⁷² Dalberg Global Development Advisors. 2011. *Impact Investing in West Africa*. Dalberg Global Development Advisors. Available at: www.assets.rockefellerfoundation.org/TheGiIN/OpenCapitalAdvisors. 2015. *The Landscape for Impact Investing in East Africa*. The Global Impact Investing Network and Open Capital Advisors. Available at: <http://www.thegiin.org/>

⁷³ The GiIN and Open Capital Advisors. 2015. *The Landscape for Impact Investing in East Africa*. The Global Impact Investing Network and Open Capital Advisors. Available at: <http://www.thegiin.org/>

⁷⁴ Bouri, A; Mudaliar, A; Schiff, H. 2014. *Spotlight on the Market: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact investing Network. Available at: www.thegiin.org.

1 The Impact Investment Landscape

Developing Impact Investment Market Information in Africa

As highlighted in this report, growing demand for market intelligence on impact investment in Africa has driven a recent increase in research and reports on investment trends on the continent. In addition to research by the GIIN and Open Capital Advisors, and Dalberg Global Development Advisors, another study mapping investment trends of a select group of impact investors in sub-Saharan Africa and South Asia was recently released by DfID's Impact Programme. Other institutions are also pursuing research to understand the demand for investment amongst sustainable social enterprises in Africa.

Over and above the high-level impact investment trends and constraints identified in this report, growing research has identified a few countries that have emerged as key impact investment markets in the continent. According to the GIIN and Open Capitals Advisors, Kenya has been dubbed the impact investment hub of East Africa and attracts almost half of the impact investment capital deployed in the sub-region's 11 countries⁷⁵. Impact investors started to move into the country after 2008, and capital invested by both non-DI and DI impact investors has tended to focus on the financial services sector, with increased interest in the energy industry from DFIs in particular such as the United States Agency for International Development (USAID) Power Africa Initiative. Non-DI investors reported to be increasingly investing using quasi-equity instruments to better suit the early-stage enterprises they invest in, while DI investments still tend to be in the form of debt. The impact investment sector ecosystem in Kenya is largely comprised of incubators and accelerators given the country's entrepreneurial population, however research highlighted the continued limited availability of rigorous data and research on the sector.

While a comprehensive study of impact investment in Southern Africa has yet to be published, South Africa still remains the largest impact investment market in the sub-region. Impact investing activity in the country has traditionally been driven by institutional investors such as commercial banks and insurance companies that have deployed capital into impact investment funds managed by an asset manager. It follows therefore that historically investments have been made via debt capital. Impact investing in South Africa has tended to focus on the country's development imperatives: employment creation, the growth and promotion of SMEs, economic empowerment of historically disadvantaged groups and the provision of basic services. The South African government has been particularly active in developing programmes and business development support services intended to benefit SMEs as a whole, and sustainable social enterprises indirectly, however the effectiveness of these initiatives has been limited by a constraining policy and regulatory environment, and inappropriately-skilled business development support providers. Foundations such as the Rockefeller Foundation and Omidyar Network played a key role in supporting the initial development of the country's impact investment infrastructure including sector research, the promotion of impact measurement standards and best practice and the establishment of a national impact investment network. Today, a growing number of intermediaries such as accelerators and research consultancies exist and a more diverse pool of investors has shown interest in the sector.

Dalberg Global Development Advisors' research on impact investment trends in West Africa showed Ghana, Nigeria and Senegal to be the sub-region's leading destinations for impact investment capital. The language spoken in each country strongly determined the origin of investors, with Anglophone countries such as Nigeria and Ghana receiving investments from investors based in the United States and United Kingdom, and Francophone countries receiving capital originating mainly from France and Belgium. DFIs are key investors in the sub-region and particularly via venture capital and private equity funds in Ghana and Nigeria. Agriculture was a preferred sector for impact investment in both countries, with financial services also proving to be a key industry, and most investments deployed in the form of debt or by taking equity. A few notable foundations such as the Dangote Foundation and TY Danjuma Foundation have emerged in Nigeria, however the Tony Elumelu Foundation continues to be the dominant Nigerian foundation in the sector, as the others solely deploy capital through grants. The Tony Elumelu Foundation has played a key role in promoting entrepreneurship within the country – and increasingly in other African countries – and in developing Nigeria's impact investment policy framework⁷⁶. Trends in Senegal showed it to be a much less popular investment destination for fund managers than Nigeria and Ghana, and illustrated a level of entrepreneurial activity lower than the other two countries. In spite of this, the microfinance and agricultural sectors proved to be preferred industries for impact investment partly due to government efforts to create policy and infrastructure (i.e. industry networks) to drive capital to these sectors⁷⁷.

⁷⁵ The GIIN and Open Capital Advisors. 2015. *The Landscape for Impact Investing in East Africa*. The Global Impact Investing Network and Open Capital Advisors. Available at: <http://www.thegiin.org/>

⁷⁶ Dalberg Global Development Advisors. 2011. *Impact Investing in West Africa*. Dalberg Global Development Advisors. Available at: www.assets.rockefellerfoundation.org

⁷⁷ Dalberg Global Development Advisors, 2012. Assessment of Impact Investing Policy in Senegal. Available at: <http://dalberg.com/>



Types of Impact Investors

Today Development Finance Institutions (DFIs) are the main impact investors in Africa in terms of proportion of capital. Other investors include Funds, Private Foundations, high net-worth individuals and Institutional Investors such as Diversified Financial Institutions (commercial banks), Pension Funds, Insurance Companies and others. Investors can either be categorised as wealth holders or wealth managers. For instance, DFIs mainly act as wealth holders, and are classified as such in this report as they may invest directly into a sustainable social enterprise and/or deploy capital into funds that then invest into enterprises. Funds are also categorised as investors even though they are wealth managers and invest the capital of wealth holders into enterprises⁷⁸. Table 1 illustrates these categories and key features of each investor type.

⁷⁸ The categorization of Fund Managers as investors is consistent with the main investment actors delineated in the GIIN Annual Impact Investor Surveys. Categories of investors in these surveys are: Fund Managers; Development Finance Institutions; Diversified Financial Institutions/Banks, Foundations, Pension funds or insurance companies, Family Offices and Other.

Table 1. Types of Impact Investors

Investor Type	Typical Financial Products	Typical Sector Focus in Africa	Average Deal Size Range (\$)	Examples
Development Finance Institutions	Equity, debt, mezzanine, quasi-equity, guarantees and grants for technical assistance	Infrastructure, financial services, agriculture, energy	\$5 million – over \$50 million ^{79, 80}	IFC, CDC, SIFEM, AfDB, FMO, Proparco
Fund Managers ⁸¹	Grants for relatively early stage enterprises	Infrastructure projects, agriculture, telecommunication, retail, financial services	Early stage finance: less than \$50,000	Abraaj Africa, The Phatisa Group, Ariya Capital, Harith, Acumen Fund, LGT Philanthropy, Root Capital, Bamboo Finance
	Equity, debt, quasi-equity, inventory finance	Access to basic services (food, health, education, water, energy) and social/human development	Venture capital & private equity \$500,00 - \$1million ^{82, 83}	
	Equity for enterprises in the growth stage			
Foundations & Private Foundations	Equity, debt, grants, quasi-equity for seed stage and market building	Access to basic services (food, health, education,) social/human development, and market creating initiatives (i.e. associations, accelerators, competitions, networks)	\$500,000 - \$5 million ⁸⁴	Gatsby Charitable Foundation, Omidyar Network, Shell Foundation, Africa Enterprise Challenge Fund, Bill & Melinda Gates Foundation, Tony Elumelu Foundation
Institutional Investors	Direct investment: providing co-investments through debt (banks) or invest in funds (pension and insurance funds)	Projects (i.e. agriculture, energy, water, transportation, telecommunication) and growth stage of financial services, retail and real estate		Government Employees Pension Fund of South Africa, TIAA CREF, Equity Bank, JP Morgan

79 Ibid. The size of DFI investment varies according to whether they invest directly into an enterprise or not. Indirect investment via funds tends to be smaller in size (\$5 million or less) while direct investments tend to be large (\$15 million or more).

80 The GIIN and Open Capital Advisors. 2015. *The Landscape for Impact Investing in East Africa*. The Global Impact Investing Network and Open Capital Advisors. Available at: <http://www.thegiin.org/>.

Dalberg Global Development Advisors. 2011. *Impact Investing in West Africa*. Dalberg Global Development Advisors. Available at: www.assets.rockefellerfoundation.org

81 This includes managers of funds that invest in social enterprises from seed to growth stage using a variety of investment instruments

82 West African data indicates only 24 percent of funds analyzed had an average deal size of over \$2 million.

Similarly Private Equity Funds in East Africa have an upper threshold of \$1million.

83 Dalberg Global Development Advisors. 2011. *Impact Investing in West Africa*. Dalberg Global Development Advisors. Available at: www.assets.rockefellerfoundation.org

Dalberg Global Development Advisors. 2011. *Impact Investing in West Africa*. Dalberg Global Development Advisors. Available at: www.assets.rockefellerfoundation.org

84 Sourced from West Africa research, and LGT Venture Philanthropy quarterly report.

Dalberg Global Development Advisors. 2011. *Impact Investing in West Africa*. Dalberg Global Development Advisors. Available at: www.assets.rockefellerfoundation.org

The GIIN and Open Capital Advisors. 2015. *The Landscape for Impact Investing in East Africa*. The Global Impact Investing Network and Open Capital Advisors. Available at: <http://www.thegiin.org/>.

LGT Venture Philanthropy. 2015. *LGT Venture Philanthropy Active Portfolio*. Q2 2015. Available at: www.lgtvp.com

Development Finance Institutions (DFIs)

DFIs have long played a critical role in Africa's economic development. As their capital is backed by – and therefore they are accountable to – their national governments as well as commercial investors, their investment mandates will tend to align with the developmental priorities of these governments as well as the risk appetites of their investors. Initially started as a complement to donor aid programmes, DFI investments have continued to grow. The World Bank launched the International Finance Corporation (IFC) in 1965 in order to support and invest in private sector development particularly in developing countries. For this reason, the IFC has played a pioneering role in developing Africa's infrastructure as well as facilitating future investment and impact investment on the continent⁸⁵.

DFIs have been instrumental in catalyzing the impact investing sector in Africa, not only through direct investments made into enterprises, but also by investing in funds, and providing technical assistance and/or the funding for such assistance. Due to the fiduciary responsibility to their commercial investors, DFIs tend to focus on deals that are likely to yield market returns and offer some predictability in regulation. For this reason DFIs rarely invest directly into sustainable social enterprises and tend to focus direct investments on large infrastructure, energy and manufacturing projects. DFIs will typically invest in individual enterprises via impact investment funds. The size of the DFIs' portfolios makes them a key player in the impact investment sector in Africa. In West Africa DFI capital accounts for at least 60 percent of capital allocated to impact investments, and in East Africa DFIs account for 50 percent of capital invested in impact funds⁸⁶.

Given their important role as a source of capital, and growing knowledge that sustainable social enterprises in the venture stage often struggle the most to attract investment, some DFIs specifically invest in funds targeting enterprises at this growth stage. For example, Norfund, the Norwegian Development Finance Institution, directs its investments to small and medium-sized enterprises in low-income countries with the goal of promoting sustainable private sector development and contributing to economic growth and poverty alleviation. In Africa, Norfund's main investment regions are Eastern and Southern Africa, and its investment activities are focused mainly in the sectors of clean energy, financial institutions and agribusiness. In East Africa they have invested in Fanisi, the first venture capital fund established in the region which aims to invest in Kenya, Rwanda, Tanzania and Uganda. Fanisi, with a total capital of \$50 million, has the purpose of investing in start-up and early-phase enterprises with large growth potential and also provides capacity development services to its investees. Norfund initiated Fanisi in 2007; it owns 50 per cent of the management company and is the Fund's principal investor, with an investment of \$15 million⁸⁷. In 2014, the CDC (formerly the Commonwealth Development Corporation) similarly committed \$31.5 million to two funds dedicated to growing small and medium sized enterprises in the education, pharmaceuticals, financial services and agribusiness sectors⁸⁸.

DFIs have also played a key role in crowding-in capital from other investors either by providing catalytic capital or through partnerships. For instance in 2012, the African Development Bank (AfDB) committed a \$100 million equity investment to Credit Suisse's Agvance Africa Fund as a first investor in order to attract further investment into agricultural production in Africa⁸⁹. The Private Infrastructure Development Group (PIDG), whose founding members are UK DfID, Sweden's SIDA, Netherlands Ministry of Foreign Affairs (DGIS), and Swiss State Secretariat for Economic Affairs (SECO) has recently launched the Emerging Africa Infrastructure Fund (EAIF). EAIF is a \$587 million fund, and is structured as a partnership to provide long-term debt or mezzanine finance on commercial terms to finance the construction and development of private infrastructure in 47 countries across sub-Saharan Africa. EAIF is able to provide between \$10 million and \$36.5 million to projects across a wide range of sectors including telecoms, transport, water and power, amongst others.

Foundations and Private Investors

Private foundations and private investors such as family offices, high-net worth individuals and angel investors, have played a pivotal role in developing the infrastructure of the impact investment sector, and have tended to provide more patient capital as well as the initial investment necessary to crowd-in other investors. The Rockefeller Foundation and other actors were some of the pioneer institutions to galvanize and standardize the sector, and develop and show-case best-practices that could be replicated. These institutions may have greater flexibility in interpreting their fiduciary responsibility – the preservation of the foundation's assets - in their investment practice, than institutional and public (DFI) investors⁹⁰. Still, even as private foundations have shown interest in deploying capital into the impact investment sector, there is still room for foundations to dedicate more of their endowment to the industry⁹¹. Given their structure and philanthropic motivations, they are well placed to innovate further strategies to use investment for the attainment of social targets.

Globally, foundations such as the Rockefeller Foundation, Stichting DOEN Foundation, Calvert Foundation, Skoll Foundation, Omidyar Network, and Bill and Melinda Gates Foundation are still very active in the impact investing sector. Recently, some African foundations and high-net worth individuals, such as Tony Elumelu in Nigeria became formally engaged in African impact investing, and provided some promise for developing impact investment practice on the continent using African capital. The foundation has recently shifted its focus to promoting entrepreneurship in Africa with the Tony Elumelu Entrepreneurship Programme (TEEP). In 2014 TEEP committed \$10 million to funding the 10,000 most innovative business ideas from young Africans over the next decade and selected the top 10,000 entrepreneurs out of a pool of over 20,000 applicants. South Africa, Nigeria, Ghana, Uganda and Kenya comprised the countries with the highest representation of selected entrepreneurs. The start-ups are expected to create 1 million new jobs and add \$10 billion to Africa's revenues over the next 10 years⁹². Therefore, while the TEEP does not select entrepreneurs primarily on their ability to generate a profit, the Tony Elumelu Foundation still strongly believes in the need to create a regulatory environment that recognizes and supports impact investment. It is important to mention that additional informal philanthropic activity is provided by the foundations of local wealthy Africans such as the Dangote and Motsepe Foundations. However, as such capital deployments are often kept private and are generally still in the form of grants, they have not been included in this report.

Most foundations invest through impact funds, but some invest directly in entrepreneurs or market initiatives or have developed their own funds. For example, LGT Venture Philanthropy supports organizations which implement an effective solution to a social or environmental problem in their growth and expansion phase. All organizations LGT supports have to have a proven model, an established track record, and must be looking to scale their impact. LGT Venture Philanthropy invests between \$200,000 and \$10 million per investment. The fund provides long term commitment, flexible financial products, and business development support to optimize financial, social and environmental returns. In Africa, LGT Venture Philanthropy committed \$200,000 to the Bridge International Academy and pledged \$500,000 in debt financing and a further \$37,500 in equity towards M-Kopa in Kenya⁹³.

⁸⁵ Bugg-Levine, A; Emerson, J. 2011. *Impact Investing: Transforming How We Make Money While Making a Difference*. Josey-Bass Publications.
The GIIN and Open Capital Advisors. 2015. *The Landscape for Impact Investing in East Africa*. The Global Impact Investing Network and Open Capital Advisors. Available at: <http://www.thegiin.org/>

⁸⁶ The GIIN and Open Capital Advisors. 2015. *The Landscape for Impact Investing in East Africa*. The Global Impact Investing Network and Open Capital Advisors. Available at: <http://www.thegiin.org/>

Dalberg Global Development Advisors. 2011. *Impact Investing in West Africa*. Dalberg Global Development Advisors. Available at: www.assets.rockefellerfoundation.org

⁸⁷ Norfund: All Investments. Available at: <http://www.norfund.no>

⁸⁸ Africa Global Funds. 2014. *CDC backs two Africa funds*. Africa Global Funds. Available at: www.africaglobalfunds.com

⁸⁹ World Economic Forum. 2014. *Impact Investment Sector Assessment. Impact investment ecosystem: The Landscape Today*. Mainstreaming Impact Investing Initiative of the World Economic Forum. Available at: www.reports.weforum.org

⁹⁰ Organization for Economic Co-operation and Development. 2015. *Social Impact Investment: Building the Evidence Base*. Organization for Economic Co-operation and Development. Available at: <http://www.oecd.org/>

Similarly, the Bill and Melinda Gates Foundation established the Global Health Investment Fund (GHIF). GHIF's main purpose is to improve the quality of people's lives in low-income countries through the eradication of preventable diseases. The \$108 million fund was developed by the Bill & Melinda Gates Foundation, in partnership with Lion's Head Global Partners and J.P. Morgan Chase to catalyse investment activity that can deliver new technologies to address urgent global health by offering debt capital for research and development⁹⁴. GHIF established an innovative investment structure where the Gates Foundation and the Swedish development organization (Sida) have a high-risk position through a "first-loss" guarantee mechanism. The rest of the investors in the fund benefit from this partial guarantee, which covers up to 20 percent of invested capital and 50 percent of any subsequent losses⁹⁵.

Institutional Investors

Institutional investors are highly regulated investors that manage large amounts of capital and trade in securities⁹⁶. These include retail banks, insurance companies and pension funds. Each country has its own regulatory framework providing boundaries regarding the investment strategy institutional investors can follow. These regulations have a significant influence on the level of participation institutional investors have in the impact investing sector. Given their fiduciary responsibility to their shareholders and clients, institutional investors tend to be risk-averse and largely avoid small and risky investments. As a result, global commercial banks and insurance companies, such as TIAA-CREF and Credit Suisse, generally participate in the African impact investing sector through intermediary funds invested in Africa - both private equity and other funds making impact investments⁹⁷. Credit Suisse for instance focuses its impact investments in the following sectors: microfinance; sustainable agriculture and fair trade; healthcare; conservation and education. Credit Suisse has been involved in the microfinance sector since 2001. Together with other banks, Credit Suisse established responsAbility Social Investments AG, offering microfinance institutions (MFIs) access to capital as well as making investments in the energy, education, health and agriculture sectors. Overall 9.5 percent of responsAbility's 2013 investments were made in sub-Saharan Africa and its funds currently invest in more than 350 MFIs worldwide and serve more than 700 000 micro-entrepreneurs. Credit Suisse also operates the Microfinance Capacity Building Initiative, assisting MFIs to strengthen their ability to serve base of the pyramid clients⁹⁸.

African institutional investors are similarly constrained by their fiduciary duty and, as the asset managers of a significant portion of African capital, their participation depends on their organizational structure. Commercial banks, for instance, play multiple investment roles. They provide debt financing to sustainable social enterprises, projects and government initiatives, or invest in funds. Furthermore, some banks, such as Ecobank, have created separate arms through which they can provide high-impact finance. Several African banks, such as Equity Bank in Kenya, have also developed dedicated branches for microfinance activities – partnering with various development organizations.



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91 Center for Effective Philanthropy. 2015. *Investing and Social Impact: Practices of Private Foundations*. Center for Effective Philanthropy. Available at: <http://www.effectivephilanthropy.org/>

92 Nshehe, M. 2015. *Tony Elumelu Foundation Selects first 100 African Entrepreneurs to receive \$5000 grants*. Forbes Magazine. Available at: www.forbes.com

93 LGT Venture Philanthropy. 2015. *LGT Venture Philanthropy Active Portfolio*. Q2 2015. Available at: www.lgtvp.com

94 Bill & Melinda Gates Foundation. 2015. *Global Health Investment Fund*. Available at: www.ghif.com/

95 Ibid

96 Available at: <http://www.investopedia.com/>

97 Working Document interviews with pension fund investor

98 Perspectives. Edition 2014. responsAbility. Available at: <http://www.responsability.com>

Insurance companies and pension funds, on the other hand, typically invest in funds or in large assets. According to a recent survey of pension funds in 10 African countries from South Africa to Rwanda and Nigeria, it is estimated that pension funds hold total assets of at least \$379 billion⁹⁹. However, almost 80 percent of African pension funds are directed towards government and banks. The study estimates that approximately \$29 billion¹⁰⁰ of these assets could be invested in private equity – which does not imply all of this would constitute impact investment – but indicates that the assets of African pension funds can be allocated to “unlisted” or alternative investments, some of which could contribute to the continent’s development priorities. The Public Investment Corporation (PIC) of South Africa has been one of the leading investors of pension fund capital in the country, managing assets of the Government Employees Pension Fund (GEPF) of South Africa. In 2014 the PIC emphasized “developmental investments”- those in economic infrastructure, environmental sustainability, labour intensive sectors and Small, Micro and Medium-Sized Enterprises (SMMEs) – that would contribute to the country’s development priorities. Approximately \$3.5 million of AUM were deployed into such developmental investments, which supported renewable energy projects and funded 309 SMMEs¹⁰¹.

Furthermore, some countries including South Africa, Namibia and Zambia have seen changes to regulation that could facilitate increased investment from pension funds into “unlisted” or impact investments. Changes for instance to South Africa’s Regulation 28 of the Pension Funds Act in 2011 requiring the consideration of environmental, social and governance criteria in deciding on pension fund investment were greeted with enthusiasm by the impact investment and responsible investment sectors. How much of a change to investment practice this will result in remains to be seen as on the whole however, African institutional investors are still quite reluctant to invest in African private equity and impact funds.

Fund Managers

All of the investors thus far mentioned have and continue to deploy capital directly into enterprises as well as via impact investment funds. These funds then provide capital to sustainable social enterprises in the form of debt, equity, quasi-equity, and other hybrid instruments. Debt capital tends to be invested in enterprises where there is a predictable cash flow so that investors are guaranteed to receive regular interest payments. For this reason, debt funds in the impact investment sector tend to focus on sustainable social enterprises in the growth rather than early stage. In Africa too, debt funds have invested primarily in enterprises that have more proven business models and an availability of data to assess performance.

While the sector focus of most debt funds is agnostic, there is some centering on financial services (particularly microfinance), energy, agriculture, and small and medium business development. As an example, the TriLinc Global Impact Fund provides loans and trade finance to SMEs in markets where affordable access to capital is limited. In July 2015 the Fund approved \$16.6 million in term loan and trade finance to SMEs in South Africa, Zambia, Namibia and Nigeria¹⁰². The fund anticipates that targeting growth-stage African SMEs will generate quality jobs and uses the GIIN’s Impact Reporting and Investment Standards (IRIS) to report on its achieved impact. Other debt funds such as Oikocredit USA, MCE Social Capital and the Medical Credit Fund have a wider sector focus that extends into health care and education¹⁰³.

99 Ashiagbor, D; Casy, M; Satyamurthy, N. 2014. *Pension Funds and Private Equity: Unlocking Africa's Potential*. African Development Bank Group. Available at : www.mfw4a.org

100 Ibid

101 Public Investment Corporation. 2014. *Public Investment Corporation Integrated Annual Report 2014*. Public Investment Corporation. Available at: <http://www.nationalgovernment.co.za/>

102 Africa Global Funds. 2015. *TriLinc invests \$16.6 million in African SMEs*. Africa Global Funds. Available at: www.africaglobalfunds.com

TriLinc Global Impact Fund. *Impact Reporting*. TriLinc Global Impact Fund. Available at: www.trilincglobalimpactfund.com

103 ImpactAssets. 2014. *ImpactAssets50: List of top 50 Asset Managers active in impact investment globally*. ImpactAssets. Available at: <http://www.impactassets.org>



Funds may also invest by taking equity in a sustainable social enterprise. In taking equity, funds become part owners of the enterprise and are normally entitled to a share in profits. Equity investors will also typically have some voting rights and may take a seat on the board of the company or reserve the right to appoint board members. Taking equity in an enterprise is generally more risky to investors as there are no regular repayments required and generating a return requires finding an exit. As a consequence funds taking equity in an enterprise will tend to provide business development services and/or technical assistance before and after investment. Given the nascent stage of many of Africa's sustainable social enterprises, equity capital has been seen as most appropriate. Indeed recent studies of impact investment trends in Africa's sub-regions also reflect a general tendency to deploy equity rather than debt capital, and show some focus on early-stage sustainable social enterprises¹⁰⁴. One such fund is Novastar Ventures, focused on developing breakthrough businesses that can transform consumer markets at the base of the pyramid in East Africa. Their sector focus includes access to healthcare, agricultural services, energy, housing, education and safe water, and the fund aims to benefit 2 million people in Kenya and Ethiopia over the next ten years¹⁰⁵. After their second closing in March 2015, Novastar Ventures East Africa had raised over \$75 million of committed capital to invest in early stage businesses¹⁰⁶. Additionally, a number of funds have started to develop hybrid and quasi-equity structures to accommodate the growth stage of sustainable social enterprises in Africa.

The Social Venture Capital Fund (SOVEC) similarly offers early-stage financing to sustainable social enterprises and SMEs in Africa, particularly Ghana, Kenya and Zimbabwe. It offers long term capital to enterprises in the form of both equity and debt, through transaction amounts ranging from \$100,000 to \$2 million. It focuses on sectors that are economically viable as well as able to deliver high social impact, primarily those it describes as 'essential services' (education, housing and health) and is looking to become involved in the clean energy sector. One of their primary investments is in GHS Housing, a construction company in Accra, Ghana that aims to provide quality housing for low and middle income families. SOVEC invested in GHS at its early stage, allowing the company to acquire additional land and equipment and scale its activities to embark on a new 2,000 house development in Accra. GHS has grown rapidly and now employs over 100 permanent workers¹⁰⁷.

Private equity funds on the other hand, tend to invest in growth stage enterprises where there is a higher chance of securing market-related returns. Investors in African private equity funds are generally DFIs as well as institutional investors that have a preference for maintaining above market returns and lower risks. Private equity investments in Africa have been growing steadily in recent years. In 2014, \$8.1 billion was invested in 149 deals across Africa. This figure represents a 24 percent increase from the previous year¹⁰⁸. Private equity investors have also expanded their geographic focus and are now seeking opportunities in African countries such as South Africa, Kenya and Nigeria¹⁰⁹.

¹⁰⁴ The GIIN and Open Capital Advisors. 2015. *The Landscape for Impact Investing in East Africa*. The Global Impact Investing Network and Open Capital Advisors. Available at: <http://www.thegiin.org/>

DfID Impact Programme 2015. *Survey of the impact investment markets 2014: Challenges and opportunities in sub-Saharan Africa & South Asia*. Available at: <http://www.theimpact-programme.org.uk>

¹⁰⁵ Matsilele;T. 2014. *Start-ups in East Africa Receive \$20 million Boost*. CNBC Africa. Available at: www.cnbcfrica.com

¹⁰⁶ Available at: www.novastarventures.com

¹⁰⁷ Social Venture Capital Fund (SOVEC) – Portfolio. Available at: <http://www.sovec.nl/>

¹⁰⁸ Ernst & Young Global Limited. 2015. *Ernst & Young Private Equity Round-up Africa*. Ernst & Young Global Limited. Available at: www.ey.com

¹⁰⁹ Investisseurs et Partenaires. 2015. *Investing in Africa's Small and Growing Businesses: An introduction to private equity in Africa*. Investisseurs et Partenaires. Available at: www.iotp.com

Private equity investments in Africa are traditionally directed to the growth stage of SMEs, with investments ranging from approximately \$500,000 to \$50 million. On the one hand, private equity fund investment models can potentially be well-suited to African sustainable social enterprises where many would require longer-term financing to expand. The average private equity investment duration is of 5-10 years with a 15-20 percent expected return on investments. However, much of the available private equity capital on the continent is concentrated in a few larger markets - namely South Africa, Nigeria and Kenya - and rarely is invested in sustainable social enterprises as it focuses on larger projects in sectors such as natural resources and energy¹¹⁰. It is important to note that not all private equity investments into SMEs or key sectors such as telecommunications and other infrastructure can be considered impact investment as an intention to generate measurable positive social and/or environmental impact would need to be central to investment decisions and practice.

The Abraaj Group is playing an increasingly important role in the Africa impact investment sector and has established a regional hub in Nairobi, Kenya. The Group's investments centre on the energy, financial, consumer, healthcare and utilities sectors and impact is measured according to their Sustainability Index. The group has a particular focus on investing for impact in healthcare, aiming to make investments that support scalable and sustainable healthcare models to service low and middle income groups. Their focus is on creating impact in three dimensions: accessibility, affordability and quality. An example of their healthcare investments in Africa is Lily Hospitals, a private healthcare provider based in Warri, Nigeria. The hospital is a regional hub for a number of specialist services such as fertility treatment, paediatric care, antenatal care, obstetrics, outpatient surgery and occupational medicine. The Abraaj Group made the investment with the purpose of assisting Lily Hospitals to expand to further geographic locations¹¹¹.

New interest and new capital are entering the impact investing sector in Africa, originating from international institutional investors, local public institutions, commercial investors, and others. As African financial services, infrastructure, and technology markets grow and professionalize - new opportunities for establishing funding across the enterprise value chain arise. These new resources, along with sustained economic development, reduce investment risks and increase investor chances to reach sustainable, profitable impact.

¹¹⁰ Ibid

¹¹¹ Lily Hospital. 2015. *Lily Hospitals and Healthcare*. Lily Hospital. Available at: <http://www.lilyhospitals.com>



2 Key Barriers to a Vibrant Impact Investment Sector in Africa

In spite of the potential to grow the impact investment sector in Africa, a number of fundamental challenges exist that have slowed investment activity. Central to many of these challenges is a lack of awareness and understanding of impact investment amongst policymakers and other key sector ecosystem actors, contributing to the fundamental constraint of an under-developed impact investment support sector ecosystem. In order to grow the sector, obstacles would need to be addressed from all perspectives of the sector ecosystem.

2.1 Challenges for Investors

Difficulty Sourcing Viable Investments that Meet Both Financial and Social/Environmental Objectives

Deal flow in the impact investment market is significantly hindered by a limited number of viable investment options that are able to provide adequate financial returns as well as demonstrate social and environmental impact. Particularly challenging is the low volume of potential impact investees that are able to demonstrate sufficient track record and capacity development to align with the risk appetite of investors. This is problematic not only in Africa but worldwide; in the GIIN's 2015 survey of 146 impact investors, this lack of adequate investment opportunities with a sufficient track record was highlighted as the second most critical challenge to the growth of the impact investing industry¹¹².

A low volume of viable investment options is a particular barrier for traditional institutional investors, such as pension funds and sovereign wealth funds, which prioritise financial returns. Institutional investors have a fiduciary duty to make prudent investment decisions in order to protect their clients' financial interests. Investments are thus evaluated against narrow criteria of risk and return, using benchmarks which often prioritise short-term performance and conventional, standardised investment opportunities¹¹³. This means that potential impact investment opportunities are overlooked, due to their inability to demonstrate an established track record, or are considered an innovative or 'niche' investment and therefore too risky¹¹⁴.

Difficulties sourcing viable impact investments also stem from inadequate measurement and reporting on social and environmental outcomes is a further obstacle to investors' capacity to source viable impact investments. The tracking of impact is inconsistent across the sector; while some standardised metrics and tools do exist, they have not been adopted universally. Some investors prefer to use these tools, such as IRIS and the Global Impact Investing Rating System (GIIRS), while others have developed their own¹¹⁵. Standardised approaches to measurement would allow for easier comparison across investments and provide a common language for communicating impact, however there is great diversity among investors' preferences and priorities, as well as among the scope and activities of impact investees¹¹⁶. It is consequently a challenge to develop a measurement system that is universally applicable and to identify those sustainable social enterprises with strong impact measurement practice.

¹¹² Saltuk, Y; El Idrissi, A; Bouri, A; Mudaliar, A; Schiff, H. 2015. *Eyes on the Horizon: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact Investing Network. Available at: <http://www.thegiin.org/>

¹¹³ Huppe, G; Silva, M. 2013. *Overcoming Barriers to Scale: Institutional impact investments in low-income and developing countries*. International Institute for Sustainable Development. Available at: <https://www.iisd.org/>

¹¹⁴ Ibid

Environmental factors also impede the ability of sustainable social enterprises to successfully flourish, thereby reducing the amount of viable impact investment options available to investors. The general underdevelopment of the impact investment sector ecosystem in Africa means there are insufficient support structures that can foster and sustain successful social entrepreneurship. Growing the number of viable sustainable social enterprises in a given context also requires that there is an adequate level of entrepreneurial activity generally, which is influenced by many factors in the enabling environment such as policy and regulation. On the whole therefore, investors' difficulty in sourcing viable investments points to the need to develop the impact investment sector ecosystem generally, and in particular to strengthen the capacity of sustainable social enterprises¹¹⁷.

Limited Innovative Fund and Deal Structures

Impact investors struggle to source funds and deals that meet their risk and return requirements. Institutional and other commercial investors find it particularly challenging to find funds and deals which can promise required market returns given the limited track record for many funds in Africa. Fund managers in turn have difficulty sourcing enough deals that will fit investor requirements of both returns and risk. What lies at the core of both these constraints is a limited number of fund structures – such as “first loss” guarantees and risk-sharing – and blended finance instruments that are designed in a way that encourages commercial investors to deploy capital in funds and enterprises that would otherwise be considered too risky to invest in. Generally DFIs and in some cases foundations have played the role of providing the “first layer” of catalytic capital in the form of guarantees and even seed funding grants within a fund that invests in more risky deals in order to crowd-in and reduce the risk to additional investors. DFIs in particular have managed to use their strong track record to provide this form of investment, however these types of layered funds are still too rare. A recent study by DfID and UKAid tracking impact investment trends in sub-Saharan Africa and South Asia echoed this need. The sample of impact investors surveyed emphasized that one of the key solutions to the currently limited number and range of investments in the impact investment market is to develop fund and deal structures that leverage different forms of capital, and where the public sector can provide initial investments to draw in other investors¹¹⁸. In addition to this, the GIIN and Open Capital Advisor’s East Africa study identified the need for a wider range of investment instruments beyond traditional debt and equity as an opportunity to better tailor investments to the early-stage enterprises in the sub-region. As the African impact investment industry matures, more of these types of deal and fund structures will emerge as investors look for creative mechanisms through which to make investments.

The following box describes an emerging initiative developed by the World Economic Forum (WEF) and Organisation for Economic Co-operation and Development (OECD) to use blended finance to finance the achievement of development objectives. While not synonymous with impact investment, the premise and tools of blended finance can be used to invest in sustainable social enterprises offering market-based solutions to Africa’s development challenges.

115 Saltuk, Y; El Idrissi, A; Bouri, A; Mudaliar, A; Schiff, H. 2015. *Eyes on the Horizon: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact Investing Network. Available at: <http://www.thegiin.org/>

116 Thornley, B; Dailey, C. 2010. *Building Scale in Community Impact Investing through Nonfinancial Performance Measurement*. *Community Development Investment Review*. 6(1). Available at: <http://www.frbsf.org/>

117 Monitor Group. 2009. *Paths to Prosperity: Promoting Entrepreneurship in the 21st Century*. Monitor Group. Available at: <http://icma.org/>

118 The Impact Programme. 2015. *Survey of the Impact Investment Markets 2014: Challenges and Opportunities in sub-Saharan Africa and South Asia*. DfID & UKAid. Available at: <http://www.theimpactprogramme.org.uk>

Blended Finance

Blended finance – defined by the WEF and OECD as the strategic use of development finance and philanthropic funds to mobilize capital flows to emerging and frontier markets – brings together private and public sector investors to make investments that will result in financial returns and that will stimulate social, environmental and economic progress.

Early experiments with blended finance approaches by the ReDesigning Development Finance Initiative (RDFI) have involved donors, DFIs, and foundations investing in sectors such as infrastructure, healthcare, agriculture, financial services and climate resilience. Development funders will typically supply “supporting mechanisms” such as technical assistance, risk underwriting to protect investors, and/or incentives such as price guarantees to spur upfront investment from private investors. Additional financial instruments that can be employed in a blended finance structure include junior equity in which a development partner may occupy the position to take the first losses of an investment thereby accepting higher risk for lower returns; concessional debt that allows favourable terms or rates to the borrower; and market-rate debt in which rates and terms are determined by capital market prices but can be subordinate to senior debt¹¹⁹.

There is an opportunity to use a more holistic approach in structuring blended finance transactions to incorporate and target social and environmental benefits for local communities, including through funding for inclusive infrastructure projects.

Difficulty Exiting Investments

There are few conventional exit options for equity impact investments in Africa, which acts as a critical deterrent for investment in sustainable social enterprises on the continent and consequently hinders the supply of capital to impact investees. This limited number of profitable and varied exit options for impact investments is primarily a result of the incipient state of capital markets – and the impact investment industry as a whole - in Africa¹²⁰.

Impact investments tend to be relatively illiquid, as most investments are made in the form of private equity or private debt. According to the GIIN’s 2015 survey of investors, around 80 percent of impact investments are in these categories, with 33 percent of assets under management invested through private equity¹²¹. Typically at the end of an initial investment period in traditional markets, private equity and venture capital investments seek to gain value by selling their stakes in an enterprise, which can be done through Initial Public Offerings (IPOs); however, this option is scarcely available to investors in Africa as capital markets are not sufficiently established¹²². Of the 10 regions surveyed by the GIIN in 2015, Africa reported the second highest number of impact investment exits (17 percent), although none of these were realized via an IPO¹²³. Only one instance of a sample of 77 exits was through an IPO, which occurred in South Asia¹²⁴. Financial consulting firm Ernst and Young predicts that as some African investees are growing in scale, there will be an increase in IPOs in the medium term¹²⁵. Although they can provide the necessary liquidity, IPOs have been criticised as an exit option for impact investments as they may benefit shareholders’ interests over impact goals¹²⁶.

¹¹⁹ OECD & WEF. 2015. *Blended Finance Volume 1: A Primer for Development Finance and Philanthropic Funders*. OECD & WEF. Available at: <http://www.weforum.org/>

¹²⁰ Bridges Ventures. 2014. *Investing for Impact: A Strategy of Choice for African Policymakers*. Bridges Ventures and the African Private Equity and Venture Capital Association. Available at: <http://www.bridgesventures.com/>

¹²¹ Saltuk, Y; El Idrissi, A; Bouri, A; Mudaliar, A; Schiff, H. 2015. *Eyes on the Horizon: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact Investing Network. Available at: <http://www.thegiin.org/>

¹²² Huppe, G; Silva, M. 2013. *Overcoming Barriers to Scale: Institutional impact investments in low-income and developing countries*. International Institute for Sustainable Development. Available at: <https://www.iisd.org/>

¹²³ Saltuk, Y; El Idrissi, A; Bouri, A; Mudaliar, A; Schiff, H. 2015. *Eyes on the Horizon: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact Investing Network. Available at: <http://www.thegiin.org/>

The exit of impact investments in Africa is also constrained by a limited number of successful exit examples; without successful exit track records, it can be a challenge for impact investors to continue to raise funding¹²⁷. Common exit methods for impact investors are the sale of the entire business to a strategic buyer, such as through mergers and acquisitions, or for an entrepreneur to regain ownership through buying back equity^{128, 129}. The GIIN's 2015 survey found that the majority of exits from impact investments were made through sales to strategic buyers, and in Africa primarily by investors who sought returns below market-rate (closer to market returns). By contrast, exits made in the more developed European markets were primarily made by investors seeking market-rate returns¹³⁰.

Inadequate exit options and a limited number of successful exit examples are a considerable challenge for investors as they often must operate under the terms of their own investors, who offer funding with specific time periods¹³¹. Expectations around returns on investment mean that investors typically negotiate exit terms before investments are made, highlighting the risk presented by such limited liquidity options. This illustrates the need to create and strengthen public stock markets in Africa, in order to encourage more investment in the sector. Impact investees and investors must also consider the potential implications any exit may have for their impact goals, and to what extent they wish to mitigate against 'mission drift' on exit¹³². This offers a further challenge in improving liquidity options.

While current stock markets in Africa struggle to facilitate impact investment exits due to their relative weakness and barriers such as capitalisation requirements, there has been some drive around the creation of social stock exchanges^{133, 134}. A case study of the Nexii initiative to establish a social stock exchange in Africa illustrates that such a venture presents its own challenges, such as resource constraints, regulatory approval and pipeline issues around the availability of viable investment options¹³⁵. Sustainable social enterprises highlighted a number of barriers to listing on Nexii, such as the high cost of advisory services, reporting requirements, and evidencing social impact¹³⁶. The box below illustrates examples of other social stock exchanges and platforms.



¹²⁴ Ibid

¹²⁵ EY Global Private Equity Center, 2014. *Private equity roundup Africa*. Ernst and Young. <http://www.ey.com/>

¹²⁶ Huppe, G; Silva, M. 2013. *Overcoming Barriers to Scale: Institutional impact investments in low-income and developing countries*. International Institute for Sustainable Development. Available at: <https://www.iisd.org/>

¹²⁷ Ibid

¹²⁸ Ibid

¹²⁹ EY Global Private Equity Center, 2014. *Private equity roundup Africa*. Ernst and Young. Available at: <http://www.ey.com/>

¹³⁰ Saltuk, Y; El Idrissi, A; Bouri, A; Mudaliar, A; Schiff, H. 2015. *Eyes on the Horizon: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact Investing Network. Available at: <http://www.thegiin.org/>

¹³¹ Investisseurs et Partenaires. 2015. *Investing in Africa's Small and Growing Businesses: An introduction to private equity in Africa*. Investisseurs et Partenaires. Available at: <http://financerespmeneafrigue.com/>

¹³² Bridges Ventures. 2014. *Investing for Impact: A Strategy of Choice for African Policymakers*. Bridges Ventures and the African Private Equity and Venture Capital Association. Available at: <http://www.bridgesventures.com/>

¹³³ Dalberg Global Development Advisors, 2012. *Assessment of Impact Investing Policy in Senegal*. Dalberg Global Development Advisors. Available at: <http://dalberg.com/>

¹³⁴ Hoffman, L., and Notcutt, K., 2013. *Creating the Nexus for Impact Investing: A Case Study*. The Impact Trust. Available at: <http://www.impacttrust.org.za/>

¹³⁵ Ibid

¹³⁶ Ibid

Examples of Platforms and Social Stock Exchanges:

United Nations Social Impact Fund (UNSIF) <http://www.unsef.org/>

UNSIF is a new and developing social impact investment fund supported by the United Nations, established in 2015 out of a partnership between the UNDP, UN Environment Programme (UNEP), the UN Population Fund (UNPFA) and UN Capital Development Fund (UNCDF). It aims to realise “blended” financial, social and/or environmental value through a market-based approach to development, using the power of commercial markets to scale sustainable social impact. It facilitates the incubation and sustainability of sustainable social enterprises through the blending of public, private, bi- and multi-lateral funding sources. Capital is deployed in the form of grants, debt, equity and quasi-equity. The fund is currently active in Asia, and may present a promising example to other markets including Africa.

BRIIX <http://www.briix.com.br>

BRIIX is the Brazilian Impact Investment Exchange, launched in 2014. It allows investors to search for, compare, monitor and invest in companies that deliver social and environmental impact. BRIIX aims to increase the flow of capital to high impact businesses, addressing the difficulties investors face in sourcing viable impact investments and in analysing expected social and environmental returns.

Canada Social Venture Connection (SVX) <http://www.svx.ca>

The Canada Social Venture Connection (SVX) is an impact-first platform connecting ventures that demonstrate a social or environmental impact with investors, allowing them to access much needed capital. SVX operates in Canada and was envisioned in 2007 as a platform for channelling financial resources to social ventures that are focused on poverty reduction. The idea was endorsed by the Government of Ontario in 2008 as part of its Poverty Reduction Strategy and has developed into its current model.

Convergence <http://www.dalberg.com>

Convergence is a deal sourcing platform for emerging markets that offers ‘blended finance’ options sourced from private, public and philanthropic capital for ventures that deliver social and environmental impact. It was launched in 2015 as the result of a partnership between Canada’s Department of Foreign Affairs, Trade and Development (DFATD), the World Economic Forum, Dalberg Global Development Advisors and the Global Development Incubator.

Impact Investment Exchange Asia (IIX) <http://www.impactexchange.asiaiix.com>

IIX hosts a number of platforms for capacitating the impact investment sector, including Impact Exchange, the world’s first public trading platform that connects sustainable social enterprises to investors who are seeking to make mission-aligned investments. It is jointly operated with the Stock Exchange of Mauritius. IIX, based in Singapore, is responsible for screening and monitoring potential investee companies and their social/environmental obligations.

Mission Markets <http://www.missionmarkets.com>

Mission Markets is a New York based impact investment platform founded in 2009 that describes itself as a capital marketplace and community network. With the aim of attracting capital for investments that have a positive social or environmental impact, it operates a website enabling investors to discuss, source, make and monitor investments.

MyC4 <http://www.myc4.com>

MyC4 operates as an internet marketplace where investors can connect with African entrepreneurs. Its headquarters are in Copenhagen, Denmark and they have a regional office in Nairobi, Kenya. MyC4 evaluates entrepreneurs’ businesses and proposals before uploading them to the marketplace, where potential investors can view the proposals. Investors then decide how much to lend and at what interest rate. The process operates as an auction, whereby the investors offering the lowest interest rates are granted the investment.

Social Stock Exchange (SSX) <http://www.socialstockexchange.com>

The Social Stock Exchange is based in London and operates within the European Economic Area. It was founded in 2013 and exists as an information platform for investors who are seeking impact investment opportunities, with the intention of unlocking capital for high impact ventures. Member companies must undertake an independent impact reporting process, evidencing their social and environmental impact for potential investors.

2.2 Challenges for Sustainable Social Enterprises

Limited Capacity of Sustainable Social Enterprises and Entrepreneurs

The ability of early-stage enterprises to become investment-ready and attract the capital to grow into growth-stage enterprises is hindered by a need for capacity development. While finance is a core need for such enterprises to innovate and develop, there is an equal need for the necessary skills required to grow a business, such as the constructive use of capital, managerial capacity and effective governance¹³⁷. Research has shown that investing in high-growth SMEs - fast-growing enterprises that have strong potential to create employment - in the early-stages of their development, increases their potential to contribute to job creation and wider economic development – two key objectives for Africa. In order for these enterprises to grow beyond the early stage and achieve their job creation potential, they require a range of support including an appropriate and enabling regulatory and policy environment, training and coaching in management as well as access to capital¹³⁸. Offering this level of support is costly to investors, however, which creates a dilemma: without support, early-stage enterprises cannot achieve the level of growth needed to attract investors, but providing this support to high-risk, early-stage businesses is too costly for most investors to undertake. Therefore, interventions to increase enterprise capacity and to reduce the risk and cost of investment in these enterprises are needed¹³⁹. According to the 2014 Global Entrepreneurship Monitor Report, Africa generally displays a strong positive attitude toward entrepreneurship as a career choice, as well as positivity around business opportunities¹⁴⁰. However, this optimism is not matched by adequate levels of innovation or structural support, and the discontinuation rate for new ventures is high^{141, 142}.

In Africa, early-stage ventures tend to be driven by just one entrepreneur who is a sole or majority shareholder, or jointly with family members or friends; meaning that they are required to perform all roles in the business¹⁴³. Often, entrepreneurs are unaware of the importance of strong governance and as such there is an insufficient level of effective, formalised governance structures in such businesses. This impedes the ability for sound decisions to be made with the checks and balances that are provided by involvement by other players, and is consequently a deterrent for potential investors¹⁴⁴. Further, ventures in Africa often need assistance to formalise in order to meet sufficient legal and fiscal requirements for potential investment; this goes hand in hand with the development of efficient management procedures in order to provide reliable business data for decision-making¹⁴⁵.

Even in the case that an early-stage enterprise can secure the funding they require, they do not always have the capacity to effectively channel this funding for maximum growth. Capacity development in strategy and financial management is thus a widespread need¹⁴⁶. The ability to source talented professionals is a key constraint, and in the case they are available, early-stage enterprises struggle to pay what is required for such levels of skill¹⁴⁷. If an enterprise does experience a strong phase of growth, this can put a lot of pressure on the organization to adapt and rapidly acquire new skills, and if pushed beyond its capability the enterprise may make critical mistakes¹⁴⁸.

As such, proper management and operational capacity is required to navigate growth sustainably. In an underdeveloped impact investment sector ecosystem, technical assistance to address these gaps is not always readily available or affordable. Technical assistance for early-stage enterprises can potentially be incorporated into hybrid funding approaches, provided by impact investors, donors or via government programmes.

¹³⁷ Kuzbanksy, M; Cooper, A; Barbary, V. 2011. *Promise and Progress: Market-Based Solutions to poverty in Africa*. Monitor Group. Available at: <http://www.thegiin.org/>

¹³⁸ SiMODiSA. 2014. *Accelerating growth of small and medium enterprises in South Africa: Policy recommendations for enhancing the start-up / SME ecosystem in South Africa*. SiMODiSA. Available at: <http://impacttrust.org.za/>

¹³⁹ Ibid

¹⁴⁰ Singer, S; Ernesto Amoros, J; Moska, D. 2014. *Global Entrepreneurship Monitor Global Report 2014*. Global Entrepreneurship Monitor. Available at: <http://www.gemconsortium.org/>

Poor Visibility and Credibility in the Absence of a Sustainable Social Enterprise ‘Label’, Legal Status or Certification

Currently, most sustainable social enterprises in Africa operate without a ‘label’, legal status or certification that provides them with external, third party identification against an agreed-upon sustainable social enterprise definition and standards. While industry certifications such as BLab exist and are used by some investors and sustainable social enterprises on the continent, there is currently no universally endorsed sustainable social enterprise label, legal status and certification available across Africa that can fulfil this important function with the purpose of providing legitimacy and credibility to sustainable social enterprises, giving investors and customers comfort around mission protection and social value creation and in turn, enabling sustainable social enterprises to attract investment and clientele.

The lack of consensus and consistency around definitions of sustainable social enterprises creates confusion among sustainable social enterprises themselves, but equally “generates resistance among other potential partners, such as public sector, government or the business sector that have not found their way in the terminology jungle and have thus preferred to ignore sustainable social enterprises altogether”¹⁴⁹.

As a first step, it is important to arrive at a consistent, broadly applicable and inclusive definition that allows for a variety of expressions of sustainable social enterprise in local contexts, particularly in the early stages of the sector’s development. Sufficient pipeline of investible propositions is a consistently cited challenge for the impact investing sector, both on a global and African scale. Consequently, it is important to boost the number of sustainable social enterprises entering and maturing in the market, which requires an inclusive definition centred on the key principles around demonstrated intent and purpose, rather than limiting the potential scale of the sector by introducing narrow definitions and stringent requirements that may not translate or be relevant across African jurisdictions.

Furthermore, imposing strict requirements, such as legal incorporation or asset locks may well deter: 1) prospective sustainable social enterprises (as more requirements equals more compliance) from taking advantage of the service delivery requirements in Africa, that translate into significant market opportunities (discussed in chapter 1); and 2) impact investors who would likely prefer access to a diverse range of opportunities across the risk, return and impact spectrum when building their impact investment portfolios.

¹⁴¹ Ibid

¹⁴² SiMODiSA. 2014. *Accelerating growth of small and medium enterprises in South Africa: Policy recommendations for enhancing the start-up / SME ecosystem in South Africa*. SiMODiSA. Available at: <http://impacttrust.org.za/>

¹⁴³ Investisseurs et Partenaires. 2015. *Investing in Africa’s Small and Growing Businesses: An introduction to private equity in Africa*. Investisseurs et Partenaires. Available at: <http://financierlespmeeafrique.com/>

¹⁴⁴ Ibid

¹⁴⁵ Ibid

¹⁴⁶ Ibid

¹⁴⁷ The GIIN and Open Capital Advisors. 2015. *The Landscape for Impact Investing in East Africa*. The Global Impact Investing Network and Open Capital Advisors. Available at: <http://www.thegiin.org/>

¹⁴⁸ Ibid

¹⁴⁹ Varga, É. 2012. *NESsT Policy Position Paper: European Union, Trade-offs Between Regulation and Fostering of Social Enterprise: the Case of EU Policies*. (Ed) Etchart, N. NESsT. Available at: <http://www.nest.org/>

In this context, there is a crying need for sustainable social enterprises to have access to a voluntary, third party assured certification or labelling in order to provide prospective investors and clients (public sector procurement clients as well as the general public) with confidence in the impact nature and purpose of certified sustainable social enterprises. Certified sustainable social enterprises could qualify as service providers in terms of public procurement procedures targeting or 'preferring' sustainable social enterprises, as well as in certain cases receive tax breaks or preferential tax treatments. Philadelphia became the first city in the United States to pass a law to provide certified 'sustainable businesses' with a tax break, with a pilot coming into effect in 2012. B Corps are the only certification recognised to meet the criteria of the requisite 'sustainable businesses' to qualify for the \$4000 credit in recognition of their contributions to preserve the environment, strengthen the community, serve the underserved and create quality jobs¹⁵⁰.

Social entrepreneurship, as a sub-set of entrepreneurship faces even greater challenges than the latter, in the form of questions of credibility and legitimacy, as well as challenges to find viable, scalable business models in support of the social and / or environmental challenges they seek to address. A certification or label would serve to raise the visibility of such enterprise, but equally serve to promote the concept and models of sustainable social enterprises.

Examples of Existing Innovative Sustainable Social Enterprise Legal Status, Certifications or Labels:

Social Enterprise Mark

Social Enterprise Mark CIC is the UK certification authority for social enterprise. The Social Enterprise Mark is awarded on the basis of a robust, independent assessment process designed to prove when a business is putting people and planet alongside profit.

"Our research tells us that people would rather buy from a company that is giving back to society too."

www.socialenterprisemark.org.uk

Based on demand from Social Enterprise Mark holders, the organisation has developed the Social Enterprise Gold Mark as an enhanced accreditation for Social Enterprise Mark holders who can demonstrate best practice across the areas of governance, business ethics and financial transparency.

B Corp

B Corp is a voluntary certification certified by the non-profit B Lab (also the non-profit behind the Global Impact Investment Rating Standards (GIIRs)). B Lab ensures that certified B Corps meet rigorous standards of social and environmental performance, accountability and transparency.

"B Corp is to business what Fair Trade certification is to coffee or USDA Organic certification is to milk."

www.bcorporation.net

Limited Capital Supply Across the Risk-Return Spectrum

Sustainable social enterprises globally, and particularly those in Africa, struggle to access funding in a format that is appropriate for their stage of development, and that is most suitable for their needs¹⁵¹. There is a critical gap in funding for enterprises in their early stages of growth; investors display a low appetite for risk in the impact investment sector, with reluctance to invest in early-stage enterprises. This gap in funding contributes to a low volume of established SMEs and sustainable social enterprises that is often referred to as the ‘missing middle’.

Early-stage enterprises have been highlighted as a segment of the impact investment market in vital need of greater financing options. While there is certainly capital available for potential investment, there is a clear gap between the funding needs of early-stage enterprises, and the nature of the funding that investors are prepared to offer¹⁵². There is a reluctance to provide debt financing to seed and early-stage ventures due to their limited track records and often unproven business models. For early-stage enterprises in Africa this is particularly key; institutional investors and often commercial banks stipulate interest rates that are higher than for established businesses due to the risk profile of early-stage ventures and as such debt financing tends to be prohibitively expensive¹⁵³. This leaves alternative financing options, such as equity, which can be useful for enterprises in their early stages¹⁵⁴. Early-stage ventures are inherently higher risk and are likely to produce lower returns in the short-term, however the majority of investors are largely seeking more established options.

The GIIN’s 2015 survey of 146 impact investors globally reveals that only 9 percent of capital was deployed into venture or start-up phase enterprises¹⁵⁵. The majority of assets were committed to mature, private enterprises (52 percent) and ventures in the growth stage (28 percent), with a small amount invested in mature, publicly traded enterprises (11 percent), signalling investors’ hesitation around the risk represented by early-stage investees. This highlights the significant need to build a stronger pipeline of investment-ready ventures in the impact investment sector by supporting the development of early-stage enterprises in their critical stages of growth. Investment at this early stage can then increase the likelihood of follow-on investment from initial investors, and potentially widen the scope for involvement by larger or more mainstream players such as commercial banks, whose primary interest in achieving market-rate returns often precludes them from committing to impact investments which carry much greater risk¹⁵⁶.

Capturing the available capital of institutional investors is especially important for the scaling of the impact investment sector, as the volume of capital they manage and their subsequent influence is substantial¹⁵⁷. As well as injecting a large amount of finance into the impact investment market, they have the capacity to bring impact investment into more mainstream investment portfolios and encourage further investment. As highlighted in Chapter 1, DFIs have played and can continue to play an important catalytic role in attracting institutional investors to impact investment funds or deals.

¹⁵¹ Harji, K; Jackson, T. 2012. *Accelerating Impact: Achievements, challenges and what's next in building the impact investing industry*. Rockefeller Foundation. Available at: <https://www.rockefellerfoundation.org>

¹⁵² Ibid

¹⁵³ The GIIN and Open Capital Advisors. 2015. *The Landscape for Impact Investing in East Africa*. The Global Impact Investing Network and Open Capital Advisors. Available at: <http://www.thegiin.org/>

¹⁵⁴ Kuzbansky, M; Cooper, A; Barbary, V. 2011. *Promise and Progress: Market-Based Solutions to Poverty in Africa*. Monitor Group. Available at: <http://www.thegiin.org/>

¹⁵⁵ Saltuk, Y; El Idrissi, A; Bouri, A; Mudaliar, A; Schiff, H. 2015. *Eyes on the Horizon: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact Investing Network. Available at: <http://www.thegiin.org/>

¹⁵⁶ Investisseurs et Partenaires. 2015. *Investing in Africa's Small and Growing Businesses: An introduction to private equity in Africa*. Investisseurs et Partenaires. Available at: <http://financerespmeenafrique.com/>

¹⁵⁷ Wood, D; Thornley, B; Grace, K. 2012. *Impact at Scale: Policy innovation for institutional investment with social and environmental benefit*. Insight at Pacific Community Ventures and the Initiative for Responsible Investment, Harvard. Available at: <https://www.rockefellerfoundation.org/>



Capital supply to potential impact investees is constrained not only by investors' risk appetite, but also a number of other investor expectations around time frames, returns on investment and the sectors in which impact investments are made. While many early enterprises require long-term financing, investors are less inclined to this as they are not likely to achieve a return on their investment in the short-term¹⁵⁸. There is also insufficient data on impact investment returns, both financial and non-financial, making it difficult for investors to thoroughly assess the viability of a potential investment and consider an appropriate rate of return¹⁵⁹. The field of impact investing is relatively young and as such many ventures have not had time to mature and demonstrate results; similarly, there is lack of public information against which to benchmark any such data¹⁶⁰. Further, it appears that a limited number of sectors, such as agriculture and financial services, dominate as the main targets for impact investment in Africa. To bring impact investment to scale, diversification of investee sectors would be necessary¹⁶¹.

Thus there is the need for the wider availability of 'patient capital', which offers softer terms and longer timeframes. It is envisaged that 'layered' or 'blended' funding structures could be valuable, using a combination of philanthropic and commercial funding, whereby innovation and development is financed and catalysed via philanthropic or soft capital, and commercial investment can then facilitate the scaling of the enterprise¹⁶². In this way, various types of investors may become involved according to their appetite for risk and their preferences for impact or financial return. Gradually some investors have begun to offer flexible financial products, including debt, equity, mezzanine, or blended financing. Innovation is required to provide solutions to various enterprise requirements. For example, Root Capital offers inventory capital credit to agri-businesses to allow them to pay farmers in advance. However, fundamental access to capital, particularly for early stage enterprises remains, a challenge.

¹⁵⁸ Investisseurs et Partenaires. 2015. *Investing in Africa's Small and Growing Businesses: An introduction to private equity in Africa*. Investisseurs et Partenaires. Available at: <http://financerespmeenafrique.com/>

¹⁵⁹ Harji, K; Jackson, T. 2012. *Accelerating Impact: Achievements, challenges and what's next in building the impact investing industry*. Rockefeller Foundation. Available at: <https://www.rockefellerfoundation.org/>

¹⁶⁰ Ibid

¹⁶¹ Ibid

¹⁶² Milligan, K; Schoning, M. 2011. *Taking a Realistic Approach to Impact Investing: Observations from the World Economic Forum's Global Agenda Council on Social Innovation*. Innovations. MIT Press Journals. Available at: <http://www.weforum.org/>

2.3 Challenges for the Sector Ecosystem

Unclear and Inconsistent Regulatory Environment

To create the regulatory and policy environment that would foster the growth of enterprises in general will be key to Africa's ability to grow the impact investment sector. Investors generally are most confident placing capital in environments in which economic and entrepreneurial activity are encouraged, and where their rights will be protected. In essence this means that the stability of key areas including macroeconomic policy and performance, the local financial system and overall political stability are important drivers of investment. In addition, factors influencing the ease of doing business such as the predictability and consistency of how legal frameworks are applied, the cost of ownership registration and other regulations governing ownership rights, "red tape" and bureaucracy are all key determinants of entrepreneurial activity and therefore of investment.

Africa has historically performed poorly in most of these areas, and most countries have struggled to attract the investment they needed. The continent has recently shown signs of improvement in these areas, however creating an enabling entrepreneurial and investment climate remains a challenge. The macroeconomic performance and trends of most African countries have been characterized by fluctuating inflation and exchange rates and short-lived growth cycles. Growth since the 2008/2009 financial crisis has proven to be more durable partly due to stronger macroeconomic policy and reduced political instability¹⁶³. It remains to be seen whether the current growth rates on the continent will sustain.

Similarly African countries are generally in the early stages of stabilizing local financial markets and improving key factors related to the ease of doing business. According to the World Bank's 2015 Doing Business report¹⁶⁴, Sub-Saharan African countries accounted for the largest number of regulatory reforms in 2013 and 2014 aimed at improving legal institutions and reducing the costs of managing a business¹⁶⁵. Similarly Africa's financial systems have seen steady improvement following the 2008/2009 crisis largely underpinned by the changes in and more appropriate macroeconomic policy. These advances in local financial markets are still threatened by unpredictable changes in the value of African currencies as well as changes to government policy¹⁶⁶.

Impact investments are affected by the above trends as well as other specific challenges. Regulations that limit or prohibit the use of capital from institutional investors for impact investment have been one of the key regulatory barriers investors on the continent have faced¹⁶⁷. In addition, due to African policymakers' general limited awareness of the impact investment industry, the required analysis of existing policies and how they may encourage or hamper investment has not happened on a large enough scale to significantly overcome regulatory barriers. Understanding how existing policies affect capital flows to sustainable social enterprises will guide governments in designing appropriate regulatory measures such as tax incentives and subsidies. As the regulatory environments for each African country will differ, specific measures may not be appropriate for all contexts.

¹⁶³ Giugale, M; Hostland, D. 2013. *Africa's Macroeconomic Story*. The World Bank Group. Available at: www.wds.worldbank.org

¹⁶⁴ "The Doing Business report measures business regulations that affect domestic small and medium-sized firms in 11 areas across 189 economies." It measures the following : starting a business; dealing with construction permits; access to electricity; registering property; paying taxes; trading across borders; access to credit; protecting minority investors; enforcing contracts; resolving insolvency; labor market regulation. The World Bank. 2015. *Doing Business*. The World Bank Group. Available at: www.doingbusiness.org

¹⁶⁵ Ibid

¹⁶⁶ Allen, F; Otchere, I; Senbet, L. 2010. *African Financial Markets: A Review*. The Wharton School, University of Pennsylvania. Available at: www.fic.wharton.upenn.edu

¹⁶⁷ Dalberg Global Development Advisors. 2011. *Impact Investing in West Africa*. Dalberg Global Development Advisors. Available at: www.assets.rockefellerfoundation.org



Poor Linkages Between Sustainable Social Enterprises, Entrepreneurs, Investors and Innovation Networks

A significant challenge for the impact investment sector in Africa lies in an inadequate network of services that connect and inform sustainable social enterprises, investors and other industry players. Through its research on market-based solutions to poverty in Africa, Monitor Group highlights that the nature of the investment market overall in Sub-Saharan Africa is poorly developed and poorly understood¹⁶⁸. The sector ecosystem is generally fragmented and underdeveloped with few options of established, central spaces for connecting investors and investees.

For investors, this is problematic in that it complicates the search for viable investment opportunities. Without adequate professional associations and formal networks for sustainable social enterprises, comprehensive databases of potential investees are difficult to find¹⁶⁹. As such, investors or intermediaries must dedicate significant time and resources to identifying and vetting potential impact investments; these search and transaction expenses can be costly¹⁷⁰. Investors are also hindered by a lack of supporting resources that exist in more traditional commercial investment markets to evaluate and advise on investments, such as networks of brokers, law firms and investment bankers; and sources of information for understanding and analysing market potential, such as industry publications. Regional and sub-regional networks such as the Southern African Impact Investing Network, that serve an advocacy, convening and capacity building role for the sector will be key to replicate and establish on the continental level in order to facilitate deal-making and learning. This lack of data and intelligence on the impact investment industry is slowly beginning to change as industry institutions and other intermediaries such as the GIIN have begun to produce more detailed research and studies on impact investment activity.

Further, as there is no common “label” or legal structure for sustainable social enterprises, and the activities and focus of enterprises that qualify as impact investees is very diverse, it can be a challenge to unify the sector under one definition or structure¹⁷¹. This means that currently, there is no independent, reliable form of certification or verification that impact investors can trust in making their investment decisions; such a label, while difficult to institute in practice, would also give sustainable social enterprises visibility to investors and provide them with a means for verifying and communicating their credibility.

For sustainable social enterprises, the fragmented nature of the impact investment sector similarly sees them with limited opportunities to be connected with potential investors, and further, limited opportunities for support and capacity building. Robust networks and incubators are able to facilitate mechanisms for entrepreneur development such as business plan competitions and fellowship programmes to nurture promising ventures¹⁷². While incubators and accelerators do exist, they are yet to become widespread.

¹⁶⁸ Kuzbansky, M; Cooper, A; Barbary, V. 2011. Promise and Progress: Market-Based Solutions to poverty in Africa. Monitor Group. Available at: <http://www.mim.monitor.com/>

¹⁶⁹ Dalberg Global Development Advisors. 2012. Assessment of Impact Investing Policy in Senegal. Dalberg Global Development Advisors. Available at: <http://dalberg.com/>

¹⁷⁰ Harji, K; Jackson, T. 2012. *Accelerating Impact: Achievements, challenges and what's next in building the impact investing industry*. Rockefeller Foundation. Available at: <https://www.rockefellerfoundation.org/>

¹⁷¹ Ibid

¹⁷² Ibid

Africa still needs to build strong connections between organizations that stimulate and nurture innovation, such as academic institutions, government research and development (R&D) facilities, incubation initiatives and industry ‘clusters’. Much attention has been given to the classic, so-called ‘Silicon Valley’ model where technological innovation spurred by academic research is commercialised with the support of venture capital investment¹⁷³. However, this model rests on the existence of high quality, well-funded research institutions, the availability and close proximity of potential investors, and a close relationship between academia and business to support R&D¹⁷⁴. In the African context, these factors are particularly weak. Encouraging the development of industry clusters, which collocate institutions, innovators and entrepreneurs of a specific industry for the sharing of knowledge and expertise, has been highlighted as a successful way of fostering innovation and entrepreneurship, and linking up players in the impact investment field¹⁷⁵.

Poor and Inconsistent Impact Measurement Practice

While the notion of impact investing clearly denotes a commitment to generating positive social or environmental outcomes, the adequate definition, measurement and reporting of this impact continues to be a challenge for the growth of the sector in Africa¹⁷⁶. Currently, enterprises measure and report their impact inconsistently. While a number of standardised metrics and frameworks do exist, there is no one prevailing approach to impact measurement that is universally used and accepted by investors and enterprises globally or in Africa¹⁷⁷. This makes it difficult to assess performance against set impact criteria, and hinders investors in their ability to compare and evaluate potential investments. This absence of a common language around impact also inhibits clear, transparent communication around social and environmental outcomes between enterprises, investors and other stakeholders.

Surveys conducted by JP Morgan and GIIN globally, and the GIIN specifically in East Africa, indicate that the overwhelming majority of investors do measure the social and environmental impact of their investments, and tend to use either existing metrics and tools such as IRIS or GIIRS, or proprietary metrics to measure impact^{178, 179}. IRIS, managed by the GIIN, offers a catalogue of performance indicators that can be selectively applied to impact investments; GIIRS further provides a systematic rating tool for social and environmental performance, and is based on the IRIS taxonomy of indicators^{180, 181}.

However, employing standardised tools and metrics that are universally valid for impact measurement is a challenge in itself. Ventures that qualify as potential impact investees range widely in their scope and activities; similarly, each investor values and defines their priorities for non-financial returns differently¹⁸². Such diversity in both the focus and scale of investees’ activities as well as investors’ impact preferences means that standardised measurement is problematic, and in some cases perhaps not even beneficial or desirable¹⁸³. While customised metrics allow the flexibility to navigate this diversity, the proliferation of individualised measurement approaches obviously constrains the ability to make comparisons across investments. Also, on the side of enterprises, designing impact methodologies and tools can be costly and time consuming, using resources which might otherwise be directed to other activities in order to grow the business¹⁸⁴.

¹⁷³ Monitor Group. 2009. *Paths to Prosperity: Promoting Entrepreneurship in the 21st Century*. Monitor Group. Available at: <http://icma.org/>

¹⁷⁴ Ibid

¹⁷⁵ SiMODiSA. 2014. *Accelerating growth of small and medium enterprises in South Africa: Policy recommendations for enhancing the start-up / SME ecosystem in South Africa*. SiMODiSA. Available at: <http://impacttrust.org.za/>

¹⁷⁶ Bridges Ventures. 2014. *Investing for Impact: A Strategy of Choice for African Policymakers*. Bridges Ventures and the African Private Equity and Venture Capital Association. Available at: <http://www.bridgesventures.com/>

¹⁷⁷ Huppe, G; Silva, M. 2013. *Overcoming Barriers to Scale: Institutional impact investments in low-income and developing countries*. International Institute for Sustainable Development. Available at: <https://www.iisd.org/>

¹⁷⁸ Saltuk, Y; El Idrissi, A; Bouri, A; Mudaliar, A; Schiff, H. 2015. *Eyes on the Horizon: The Impact Investor Survey*. J.P. Morgan Social Finance and Global Impact Investing Network. Available at: <http://www.thegiin.org/>

¹⁷⁹ The GIIN and Open Capital Advisors. 2015. *The Landscape for Impact Investing in East Africa*. The Global Impact Investing Network and Open Capital Advisors. Available at: <http://www.thegiin.org/>

¹⁸⁰ Impact Reporting and Investment Standards (IRIS) <https://iris.thegiin.org/>

A further challenge, particularly in developing countries, is limited available and reliable third party data on social and environmental performance¹⁸⁵. Such data is necessary in order to develop benchmarks against which any performance measurement data can be assessed; it would enable greater appreciation of impact as results could be verified against relative standards or norms¹⁸⁶. Additionally, there are insufficient third party intermediaries who are able to validate impact measurement practices and data.

The implementation aspect of impact measurement is also a challenge for the sector which highlights the need for greater clarity on the purpose and aims of measuring impact. Research by JP Morgan has pointed out that measuring impact is not a linear process, but something which is an iterative process for both investors and investees which is refined over time¹⁸⁷. The evolution of measurement practices therefore depends in part on the intentions that are driving the need for measurement. There is tension between the idea that the purpose of tracking social and environmental outcomes is principally to prove impact; and the wider conception that measuring impact is a valuable endeavour that generates data which can be used by enterprises to refine and improve models for creating social and environmental outcomes¹⁸⁸. Further, at the implementation level, many early-stage enterprises are experimenting with new business models, have underdeveloped internal data management systems, and as such face difficulty in formally measuring their performance¹⁸⁹.



181 Global Impact Investing Rating System (GIIRS) <http://b-analytics.net/giirs-ratings>

182 Thornley, B; Dailey, C. 2010. *Building Scale in Community Impact Investing through Nonfinancial Performance Measurement*. *Community Development Investment Review*. 6(1). Available at: <http://www.frbsf.org/>

183 Ibid

184 The GIIN and Open Capital Advisors. 2015. *The Landscape for Impact Investing in East Africa*. The Global Impact Investing Network and Open Capital Advisors. Available at: <http://www.thegiin.org/>

185 Huppe, G; Silva, M. 2013. *Overcoming Barriers to Scale: Institutional impact investments in low-income and developing countries*. International Institute for Sustainable Development. Available at: <https://www.iisd.org/publications/>

186 Saltuk, Y; El Idrissi, A. 2015. *Impact Assessment in Practice*. J.P. Morgan Social Finance. Available at: <https://iris.thegiin.org/>

187 Ibid

188 Harji, K; Jackson, T. 2012. *Accelerating Impact: Achievements, challenges and what's next in building the impact investing industry*. Rockefeller Foundation. Available at: <https://www.rockefellerfoundation.org/>

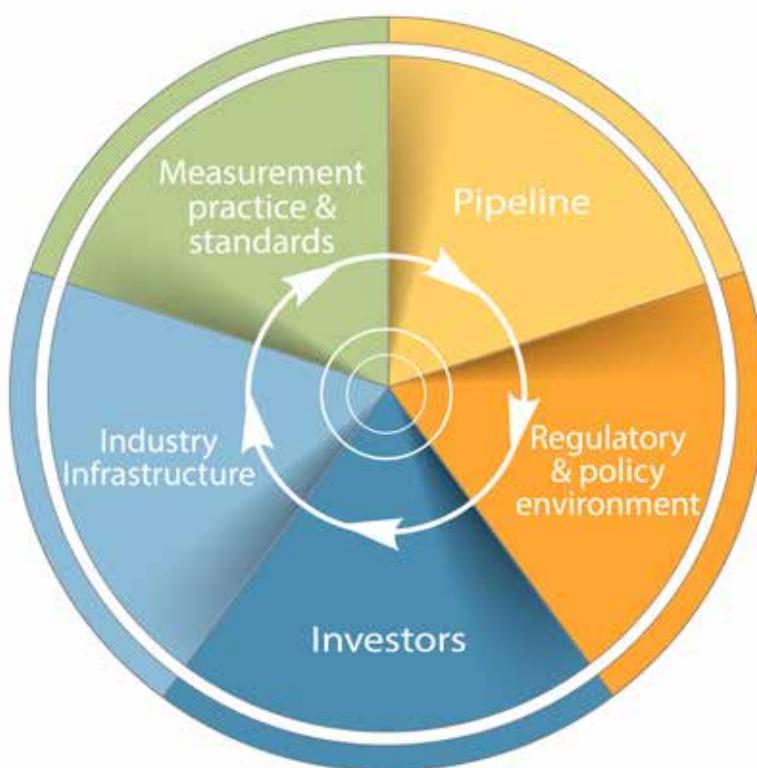
189 Edens, G; Lall, S. 2014. *The State of Measurement Practice in the SGB Sector*. Aspen Network of Development Entrepreneurs. Available at: <http://www.aspeninstitute.org/>

3 Towards a Vibrant Impact Investment Sector in Africa

While Africa's Impact Investment sector has continued to advance and grow, it largely remains beset by key barriers and challenges that are hindering broad-based maturation and expansion of the impact investment sector and practice, and in turn, realisation of the potential of impact investment to deliver socio-economic and environmental returns at scale. Based on the analysis of the gaps and challenges that exist in the impact investment sector in Africa as discussed in this report, this chapter begins to discuss high-level recommendations to inform an action plan to address these barriers and support the realization of a vibrant impact investment sector in Africa.

As discussed in this report, sector ecosystems are complex and contributing towards vibrant sector ecosystems is a challenging, multi-faceted endeavour, involving a series of strategies and tasks that demand the participation of sector ecosystem actors across the board. Consequently, this chapter summarises the key high-level recommendations relative to impact investment sector ecosystem participants and the roles they can fulfil.

In response to the identified challenges to impact investment in Africa, the recommendations in Table 2 below cover the following key areas:



Source: Author's illustration

Figure 4. Overview of Key Recommendation Areas



Specifically, these areas translate into high-level recommendations for catalysing and enhancing Africa's impact investment sector ecosystem, including:

- 1 Strengthening the pipeline of viable impact investment prospects that are able to meet both the financial and social / environmental objectives of impact investors**
- 2 Creating an enabling regulatory and policy environment in which impact investment can thrive**
- 3 Strengthening impact investor capacity and practice**
- 4 Developing and fostering appropriate infrastructure for the impact investment sector**
- 5 Enhancing and developing impact measurement practice and standards.**

As mentioned above, putting such recommendations into practice is a complex process and demands commitment and action from all actors in the sector ecosystem. Furthermore, the relatively niche and nascent nature of the impact investment sector means that efforts to catalyse its growth cannot be considered in isolation, separately from sectors that operate in parallel and in interconnected and overlapping ways. This presents both a challenge in terms of coordination across a broad spectrum of actors and industries, but equally an opportunity in terms of the potential to leverage existing efforts, policies and programmes in complementary fields.

For example, actions to strengthen the pipeline of viable sustainable social enterprises can leverage existing initiatives that stimulate entrepreneurship, the 'missing middle' of SMEs, and high-growth enterprises, as well as R&D and innovation systems in many countries in Africa. Similarly, many efforts to address regulatory issues that limit the deployment of angel investments, venture capital and private equity, would significantly benefit impact investments. Consequently, any initiatives to further catalyse and stimulate impact investment should consider existing efforts in these complementary areas that could be leveraged.

Specific recommendations for the impact investment sector are considered by type of actor and areas of activity in Table 2 below:

Table 2. African Impact Investment Sector Ecosystem: Build

Actor	Pipeline Development	Regulatory & Policy Environment
Regional Networks	<ul style="list-style-type: none"> Develop/support the development of a cross-continental “label” to recognise African sustainable social enterprises & enable marketing (& potentially eligibility to programmes & incentives) across the continent. Facilitate mapping of sector ecosystem actors, increasing visibility of sustainable social enterprises & access to information on key sector ecosystem players. 	<ul style="list-style-type: none"> Raise awareness of impact investment as a concept and investment practice amongst regional and Africa-wide public sector decision-makers. Advocate & provide an effective voice for impact investment industry practitioners (sustainable social enterprises, investors & intermediaries) in public affairs at various levels ranging from local through to Africa-wide decision-makers. Improve monitoring of & statistical information on the impact investment market in Africa to enable responsive, evidence-based policy-making.
National Governments	<ul style="list-style-type: none"> Leverage any existing government efforts in the form of strategies, policies and programmes that are designed to develop & enhance entrepreneurship, SMEs, high-growth enterprises, R&D and innovation systems. Develop policy & infrastructure to support privately-run incubators, accelerators & other business development services tailored to support sustainable social enterprise. Create & support the development & improvement of academic & research institutions & science parks in support of increased levels of R&D, innovation & commercialisation of IP that can deliver social, environmental & financial returns. Support research into the scale of the pipeline, needs & absorptive capacity of sustainable social enterprises in Africa. 	<ul style="list-style-type: none"> Ensure macro-economic policies encourage investment & the functioning of financial markets that also contribute towards investor confidence. Continue efforts to improve the “ease of doing business” in & between African countries, including processes & efficiency of registering, management & enterprise development (also give special consideration to current barriers to cross-border investments across the African market). Provide tax incentives to encourage impact investment broadly; & incentives to encourage impact investment into key priority areas and/sectors. Develop tax benefits & relief measures to support & encourage the growth & development of sustainable social enterprises by freeing up much-needed cash-flow. Identify cross-departmental champions in national governments to drive impact investment-related policy and practice amongst government departments.

Key Recommendations by Type of Actor and Area of Activity

Investor Capacity & Practice	Industry Infrastructure	Measurement Practice & Standards
<ul style="list-style-type: none"> Work with investors, policymakers, entrepreneurs and other key sector ecosystem actors to clearly define the impact investment practice appropriate to Africa-wide, and regional development priorities. Promote & provide access to industry standards & practices (this may include training & support initiatives). Facilitate &/conduct research into investor practice to inform responsive capacity strengthening efforts. Develop/support the development of a cross continental “label” to recognise impact investment funds and platforms ('markets') that adhere to a common set of characteristics. Train investment professionals and develop learning forums to demonstrate models of best practice. 	<ul style="list-style-type: none"> Advocate & provide an effective voice for impact investment industry practitioners on the needs for the sector regarding appropriate infrastructure development. 	<ul style="list-style-type: none"> Develop and/endorse consistent impact measurement practice & standards (such as the endorsement of a results framework such as the Business Call to Action Results Reporting Framework). Continually work to refine and enhance consistent standards and reporting guidelines available for sustainable social enterprises & impact investors. Conduct/support regular, rigorous industry research and/benchmarking of impact measurement practice & standards.
<ul style="list-style-type: none"> Where appropriate, develop innovative financing models & incentives to attract private sector capital and skills to impact investing (specifically consider crowding in skills & capital to the key areas of need – mobilizing angel investors & venture capitalists to support early-stage ventures). 	<ul style="list-style-type: none"> Where appropriate, support &/co-create with the private sector a range of financial instruments (such as guarantees, first loss reserves, and other loss protection features, and explore need and appropriateness of additional deal instruments such as mezzanine debt, quasi-equity). 	<ul style="list-style-type: none"> Endorse impact measurement practice & standards promoted by regional networks & where appropriate incorporate into government programmes requirement the application of measurement & standards to ensure streamlined reporting & information. Support/contribute towards regular, rigorous industry research and/benchmarking of impact measurement practice & standards.

Actor	Pipeline Development	Regulatory & Policy Environment
Development Partners	<ul style="list-style-type: none"> Leverage existing programmes that are designed to develop & enhance entrepreneurship, SMEs, high-growth enterprises, R&D and innovation systems. Develop and/support privately-run incubators, accelerators & other business development services tailored to support sustainable social enterprise. Conduct and/support research into the scale of the pipeline, needs & absorptive capacity of sustainable social enterprises in Africa. Develop/support the development of a cross-continental “label” to recognise African sustainable social enterprises & enable marketing (&potentially eligibility to programmes & incentives) across the continent. 	<ul style="list-style-type: none"> Advocate for enabling policies and frameworks to improve investor confidence, ease of doing business and facilitate cross-border investments. Improve monitoring of & statistical information on the impact investment market in Africa to enable responsive, evidence-based policy-making.
Investors	<ul style="list-style-type: none"> Use philanthropic giving, such as CSI/CSR to contribute towards capacity strengthening of sustainable social enterprises & build the pipeline of impact investment prospects. 	<ul style="list-style-type: none"> Contribute to research and knowledge building of statistical information on the impact investment market in Africa to enable responsive, evidence-based policy-making.
Sustainable Social Enterprises	<ul style="list-style-type: none"> Access capacity strengthening opportunities provided by other sector ecosystem participants. Contribute to knowledge & information on the scale, needs and absorptive capacity of sustainable social enterprise in Africa to enable informed action and sector development efforts. 	<ul style="list-style-type: none"> Contribute to research and knowledge building of statistical information on the impact investment market in Africa to enable responsive, evidence-based policy-making.

Investor Capacity & Practice	Industry Infrastructure	Measurement Practice & Standards
<ul style="list-style-type: none"> Advocate for investor incentives and an overall enabling policy & regulatory environment. Develop/support innovative financing models & incentives to attract private sector capital and skills to impact investing (specifically consider crowding in skills & capital to the key areas of need – mobilizing angel investors & venture capitalists to support early-stage ventures). Develop and/support programmes and training tailored to strengthen the capacity and skill sets of impact investment fund managers in Africa. 	<ul style="list-style-type: none"> Advocate for/support/develop a range of stage-appropriate & visible private impact investment platforms (especially targeting earlier-stage sustainable social enterprises to develop capacity & track record for sustainable social enterprises to ultimately list on public stock exchanges). Share best practice and lessons based on experience and trial of development partner run or supported impact investment platforms such as the United Nations Social Impact Fund (UNSIF). Advocate for/support/develop a range of African financial instruments (such as guarantees, first loss reserves, other loss protection features and hybrid and/or quasi-equity structures). 	<ul style="list-style-type: none"> Participate in and endorse impact measurement practice & standards promoted by regional networks & acting as an investor, incorporate into measurement practice. Support/contribute towards regular, rigorous industry research and/benchmarking of impact measurement practice & standards.
<ul style="list-style-type: none"> Commit to increasing skills and capacity to practice impact investment – participation in training, networks and knowledge-sharing. 	<ul style="list-style-type: none"> Co-create with governments and development partners a range of financial instruments (such as guarantees, first loss reserves, and other loss protection features). 	<ul style="list-style-type: none"> Commit to the practice of impact measurement & standards in accordance with best practice guidelines & available means of verification & certification. Participate in regular, rigorous industry research and/benchmarking of impact measurement practice & standards.
	<ul style="list-style-type: none"> Engage with representative member networks, participate in relevant accelerator and incubator programmes. 	<ul style="list-style-type: none"> Commit to the practice of impact measurement & standards in accordance with best practice guidelines & available means of verification & certification. Participate in regular, rigorous industry research and/benchmarking of impact measurement practice & standards. Share experience and best practice methods for impact measurement.

Actor	Pipeline Development	Regulatory & Policy Environment
Intermediaries ¹⁹⁰	<ul style="list-style-type: none"> Design &/tailor incubator, accelerator & business development support programmes to develop capacity of sustainable social enterprises to deliver triple-bottom line returns & implement best practice models of market-based solutions & beneficiary value creation. Develop/support the development of a cross-continental "label" to recognise African sustainable social enterprises & enable marketing (& potentially eligibility to programmes & incentives) across the continent. 	<ul style="list-style-type: none"> Contribute to research and knowledge building of statistical information on the impact investment market in Africa to enable responsive, evidence-based policy-making. Participate in regional networks and initiatives to inform enabling and responsive policy development.
Research & Academic Institutions	<ul style="list-style-type: none"> Include a pro-active focus on R&D and IP development & commercialisation of products & services that address social & environmental challenges. Conduct research into the scale, needs and absorptive capacity of sustainable social enterprises to enable informed action and sector development efforts. 	<ul style="list-style-type: none"> Conduct research to provide detailed, regular statistical information on the impact investment market in Africa to enable responsive, evidence-based policy-making.



¹⁹⁰ This category includes consulting firms, business development support providers such as incubators and accelerators and others.

Investor Capacity & Practice	Industry Infrastructure	Measurement Practice & Standards
<ul style="list-style-type: none"> Develop programmes and training tailored to strengthen the capacity and skill sets of impact investment fund managers in Africa. 	<ul style="list-style-type: none"> Contribute to co-creation and research efforts around impact investment platforms and financial instruments. 	<ul style="list-style-type: none"> Participate in regular, rigorous industry research and/benchmarking of impact measurement practice & standards. Include impact measurement in business development service offering.
<ul style="list-style-type: none"> Publish information on best practices in impact investment to contribute to available capacity-strengthening resources available to impact investors. Develop programmes and training tailored to strengthen the capacity and skill sets of impact investment fund managers in Africa. 	<ul style="list-style-type: none"> Conduct research into innovative financial instruments and platforms that could be relevant for the African market. 	<ul style="list-style-type: none"> Conduct regular, rigorous industry research and/benchmarking of impact measurement practice & standards.



4 A Call to Action

Africa's policymakers and business community face a unique opportunity to strengthen and grow impact investment practice on the continent. The ratification of the Sustainable Development Goals, and the Third Financing for Development Conference's Addis Ababa Action Agenda, have rallied the international community around building a sustainable future for the world's most vulnerable populations. Building on commitments to combine public and private sources of funding to finance development, African countries can galvanize this momentum to achieve the goals of the AUC (Agenda 2063) and ensure Africa's priorities for the Sustainable Development Goals are fulfilled. An estimated \$2.5 trillion is needed to finance the achievement of the Sustainable Development Goals in developing countries¹⁹¹. While impact investment is not a panacea for Africa's development challenges, implementing market-based solutions to address the continent's key social and environmental needs can contribute to the continent's economic growth and improved human development. With growing investment interest and capital from foreign and domestic sources, the time has come for Africa's leaders to develop the enabling environment and facilitate, through innovative policies and targeted programmes, the flow of private capital needed to meet their articulated goals and priorities.

Based on the constraints and opportunities presented in this report, key high-level recommendations to support the development of the African impact investment sector include:

1

Convening of a public private dialogue platform to secure the commitment of African policymakers and investors to advance the impact investment sector in Africa through an 'Impact Investment in Africa' action plan and related roadmap. This PPD should also consider the current definition and best practice of impact investment, and discuss the parameters of a complementary definition for impact investment that is relevant and applicable to the African context.

Africa needs to make a powerful push for inclusive growth and sustainable development a reality;

Innovative policies and targeted programmes, collaboration and coordination are required to leverage activities of all actors, at the national, regional and international level.

African countries should harness the global momentum for impact investing and the ratification of the Sustainable Development Goals to mobilize domestic and external impact capital, to implement the transformative goals of Agenda 2063

¹⁹¹ United Nations Conference on Trade and Development. 2014. World Investment Report. *Investing in the SDGs: An Action Plan*. United Nations Conference on Trade and Development. Available at: <http://unctad.org/>

2**Creation of a network of African impact investment practitioners and policymakers**

in order to advocate for innovative impact investment 'label', legal status and certification for Africa, advance professionalism, training and standards to leverage existing sub-regional impact investment networks. This will help promote collaboration, best practices, and joint advocacy for common interests.

3**Supporting the development of the impact investment sector ecosystem**

in each country and sub-region, by understanding the key gaps in each context and developing evidence-based policy, programmes, and other appropriate measures to facilitate the role of each player in the support sector ecosystem.

4**Creating a continental fund(s) to support the above activities**, based on successful similar models in other regions. Consideration should be made to deploying a portion of these funds to impact investment funds.**5****African national governments are to under-take efforts to create an enabling policy and regulatory environment** to facilitate the advancement of impact investment. This includes continuing to work towards improving the overall ease of doing business as well as the improved functioning of financial markets. Governments are also to provide evidence-based incentives and benefits to encourage impact investment into key areas, as well as to support the growth of sustainable social enterprises and inclusive businesses.**6****African governments are also encouraged to work with the private sector** wherever appropriate to privatize the provision of business development services for sustainable social enterprises and to leverage private sector skills, knowledge and capital in support of the growth of sustainable social enterprises.**7****Regional impact investment networks** can play a key role in building the industry's infrastructure and body of knowledge through facilitating the sharing of best practice and/or undertaking relevant research. Networks are also central to driving a definition of "sustainable social enterprise" that is relevant to the African context, and are to convene and/or support the development of a cross-continental label for sustainable social enterprise.**8****Development partners will primarily be expected to play an advocacy and facilitative role** in developing the impact investment sector ecosystem in Africa. In particular they are to support the development of a cross-continental sustainable social enterprise label and the body of research, knowledge and best practice in the industry. Development partners are also encouraged to support and leverage existing programmes to improve sustainable social enterprise / impact investee capacity, and to advocate for an improved and enabling policy and regulatory environment in which sustainable social enterprises would operate. Where development partners have collaborated to develop or support impact investment platforms and related investment mechanisms such as the UNSIF in Asia, lessons and best practice should be shared with the aim of replicating successful models in Africa.

9

Beyond their role of making investments in sustainable social enterprises, investors can develop the sector by working with other sector ecosystem players – particularly regional and/or national networks – to feed into industry research and the development of best practice in investment, impact measurement and other areas. Additionally, it is recommended that investors stimulate further deployment of impact investment capital by collaborating with other actors to build the pipeline of investible sustainable social enterprises and to develop appropriate investment instruments suited to sustainable social enterprises in Africa.

10

Overall sustainable social enterprises are to engage with investors, regional and/or member networks and intermediaries to contribute to the body of knowledge and research on their capacity, needs, challenges, and best practice.

11

The primary role of intermediaries is to provide technical knowledge, coaching and other direct support to investors, and sustainable social enterprises. Intermediaries are therefore recommended to provide the necessary technical support via training and other support programmes, and to undertake or advance research in the sector.

12

Similarly, research and academic institutions are to primarily develop the intelligence needed to create an appropriate policy and regulatory environment, to enable appropriate investments and to commercialise products and services that will address key social and/or environmental challenges.

Impact investing offers an opportunity to complement public sector efforts to tackle human, social and environmental issues. While the impact investment market in Africa is gradually gathering momentum, leadership, coordination and concerted action is required for the sustained growth of the sector. Government leadership, in particular, is needed to remove barriers, build capacity, catalyse investment activity and harness the power of financial markets to address critical social challenges. Implementation support through technical assistance and grants to target beneficiaries such as SMEs (especially those led by women and youth) is a matter of urgency. Working together with private sector, public sector and social actors can truly improve lives in Africa.



5 Appendix 1: Glossary of Key Terms

The Impact Investment sector is beset by definition challenges both at an international and African level. As far as possible, this report has included the most commonly used terminology so as to avoid confusion. Below is a list of the key terminology used with supporting definitions employed for the purposes of this work:

Accelerators

Business accelerators share some of the characteristics of incubators, but tend to operate on a more intensive, concentrated timeframe with a focus on shortening product prototype – to –market turnarounds. That is, participation in accelerators does exactly that – accelerate and concentrate timeframes, with participation typically being far shorter (often in months) than participation in incubator programmes, which is often for a few years. In return for the expertise and support provided, accelerators or their sponsors often take a minor equity stake in the participating companies. Participation in accelerator programmes tends to culminate in an opportunity to pitch to venture capitalists in order to secure the next round of funding¹⁹².

“Business incubators mentor companies through childhood while business accelerators guide them through adolescence into adulthood.”

Fernando Sepulveda, Managing Director, Impulsa Business Accelerator¹⁹³

Debt Finance

“investment with the expectation of repayment. Debt finance usually takes the form of loans, both secured and unsecured, as well as overdrafts and standby facilities. Generally these require a borrower to repay the amount borrowed along with some form of interest, and sometimes an arrangement fee.”

Big Society Capital¹⁹⁴

Ecosystem¹⁹⁵

“Ecosystems involve a complex network of interconnected systems of elements or organisms, which constantly interact and ideally mutually reinforce one another in a positive way.”

SiMODiSA¹⁹⁶

192 Linton, I. 2015. *Business Accelerator vs. Business Incubator*. Hearst Newspapers, LLC. Available at: <http://smallbusiness.chron.com/>

193 Sepulveda, F. 2012. *The Difference Between a Business Accelerator and a Business Incubator?* Inc.com Available at: <http://www.inc.com/>

194 Big Society Capital. Glossary. Available at: <http://www.bigsocietycapital.com>

195 Please see Inclusive Business Sector ecosystem for the UNDP definition of an sector ecosystem designed to support inclusive business development

196 SiMODiSA. 2014. *Accelerating growth of small and medium enterprises in South Africa: Policy recommendations for enhancing the start-up / SME ecosystem in South Africa*. SiMODiSA, Available at: www.savca.co.za

Equity

"Ownership interest in a firm. Also, the residual dollar value of a futures trading account, assuming its liquidation is at the going trade price... Equity is also shorthand for stock market investments."

NASDAQ¹⁹⁷

Guarantee

"The assumption of responsibility for payment of a debt or performance of some obligation if the liable party fails to perform to expectations."

NASDAQ¹⁹⁸

High-growth Enterprises

"All enterprises with average annualised growth greater than 20 percent per annum, over a three year period, and with ten or more employees at the beginning of the observation period. Growth is thus measured by the number of employees and by turnover".

European Commission / OECD¹⁹⁹

Impact Investees

Companies, organizations, and funds that have accessed impact investment for the purpose of actively generating social and/or environmental and financial returns.

For the purposes of this report, we have referred to those companies and organizations that would be considered 'impact investees' as sustainable social enterprises - a collective term broadly used in the industry that refers to for-profit, non-profit and hybrid entities. Impact Investees that are funds in the first instance will also ultimately invest in underlying portfolio companies that constitute sustainable social enterprises. A detailed definition of sustainable social enterprise is discussed below.

¹⁹⁷ NASDAQ Investing Glossary. Equity Definition. Available at: <http://www.nasdaq.com>

¹⁹⁸ NASDAQ Investing Glossary. Guarantee Definition. Available at: <http://www.nasdaq.com>

¹⁹⁹ OECD; European Commission; Eurostat. 2007. *Eurostat – OECD Manual on Business Demography Statistics*. Eurostat Methodologies and working papers. European Communities / OECD. Available at: <http://ec.europa.eu/>

Impact Investment

"Impact investments are investments made in companies, organizations and funds with the intention of generating measurable social and environmental impact in addition to financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances"...

"Impact investments can be made across asset classes, including but not limited to cash equivalents, fixed income, venture capital and private equity."

The Global Impact Investing Network (GIIN)²⁰⁰

According to the GIIN²⁰¹, the practice of impact investment is further defined by the following core characteristics:

Intentionality

An essential component is the core and explicit intent to create positive social or environmental impact, that is to say, producing beneficial effects in society.

Investment with Return Expectations

Impact investments are expected to provide financial returns in addition to their social and/ or environmental returns and at a minimum, a return of capital. Returns on impact investments range from below market to risk-adjusted market rate returns.

Impact Measurement

Central to the definition of impact investment is the commitment of the investor to measure and report on the social and/ or environmental progress and performance of underlying investments. Measuring the achievement of social and/ or environmental objectives helps ensure transparency and accountability and is essential to informing the practice.

Mezzanine Finance

"Combines elements of debt and equity capital and represents a convenient financing alternative if pure equity or debt capital is not applicable. The interest payment can be linked to the profits of the company, whereas the total amount is repaid after a certain time period or converted into equity capital."

Schwab Foundation for Social Entrepreneurship²⁰²

200 Global Impact Investing Network. 2009 – 2014. *About Impact Investing*. Global Impact Investing Network (GIIN) Available at: <http://www.thegiin.org>

201 Ibid.

202 Schwab Foundation for Social Entrepreneurship. 2013. *Social Investment Manual. An Introduction for Social Entrepreneurs*. Schwab Foundation for Social Entrepreneurship. Available at: <http://www.weforum.org/>

Private Equity

The Private equity is the provision of equity capital by financial investors – over the medium or long term – to companies that are not listed on public stock exchanges, with the aim of developing the business and creating value. Private Equity investors target companies with high growth potential²⁰³.

Quasi-equity

"A hybrid of equity and debt investment. Equity investment may not be possible if an organisation is not structured to issue shares. A quasi-equity investment allows an investor to benefit from the future revenues of an organisation through a royalty payment which is a fixed percentage of revenue. This is similar to a conventional equity investment, but does not require an organisation to issue shares."

Big Society Capital²⁰⁴

Responsible Business

'Responsible business' is an approach to business that adopts ethical and transparent business practices with respect to their employees, the environment and the wider community. A responsible business is committed to minimising any negative impacts their practices may have on the environment and wider community, and integrates sustainability into the operations of its business²⁰⁵. Responsible business is often used among similar terms such as Corporate Social Responsibility (CSR), sustainable business, triple bottom line or corporate citizenship²⁰⁶.

Responsible Investment

"Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors, and of the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems."

United Nations Principles for Responsible Investment (UNPRI)²⁰⁷

Risk Appetite

"...risk appetite can be defined as the amount of risk, on a broad level, that an organisation is willing to take on in pursuit of value. Or, in other words, the total impact of risk an organisation is prepared to accept in the pursuit of its strategic objectives."

KPMG²⁰⁸

²⁰³ European Private Equity & Venture Capital Association (EVCA). 2007. *Guide on Venture Capital and Private Equity for Entrepreneurs: an EVCA Special Report*. European Private Equity & Venture Capital Association. Available at: <http://www.evca.eu/>

²⁰⁴ Ibid

²⁰⁵ Cranfield University School of Management. *Defining Corporate Responsibility*. <http://www.som.cranfield.ac.uk/>

²⁰⁶ Ibid

Small and Medium Enterprises (SMEs)

The European Commission first coined the term ‘small and medium enterprise’ (SME) and in 1996 defined an SME as an organization employing less than 250 people²⁰⁹. Today, the term is often applied according to national context, whereby enterprises are defined by number of employees, turnover or balance sheet totals. The thresholds applied to defining SMEs vary greatly at both a country-specific level as well as across institutions needing to define the term for operational purposes, such as multilateral institutions. Some actors further narrow the definition by applying minimum limits in order to distinguish SMEs from micro enterprises, which tend to feature different characteristics.

Social Finance

Innovative mechanisms for structuring and deploying finance that aims to address a social or environmental challenge and create positive impact. Social finance may include types of financing without return expectations, such as philanthropic funds, and may consist of grants, micro-loans and socially responsible investments, among others.

Social Impact Bonds

“A Social Impact Bond is a financial mechanism in which investors pay for a set of interventions to improve a social outcome that is of social and/or financial interest to a government commissioner. If the social outcome improves, the government commissioner repays the investors for their initial investment plus a return for the financial risks they took. If the social outcomes are not achieved, the investors stand to lose their investment.”

“Social Impact Bonds provide investment to address social problems and look to fund preventative interventions. As such, they present an opportunity to provide support to reduce the strain on acute services.”

Social Finance UK²¹⁰

Social Stock Exchange

Social stock exchanges are trading platforms that allow social enterprises to raise capital by attracting socially conscious investors to put money into niche capital markets²¹¹.

Social Success Note

“The social success note is a pay-for-performance financing mechanism for social enterprises to attract mainstream investment capital, while overcoming the trade-off between social impact and financial return.”

The Rockefeller Foundation²¹²

207 PRI Association. No date. *Introducing Responsible Investment*. PRI Association. Available at: <http://www.unpri.org/>

208 KPMG. 2008. *Understanding and articulating risk appetite*. Available at: <https://www.kpmg.com/>

209 Burns, P. 2010. Entrepreneurship & small business: start-up, growth & maturity. Third edition. Palgrave Macmillian.

210 Social Finance UK: Services. Social Impact Bonds. Available at: www.socialfinance.org.uk

211 Chichchia, B. 2012. *Social Stock Exchanges: A new instrument in the international development toolkit?* Devex. Available at: <https://www.devex.com/>

212 The Rockefeller Foundation; Our Work. Initiative: Innovative Finance. Available at: www.rockefellerfoundation.org

Socially Responsible Investment (SRI)

"SRI refers to investments across a range of industries that do not damage society or the environment. They are identified by screening out ("negative screening") companies or industries with bad environmental protection histories, those with records of employee discrimination, or those that sell products with negative societal impacts such as firearms, alcohol, and tobacco."

Centre for Global Development²¹³

Sustainable Development

Sustainable development has been defined in many ways, but one of the most frequently used definitions is from Our Common Future, also known as the Brundtland Report:

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts:

- *the concept of needs, in particular the essential needs of the world's poor, to which overriding priority should be given; and*
- *the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs."*

Brundtland Report²¹⁴

[Sustainable] Social Enterprise

[Sustainable] social enterprises are organizations that have articulated a core objective to generate positive and measurable social and/ or environmental impact along with their financial returns. They are distinguished by the use of a business-like approach to achieve their social or environmental purposes, typically earn at least the majority of their income, are not structurally dependent on grants, and create good quality employment. Many make use of inclusive business approaches to achieve their social impact. [Sustainable] Social enterprises may be incorporated as for-profit, non-profit or hybrid entities that typically include mechanisms or measures to ensure the protection of their mission²¹⁵.

Venture Capital

"Venture capital is a subset of private equity and refers to equity investments made for the launch, early development, or expansion of a business. It has a particular emphasis on entrepreneurial undertakings rather than on mature businesses."

European Venture Capital Association²¹⁶

²¹³ Barmeier, J. and Simon, J. 2010. *More than Money: Impact investing for development*. Center for Global Development. Available at: <http://www.cgdev.org/>

²¹⁴ World Commission on Environment and Development. 1987. *Our Common Future*. Oxford: Oxford University Press. Available at: <http://www.un-documents.net/>

²¹⁵ Adapted from The Impact Trust. 2013. *Recommendations For Amendments to the South Africa Tax Policy and regulatory framework for Small and Medium Enterprises and Social Businesses in South Africa*. The Impact Trust. Available at: <http://impacttrust.org.za/>

²¹⁶ Ibid

6 Appendix 2: Selected Impact Investors and Sector Ecosystem Supporters in Africa

Below follows a preliminary list of investors, intermediaries and market enablers that form part of the impact investment sector ecosystem in Africa. It is not intended as an exhaustive or comprehensive list, but rather as an initial step in identifying players in order to inform more detailed and specific research of sector ecosystem actors.

Criteria for investors based on publicly available website information:

- 1 **Make investments in Africa**
- 2 **Make investments that require both financial and social and/environmental returns**
- 3 **Demonstrate commitment to social/environmental impact by tracking clear measures of social and/or environmental impact, for example GIIRS rating, use IRIS metrics, or other indicators/standards.**

Investors and sector ecosystem actors are generally classified in the following way within this Appendix

Primary Investors / Asset Holders

- Development Finance Institutions (DFIs)
- Diversified financial institution/bank
- Foundations
- Institutional investors (pension funds, insurance companies)

Asset Managers

Enabling environment actors/value addition: Academia, research institutions, networks, non-financial advisory services, incubators, accelerators, impact verification and measurement services, regulatory authorities and policy frameworks.

6 Appendix 2: Selected Impact Investors and Sector Ecosystem Supporters in Africa

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Primary Investors				
Development Finance Institutions (DFIs)				
African Development Bank (AfDB)	The AfDB is a multilateral DFI established to contribute to the economic development and social progress of African countries. The AfDB comprises three entities: The African Development Bank, the African Development Fund and the Nigeria Trust Fund.	The AfDB mobilises and allocates resources for investment to its member countries with the aim of poverty reduction via economic development and social progress. It also provides policy advice and technical assistance to development initiatives.	The AfDB operates in a wide number of sectors: <ul style="list-style-type: none"> • Agriculture & Agro-industries • Climate Change • Economic & Financial Governance • Education • Energy & Power • Environment • Gender • Health • Human Capital Development • Information & Communication Technology • Infrastructure • Private Sector • Transport • Water Supply & Sanitation 	www.afdb.org
CDC Group plc	CDC is the U.K.'s development finance institution, owned by the Department for International Development (DFID). It invests primarily in businesses in Africa and South Asia, and supports all sizes of businesses, from micro-level to large enterprises.	ICDC provides capital in the form of both debt and equity. Investments are made directly and through fund managers aligned with CDC's goals.	CDC aims to invest where job creation can have the most impact, including sectors such as: <ul style="list-style-type: none"> • Manufacturing • Agribusiness • Infrastructure • Financial institutions • Construction • Health • Education 	www.cdcgroup.com

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Primary Investors				
Development Finance Institutions (DFIs)				
European Investment Bank (EIB)	The EIB is the bank of the European Union. It primarily supports projects that make a contribution to growth and employment in Europe, though also operates in other parts of the world including Africa.	The EIB offers capital in the form of loans, venture capital, equity and microfinance.	The EIB's activities focus on four core areas: <ul style="list-style-type: none"> • Innovation and skills • Access to finance for smaller businesses • Climate action • Strategic Infrastructure 	http://www.eib.europa.eu/
Netherlands Development Finance Company (FMO)	FMO is a Netherlands-based entrepreneurial development bank offering financial services to companies, projects and financial institutions in developing markets.	FMO offers finance in the form of: <ul style="list-style-type: none"> • Varying types of loan products • Equity • Guarantees • It also offers technical assistance and capacity building. 	FMO's investments have a core focus on: <ul style="list-style-type: none"> • Financial Institutions • Energy • Agribusiness • Food • Water 	http://www.fmo.nl/
Norwegian Investment Fund for Developing Countries (Norfund)	Norfund is the Norwegian DFI. It invests in enterprises in low income countries to promote business development and contribute to economic growth and poverty alleviation. Norfund's geographic focus is in Eastern and Southern Africa, as well as selected countries in Asia and Central America. It focuses on supporting small and medium sized companies.	Norfund offers capital primarily in the form of equity, but also offers varying types of loans. Investments typically have a time horizon of between 5 and 10 years.	Norfund prioritises investment in the sectors of: <ul style="list-style-type: none"> • Clean energy • Financial institutions • Agribusiness 	http://www.norfund.no/

6 Appendix 2: Selected Impact Investors and Sector Ecosystem Supporters in Africa

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Primary Investors				
Development Finance Institutions (DFIs)				
Proparco	Proparco is the French DFI. It invests in emerging and developing countries as well as geographical areas in the Southern Hemisphere.	Proparco invests in the form of: <ul style="list-style-type: none">• Equity investments• A wide range of loan products• Guarantees It also offers technical assistance and capacity building	Proparco investments focus on: <ul style="list-style-type: none">• Renewable energy-based infrastructure• Agribusiness• The financial sector• Health• Education	http://www.proparco.fr/site/proparco/Accueil_PROPARCO
The Swiss Investment Fund for Emerging Markets (SIFEM)	SIFEM is the DFI of Switzerland. Its mission is to promote long-term, sustainable and broad-based growth in developing and emerging countries. It focuses exclusively on developing and transitioning economies and only invests in countries whose GNI per capita is below the World Bank's IBRD graduation threshold.	SIFEM invests via: <ul style="list-style-type: none">• Risk capital funds (long-term equity capital positions in funds that participate in local SMEs and fast-growing businesses).• Loans – primarily to financial institutions such as local banks, leasing companies and microfinance companies.• Direct participation in financial institutions	Guidelines for SIFEM investments prioritise the following indicators: <ul style="list-style-type: none">• Employment• Gender equality• Training• Mobilization of local capital and savings• Financial sector diversification• Credit diversification• Institution building• Enterprise growth and improvement	http://www.sifem.ch/
International Finance Corporation (IFC)	The IFC makes investments to inclusive businesses and has constructed an Asset Management Company as part of this initiative. Additionally the IFC developed Environment, Social and Governance standards against which all its impact investments must comply.	The IFC invests via: <ul style="list-style-type: none">• Loans• Equity• Trade Finance• Structured Finance	A focus on inclusive businesses with a particular focus on access to finance.	http://www.ifc.org

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Primary Investors				
Development Finance Institutions (DFIs)				
Credit Suisse	Credit Suisse is a global financial services company that specializes in private banking and wealth management services, as well as investment banking. They have a branch of sustainable products and services that focus on environmental and social themes.	Credit Suisse's services range from philanthropy to sustainable investment. Philanthropy services include advisory services on strategic giving and charitable foundation management. Its impact investment work focuses on generating both financial return as well as social/environmental return. The bank's sustainable investment services include identifying sustainable investment opportunities via ESG criteria.	For impact investment: <ul style="list-style-type: none"> • Microfinance • Sustainable agriculture and fair trade • Sustainable social enterprises in health care and education • Conservation finance • Higher education 	https://www.credit-suisse
JP Morgan Chase & Co	JP Morgan is a global financial services firm that engages in investment banking, commercial banking, and asset management. They have a Social Finance division that focuses on impact investment.	JP Morgan offers financial advisory and traditional banking services for impact organizations: <ul style="list-style-type: none"> • Structuring of impact investments or securities • Placement of impact investment funds to clients – private individuals, foundations and institutional investors. 	Impact investments focus on: <ul style="list-style-type: none"> • Low income and excluded populations • Agriculture • Financial services • Health 	http://www.jpmorganchase.com

6 Appendix 2: Selected Impact Investors and Sector Ecosystem Supporters in Africa

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Primary Investors				
Diversified Financial Institutions / Banks				
Bill and Melinda Gates Foundation	The Gates Foundation is a large global organization dedicated to improving quality of life in developing countries and the US.	The Foundation offers financial support to sustainable social enterprises and social development initiatives by way of both grants and investments.	The Foundation focuses on a wide range of sectors. In Africa specifically: <ul style="list-style-type: none"> • Agriculture • Family planning • Financial services • HIV, malaria and polio • Vaccine delivery 	http://www.gatesfoundation.org/
Calvert Foundation	The Calvert Foundation is a Community Development Finance Institution that enables individual investors to invest in social and environmental causes. It lends to established organizations such as loan funds, microfinance institutions and sustainable social enterprises.	The foundation offers pre-development funding, as well as loans for terms of up to 5 years.	The foundation prioritises the following areas: <ul style="list-style-type: none"> • Affordable housing • Education • Environmental protection • Fair trade • Financial inclusion • Healthy communities • Job creation • Women's empowerment 	http://www.calvertfoundation.org/
DOEN Foundation	DOEN is an organization which provides financing via subsidies, participations, loans and guarantees, primarily to enterprises in the start-up phase. DOEN is active globally and is engaged in a small number of investments in Africa.	DOEN typically makes direct investments in the form of convertible loans. It also invests via investment funds.	DOEN's core issue areas are: <ul style="list-style-type: none"> • Social Cohesion • Development Cooperation • Human Rights • Nature and the Environment 	http://www.doen.nl/web/home-1.htm

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Primary Investors				
Foundations				
LGT Venture Philanthropy Foundation	<p>An impact investor, mainly funded by the Princely Family of Liechtenstein, supporting organizations with positive social and environmental impact through financial capital in the form of equity, debt or grants, intellectual capital through close mentoring, and social capital by providing access to relevant networks. It has investments in Kenya and other countries in Sub-Saharan Africa in areas such as education, health and sanitation, agriculture and forestry, renewable resources and ICT.</p>	<p>Mainly loans and equity. Grants are only used where profit-oriented models are not feasible or reasonable.</p>	<p>Multiple sectors including:</p> <ul style="list-style-type: none"> Renewable energy Education 	www.lgtvp.com
Lundin Foundation	<p>Lundin Foundation is a private foundation that invests in scalable SMEs and sustainable social enterprises, and provides grants to enable early stage business and innovations to validate concepts and refine business models. They operate primarily in Africa, including Botswana, Burkina Faso, Central African Republic, Cote d'Ivoire, DRC, Ghana, Kenya, Lesotho, Mali, Mauritania, Niger and Zambia.</p>	<p>The Foundation invests venture capital in scalable sustainable social enterprises, and provides accelerator grants to early-stage entrepreneurs. They also provide technical assistance in management, finance, accounting and governance.</p>	<p>The Foundation prioritises the following industries for investment:</p> <ul style="list-style-type: none"> Agriculture and fisheries Financial inclusion Access to energy Conservation 	www.lundinfoundation.org

6 Appendix 2: Selected Impact Investors and Sector Ecosystem Supporters in Africa

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Primary Investors				
Foundations				
Omidyar Network	The Omidyar Network seeks to advance entrepreneurship for creating social good. It operates as an active impact investor, providing both financial and non-financial support to emerging businesses as well as not for profit ventures.	The Network employs a flexible capital model that includes impact investments as well as grants.	<ul style="list-style-type: none"> • Consumer internet and mobile • Education • Financial Inclusion • Governance and citizen engagement • Property rights 	https://www.omidyar.com
Rockefeller Foundation	The Rockefeller Foundation is a pioneering organization in the field of impact investing which works to develop the infrastructure for the impact investing field. It is exploring innovative financing models for the sector to catalyse investment by institutional investors.	The Foundation provides risk capital and works on a 'venture philanthropy' model to support early-stage innovation. It is currently working to develop and scale such initiatives as Social Impact Bonds.	The foundation's work in impact investing is focused on innovation and building the sector's ecosystem. It is engaged in a very broad range of fields, including: <ul style="list-style-type: none"> • Health • Agriculture • Gender • Energy 	https://www.rockefellerfoundation.org
Skoll Foundation	The Skoll Foundation cultivates social entrepreneurship with a focus on models that can spark large-scale change. It also engages in developing and strengthening the field of social entrepreneurship.	The Foundation offers grants to support social entrepreneurs who have the potential to scale their impact. They also provide 'Program-Related Investments' that provide capital at below market rates, using investment vehicles such as loans, guarantees, and equity.	The foundation's focus areas are: <ul style="list-style-type: none"> • Environmental sustainability • Education • Health • Economic opportunity • Peace and human rights • Sustainable markets 	http://www.skollfoundation.org/

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Primary Investors				
Foundations				
Tony Elumelu Foundation	The Tony Elumelu Foundation is an African-based philanthropic organization focused on supporting entrepreneurship on the continent by enhancing the competitiveness of the private sector. The Foundation engages in impact investing, grant making and policy development.	The foundation offers an entrepreneurship programme to African start-ups, which includes mentoring, skills training and access to seed capital. It has also established a fund to provide grants and investments in Nigeria and surrounding countries.	The foundation supports entrepreneurs in a wide range of areas, including: <ul style="list-style-type: none"> • Agriculture • ICT • Housing • Media • Education • Transportation • Textiles • Manufacturing 	http://tonyelumelufoundation.org
Asset Managers				
Abraaj Group	The Abraaj Group is a private equity investor in growth markets, with a regional hub in Nairobi.	Large-sized equity transactions.	High-growth industries, such as: <ul style="list-style-type: none"> • Consumer • Energy • Financials • Healthcare • Utilities 	www.abraaj.com
Accion International	Accion is a global non-profit organization with a vision to build a financially inclusive world. It invests through the Accion Gateway Fund, Accion's Bridge Guarantee Program, Venture Lab and Frontier Investments Group.	Early-stage equity, quasi-equity financing and loan guarantees through its private equity fund and loan guarantee programme.	Makes investments in (MFIs) and companies offering products and services to Base of the Pyramid (BoP) markets.	www.accion.org/investments
Acumen Fund	A non-profit fund that makes investments to early-stage, impact-driven companies and recycles the returns to make new investments. It operates in East and West Africa.	Debt or equity investments.	Organizations which provide affordable access to services in: <ul style="list-style-type: none"> • Agriculture • Education • Energy • Health • Housing • Water 	www.acumenfund.org

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Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Asset Managers				
Agri-Vie	A private equity investment fund focused on food and agribusiness in sub-Saharan Africa.	Private equity.	Primarily invest in: • Food • Agribusiness	www.agrivie.com
AlphaMundi Group Ltd	Impact investing in scalable ventures in sustainable human development sectors in Uganda, Kenya, Tanzania, Malawi.	Debt, mezzanine and equity capital.	• Microfinance • Affordable education • Fair trade • Agriculture • Renewable energy	www.alphamundi.ch/index.php/en
Ariya Capital	Ariya Capital is a private equity and venture capital firm focusing on sustainable investments in frontier markets and small to mid-market opportunities. It does not invest in startups but can consider investments in early stage companies.	Venture capital and private equity.	• Clean technologies • Telecommunications • ICT • Energy Microfinance institutions	www.ariyacapital.com
Bamboo Finance	A commercial private equity firm specializing in investing in business models that benefit low-income communities in emerging markets.	Venture capital and private equity.	Microfinance and financial inclusion.	www.bamboofinance.com

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Asset Managers				
BlueOrchard Impact Investment Managers	BlueOrchard manages a Microfinance Fund that invests in microfinance institutions in emerging and frontier markets to support MFIs in expanding their outreach, improving the quality of their financial services, and encourage the development of new products such as savings, insurance and payment services.	Debt capital.	<ul style="list-style-type: none"> Microfinance institutions 	www.blueorchard.com
Catalyst Principal Partners	Catalyst Principal Partners manages an Eastern Africa-focused private equity fund to invest in growing regional businesses. It also actively pursues replacement capital investments that provide exits for existing shareholders seeking liquidity.	It offers mezzanine finance, public and private equity, and public debt across several industries.	<p>Multiple sectors, including:</p> <ul style="list-style-type: none"> Consumer goods and retail Financial and business services Industrials, manufacturing and value-add processing Technology and telecommunications 	www.catalystprincipal.com
Developing World Markets (DWM)	An asset manager and investment bank.		<p>Inclusive financial institutions (IFINs), including:</p> <ul style="list-style-type: none"> Microfinance institutions SME lenders Affordable housing lenders Education lenders Mobile banking service providers 	www.dwmarkets.com

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Asset Managers				
DOB Equity	DOB Equity invests growth capital in financially sustainable African businesses.	Equity.	<p>Multiple sectors, including:</p> <ul style="list-style-type: none"> • Agribusiness and food • Natural resources • Retail and distribution • Waste • Water • Energy • Mobile technology enabled services • Transport • Vet medicines • Clean energy 	www.dobequity.nl
Gawa Capital	GAWA Capital advises two funds – the GAWA Microfinance Fund and the Global Financial Inclusion Fund – that manage capital to support the growth of sustainable social enterprises in underserved markets. The portfolio includes nine investments in Latin America, Asia and Sub-Saharan Africa, one of which is in Ghana.	Debt.	Financial inclusion services.	www.gawacapital.com
Good Capital LLC	Good Capital manages the Sustainable Social Enterprise Expansion Fund, which provides growth capital and expertise to expansion-stage sustainable social enterprises. It provides both human and financial capital for non-profit and profit-seeking organizations worldwide.	Venture capital.	<p>Multiple sectors, including:</p> <ul style="list-style-type: none"> • Fair trade • Healthcare • Education • Financial inclusion 	www.goodcap.org

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Asset Managers				
Grassroots Business Fund	A hybrid non-profit/for-profit model, partnering with businesses to provide them with both long-term investment capital and business advisory services.	Equity, mezzanine equity, mezzanine debt and straight debt investments.	Investments in Africa include: <ul style="list-style-type: none">• Agriculture• Agribusiness• Energy	www.gbfund.org
Gray Ghost Ventures (GGV)	GGV aims to serve low-income communities in developing nations through for-profit investment in operating companies, sector ecosystem development and capacity building.	Venture capital and private equity managed through three funds to invest venture capital in early-stage enterprises in emerging markets.	Multiple sectors, including: <ul style="list-style-type: none">• ICT• Clean Technologies• Other proven technologies	www.grayghostventures.com
GroFin	GroFin is an SME finance and development company offering a combination of risk capital and business development assistance to small and growing businesses in Africa and the Middle East.	Private equity.	A range of sectors, including: <ul style="list-style-type: none">• Agriculture• Housing	www.grofin.com
Heart Capital	Heart Capital is an impact investing company that forms Social Innovation Hubs. It is active in South Africa's townships.	Venture and seed capital to high-growth, high-impact sustainable social enterprises.	Multiple sectors, including: <ul style="list-style-type: none">• Entrepreneurship• Food security• Economic empowerment• Environmental preservation	www.heartcapital.co.za

6 Appendix 2: Selected Impact Investors and Sector Ecosystem Supporters in Africa

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Asset Managers				
Ignite Fund	The IGNITE Fund invests in small and growing businesses (SGBs) in fragile and conflict-affected states. It is active in Burundi, Ivory Coast, Libya, Liberia, Mali, Rwanda, South Sudan, and Somalia.	It provides small business loans, supported by its partial risk guarantees and co-investments through local financing institutions, while also delivering business incubation and advisory services.	A range of sectors, including: <ul style="list-style-type: none">• Healthcare• Agriculture• Tourism• Retail	www.ignite-fund.org
Injaro Agricultural Capital Holdings Ltd.	Injaro makes investments in small-and medium-sized enterprises along the agricultural value chain in designated countries of West Africa. Injaro is a private company formed under the laws of Mauritius and it is managed by Injaro Investments Limited ("IIL").	Debt, quasi-equity, and equity.	<ul style="list-style-type: none">• Agriculture• Agribusiness	www.iachl.com
International Housing Solutions (IHS)	IHS is a private equity firm focused on the development of residential housing. The company invests in community-centered affordable housing projects in South Africa and neighbouring countries.	IHS is the fund manager of a 10-year private equity fund worth more than R1.9 billion, which has been active since 2007. IHS partners with financial institutions, real estate developers, private capital groups and local government authorities to provide equity finance for residential projects.	<ul style="list-style-type: none">• Affordable housing	www.ihsinvestments.co.za
Invested Development	Invested Development is an impact investment management firm with a focus on seed-stage, for-profit sustainable social enterprises with innovative technology solutions for underserved populations. It is active in Sub-Saharan Africa.	Its BSP Fund is a seed-stage equity fund.	Multiple sectors, including: <ul style="list-style-type: none">• Mobile/ICT• Alternative energy• Agricultural technology	www.investeddevelopment.co

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Asset Managers				
Investisseurs & Partenaires (I&P)	I&P is an impact investing group dedicated to small and medium enterprises in Sub-Saharan Africa. Since its inception, I&P has invested in more than 50 companies in 15 African countries.	Provides finance, mentorship and technical assistance.	Growth-oriented small and medium enterprises.	www.ietp.com
LeapFrog Investments	A profit-with-purpose fund that invests in businesses focused on financial services for the emerging consumer in Asia and Africa.	Debt capital.	Invests in financial services businesses, mostly companies that provide insurance. It seeks businesses which fall into one of three groups: i) financial institutions, ii) distributors for financial products, or iii) enablers of financial services, such as administrators or technology platforms.	www.leapfroginvest.com
Mergence Investment Managers	Mergence is an asset management firm offering investment management services to clients in South Africa, such as pension funds, government agencies and fund of funds managers. They have a focus on socially responsible investing and impact investing.	Mergence addresses ESG issues in their investments. It is GIIRS rated and incorporates impact measurement into their investment processes.	Multiple sectors, including: <ul style="list-style-type: none"> • Infrastructure property in rural areas • Housing • Renewable energy • Education • Job creation • Enterprise development • Transport 	http://www.mergence.co.za/

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Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Asset Managers				
MicroCredit Enterprises	The unique Guarantor model of MicroCredit Enterprises utilizes the financial capital and good credit of high net worth individuals and institutions to guarantee micro loans that lead to sustainable communities. It has issued loans to MFIs across four continents.	Loan guarantee.	<ul style="list-style-type: none"> • Microfinance institutions 	www.mcenterprises.org
Microvest Capital Management	Microvest Capital Management is capital-mobilizing intermediary to low-income finance institutions, including microfinance institutions. It seeks to invest capital in under-banked markets and provide access to financial services for rising middle class communities.	Private debt and equity capital.	Financial institutions that serve micro, small and medium businesses.	www.microvestfund.com
Moringa Partnership	The Moringa Partnership is the investment advisor to Moringa SICAR, SCA (the Moringa Fund).	Equity and quasi-equity investments, as well as technical assistance.	<ul style="list-style-type: none"> • Agroforestry 	www.moringapartnership.com

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Asset Managers				
Novastar Ventures Limited	Novastar is a venture catalyst firm assisting entrepreneurs who are designing and executing innovative business models to profitably serve East Africa's aspiring mass market.	Venture capital.	Multiple sectors, including: <ul style="list-style-type: none"> • ICT • Agriculture • Renewable energy • Education • Artisan products 	www.novastarventures.com
Oikocredit	Oikocredit is a worldwide cooperative and social investor, providing funding to the microfinance sector, fair trade organizations, cooperatives and small to medium enterprises and to agricultural cooperatives.	Debt and equity.	Multiple sectors, including: <ul style="list-style-type: none"> • Microfinance • Fair trade • Agriculture 	www.oikocredit.coop
Pearl Capital Partners	A specialist agriculture investment firm that invests in small and medium sized agribusinesses in Mauritius, Uganda and Kenya. It has two funds: the African Agricultural Capital Fund and the African Seed Investment Fund.	Equity, quasi-equity, equity-related and debt investments.	<ul style="list-style-type: none"> • Agriculture 	www.pearlcapital.net
Persistent Energy Capital	PEC invests in and incubates businesses with a commercial approach to providing basic and clean energy services to low-income customers in sub-Saharan Africa.	Equity and technical assistance.	<ul style="list-style-type: none"> • Clean energy 	www.persistentenergypartners.com

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Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Asset Managers				
Phatisa Fund Managers Limited	Phatisa is a private equity fund manager that invests throughout sub-Saharan Africa with two sector-specific funds under management the African Agriculture Fund (AAF) and the Pan African Housing Fund (PAHF).	Private equity.	<ul style="list-style-type: none"> • Agriculture • Housing 	www.phatisa.com
Photovoltaic Market Transformation Initiative (PVMTI)	Funded by the Global Environment Facility (GEF) and managed by the International Finance Corporation (IFC), the PVMTI is a \$30-million initiative designed to accelerate the sustainable commercialization and financial viability of energy services, based on solar electricity technology in India, Kenya, and Morocco.	Debt, equity, guarantees and technical assistance.	<ul style="list-style-type: none"> • Renewable energy • ICT 	http://www.ifc.org/wps/wcm/
REGMIFA (Regional Micro SME Investment Fund for SSA)	REGMIFA is a financial vehicle which fosters micro, small and medium enterprises (MSMEs) in Sub-Saharan Africa.	Debt financing, guarantee schemes and technical support.	Refinancing regulated and non-regulated microfinance institutions, local commercial banks and other financial institutions that serve MSMEs.	www.regmifa.com

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Asset Managers				
responsAbility Investments AG	<p>responsAbility is a social investment company which provides financing to non-listed companies with business models that target the lower-income populations. Asset managers specialize in development-related sectors of emerging economies including finance, agriculture, energy, healthcare and education.</p>	Debt and equity.	<p>Multiple sectors, including:</p> <ul style="list-style-type: none"> • Microfinance • SME financing • Fair trade • Independent media 	www.responsability.com
Root Capital	<p>A non-profit social investment fund that generates rural prosperity in poor, environmentally vulnerable regions of Africa and Latin America. Root Capital began working in Africa in 2005 with loans to several coffee cooperatives. East Africa is now Root Capital's largest African portfolio, with clients in coffee and other growing areas, including cocoa, nuts, honey, fresh vegetables, and spices.</p>	Lending capital, delivering financial training, and strengthening market connections for small and growing agricultural businesses.	Agribusiness.	www.rootcapital.org
Sarona Asset Management	<p>Sarona is a private equity firm that partners with local fund managers to deploy growth capital to expansion-stage companies in frontier and emerging markets.</p>	Private equity.	It invests in mid-market companies across Africa, primarily targeting sectors that will serve a rising middle class.	www.saronafund.com

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Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Asset Managers				
Social Venture Capital Fund (SOVEC)	SOVEC is a fund that invests in local entrepreneurs and SMEs. Its focus countries are Ghana, Zimbabwe and Kenya.	Venture capital.	<ul style="list-style-type: none"> • Health • Education • Sustainable energy 	www.sovec.nl
Symbiotics	Symbiotics is an investment company specialized in emerging, sustainable and inclusive finance which offers market research, investment advisory and asset management services. Symbiotics specializes in microfinance investment and SME impact investment services.	Microfinance investment vehicles including: <ul style="list-style-type: none"> • Fixed Income Funds invested in debt instruments • Mixed Funds invested in debt and equity • Equity Funds invested in equity instruments • Guarantees. Fund Manager of REGMIFA MSME Investment Fund for Sub-Saharan Africa in 18 countries.	Multiple sectors, including: <ul style="list-style-type: none"> • Microfinance • Food & Agriculture • Housing • Energy 	www.symbioticsgroup.com
Terra Global Investment Management	Terra Global facilitates market and results-based payment approaches for forest and agriculture emission reductions that provide community benefits. It offers forest and agriculture greenhouse gas emissions analytics, advice and finance and technical expertise and investment capital.	The Terra Bella Fund is a frontier private equity fund that provides early-stage project finance capital.	Environment and green energy; invests in high impact community-based forest and agricultural emissions reductions projects in developing countries.	www.terraglobalcapital.com

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Asset Managers				
The Investment Fund For Health In Africa	A private equity fund dedicated to small to medium size investments in private healthcare companies in Africa.	Private equity.	Healthcare companies.	www.ifhafund.com
Treetops Capital	Treetops Capital is a global investment manager of agricultural assets and green real estate. Treetops also co-manages a microfinance fund.	Debt, equity and mezzanine financing.	Multiple sectors, including: <ul style="list-style-type: none"> • Sustainable agriculture • Green real estate • Microfinance 	www.treetopscapital.com
Triodos Investment Management	Triodos Investment Management manages 18 sustainable investment funds.	Debt and equity financing.	Multiple sectors, including: <ul style="list-style-type: none"> • Climate and energy • Microfinance • Sustainable trade • Sustainable food and agriculture • Arts and culture • Sustainable real estate 	www.triodos.com/en/investment-management
UFF Management	UFF is a specialized investment management company with a dedicated focus on the agricultural development in Africa. UFF acts as the dedicated investment advisor to Futuregrowth Asset Management for the Old Mutual African Agricultural Fund and the Futuregrowth Agri-Fund (SA). The Old Mutual African Agricultural Fund (SICAV) invests in farmland and its infrastructure.	Unspecified.	Multiple sectors, including: <ul style="list-style-type: none"> • Land development and conservation • Employment • Community ownership • Education • Health care • Housing, • Food security • Environmental reform 	www.uff.co.za

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Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Asset Managers				
Unique Venture Capital (UVC) Management Company Limited	UVC is an SME-focused private venture capital investment firm established by 5 major Nigerian banks. It manages two funds and provides financing and advisory services to SMEs in Nigeria, Liberia and Sierra Leone.	Venture capital.	Multiple sectors, including: <ul style="list-style-type: none">• Agriculture• Cash movement• Leisure and tourism• Manufacturing	www.uvcmc.com
Vital Capital	Vital Capital is a private equity fund that prioritises investments that both provide financial returns as well as improve the quality of life of communities in Sub-Saharan Africa.	Vital capital provides private equity investments and undertakes detailed pre-investment evaluations as well as post-investment monitoring and measurement.	The fund primarily focuses on infrastructure development, including: <ul style="list-style-type: none">• Urban community housing• Agriculture• Renewable energy• Water• Education• Health care	http://www.vital-capital.com/
Willow Impact Investors	Willow Impact Investors is an impact investment firm that manages and advises sustainable social enterprises, SMEs and social impact funds. Its main areas of focus are North and Eastern Africa.	It offers access to capital, expertise, networks and business development services for early-stage growth companies.	Multiple sectors, including: <ul style="list-style-type: none">• Education• health• food and agriculture• community development• the environment• poverty alleviation	www.willowimpact.com
Sector Ecosystem Actors				
Accelerators				
Yunus Social Business (YSB)	Yunus Social Business is a social accelerator that incubates and finances local, impact-driven entrepreneurs. It sources, mentors and provides capital for social business creation and is currently active in Uganda.	YSB identifies potential entrepreneurs, and offers coaching and mentoring as well as financing options. They offer long-term, soft loans with below-market conditions and grace periods of up to two years.	YSB's current portfolio includes seven social businesses globally in varying sectors.	www.yunussb.com

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Non-Financial Advisory Services				
The BiD Network	<p>The BiD Network aims to capacitate high-growth SMEs in emerging markets with both capital and knowledge. It offers matchmaking support to both investors and entrepreneurs.</p>	<p>The BiD Network offers an entrepreneurs to access training, coaching and matchmaking services, as well as an online portal for business plan competitions and support programmes. Investors are able to connect with a pool of screened potential investees with high quality business plans.</p>	<p>Multiple sectors, including:</p> <ul style="list-style-type: none"> • Clean energy • Water • Agriculture • Food 	www.bidnetwork.org
Dalberg Global Development Advisors	<p>Dalberg is a strategic advisory firm that works with clients to maximise their social impact. Their projects have spanned 26 countries in Africa.</p>	<p>Dalberg offers tailored services in each of their practice areas. Their Access to Finance services include:</p> <ul style="list-style-type: none"> • Identifying investment strategies • Developing innovative financing mechanisms • Matching investment capital to entrepreneurs • Developing market-entry strategies • Catalysing underserved sector 	<p>Multiple sectors, including:</p> <ul style="list-style-type: none"> • Access to Finance • Agriculture and Food Security • Conflict, Human Rights, and Humanitarian Aid • Design and Innovation • Education and Employment • Energy and Environment • Gender Empowerment • Global Health • ICT and Mobile for Development • Inclusive Growth • Strategy and Performance 	http://www.dalberg.com

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Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Sector Ecosystem Actors				
Non-Financial Advisory Services				
Exclude Solutions	Exclude is an advisory firm delivering capacity solutions on inclusive finance and sustainable business practice for institutional investors. It also provides capital advisory and capital raising (debt and equity) services. It operates in Sub-Saharan Africa as well as the Middle East and North Africa region.	Exclude's Capacity Solutions service assists financial institutions and public and private sector organizations to identify, leverage and finance opportunities for enhanced growth and sustainability. Exclude's Capital Advisory service connects clients with the capital they need to finance their growth, and links public, private, and philanthropic investors to inclusive investment opportunities.		www.excludeolutions.com
Endeavor Global	Endeavour Global is a consulting organization that supports entrepreneurs to increase their access to talent, capital and markets.	Endeavour Global offers strategy advice, mentoring, business skills development, networking opportunities and market building to high impact entrepreneurs and SMEs.		http://www.endeavor.org/
Impact Amplifier	Impact Amplifier is a consulting firm that works to accelerate the growth and financing of high impact businesses in Africa.	Impact Amplifier assists sustainable social enterprises to become investment ready and facilitates their access to capital. They also provide deal sourcing and due diligence services to impact investors.		http://www.impactamplifier.co.za/
LifeCo UnLtd South Africa	LifeCo UnLtd South Africa is a nonprofit organization that identifies and supports social entrepreneurs in South Africa.	LifeCo UnLtd offers a host of entrepreneur support services including: <ul style="list-style-type: none"> • Training and workshops • Incubation • Investment 		http://www.unltdsouthafrica.org/

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Sector Ecosystem Actors				
Non-Financial Advisory Services				
Open Capital Advisors	Open Capital provides advisory and management services to support the growth of sustainable African businesses. They work with both start-up and established enterprises.	Open Capital provide intensive support to enterprises around strategy, internal management systems and sourcing finance. For investors, multinationals and donors they provide portfolio management, market assessments and strategy development.		http://opencapitaladvisors.com/
Shell Foundation	The Shell Foundation is an independent, venture philanthropy-based charity that deploys a range of financial and non-financial support to co-create new sustainable social enterprises through large partnerships.	The Foundation works to identify market failures and potential market-based solutions. It offers early stage funding and support to social entrepreneurs to develop new organizations that have the potential to scale. It also provides technical assistance around governance and business operations in order to ready entrepreneurs for traditional investment.	Its focus areas include improving: <ul style="list-style-type: none"> • Access to energy • Sustainable transportation • Job creation • Sustainable supply chains 	www.shellfoundation.org
Social Enterprise Academy South Africa	The Social Enterprise Academy South Africa tailors learning and development for people working in, or towards, a leadership role in the social economy. Their programmes encourage innovation and creativity by focussing on the participants' personal development as entrepreneurial leaders.	The organization offers introductory to advanced level programmes in the areas of leadership, enterprise, learning and social impact. The programmes comprise a series of workshops of one to ten days' duration.		http://www.sea-africa.org/

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Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Sector Ecosystem Actors				
Non-Financial Advisory Services				
Technoserve	Technoserve is a non-profit organization that develops business solutions to poverty by linking people to information, capital and markets. It works with individuals and businesses to address market inefficiencies.	Technoserve works through: <ul style="list-style-type: none">• Capacity development for individuals and communities in business and farming skills• Connecting businesses and farms to capital, networks and suppliers.• Addressing market efficiency through developing policy and incentives.	Primarily agriculture and natural resources.	http://www.technoserve.org
Academic				
Bertha Centre for Innovation and Social Entrepreneurship (Graduate School of Business, University of Cape Town)	The Bertha Centre is an academic centre within the University of Cape Town's Graduate School of Business dedicated to social innovation and entrepreneurship in Africa.	The Bertha Centre focuses on Private sector and public-private partnerships (PPP) in education, innovation, inclusive healthcare, innovative finance and pathways to scale, with a strong focus on Africa. It has integrated social innovation into the School's curriculum, provided scholarships to African students and tested innovative solutions such as Social Impact Bonds and social franchising.		http://www.gsb.uct.ac.za/s.asp?p=389
Lagos Business School (LBS), Nigeria	LBS is a business school hosted by the Pan-Atlantic University in Lagos, Nigeria. It offers a number of MBA programmes.	LBS is actively promoting impact investing and looking to establish an Impact Investing Centre. They host an annual Impact Investing Business Plan Competition.		http://www.lbs.edu.ng/

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Sector Ecosystem Actors				
Academic				
Strathmore Business School (SBS), Kenya	SBS is a business school in Nairobi, Kenya, that offers a number of MBA programmes as well as Masters degrees in public policy management and healthcare management.	SBS actively promotes social entrepreneurship and innovation and has hosted a number of events around these. It also participates in an Impact Business Leaders programme to encourage young professionals into careers in sustainable social enterprise.		http://www.sbs.strathmore.edu/
Networks				
Aspen Network of Development Entrepreneurs (ANDE)	ANDE is a global network of organizations that support entrepreneurship in emerging markets through financial, educational and business expertise.	ANDE offers a networking space for those working in entrepreneurship in developing contexts. Their programme areas cover advocacy and education, funding opportunities and resources, knowledge sharing, metrics and evaluation, research and training.		www.aspeninstitute.org
Global Impact Investing Network (GIIN)	The GIIN is a not-for-profit organization dedicated to increasing the scale and effectiveness of impact investing.	The GIIN aims to build the infrastructure needed to support a thriving impact investing environment. The network provides resources and engages in activities and research that promotes impact investing and attracts more investment capital into the sector.		http://www.thegiin.org

Organization	Overview (Stage and Type of Investment if Available)	Relevant Products and Services	Sector/Industries	Website
Sector Ecosystem Actors				
Networks				
Southern African Impact Investing Network (SAIIN)	SAIIN aims to promote the concept and practice of impact investing in Southern Africa and to contribute to the development of an investment sector ecosystem that brings new ideas and sources of capital to developmental challenges.	SAIIN hosts an annual conference on impact investing in Southern Africa in conjunction with partner organizations.		http://www.saiin.co.za/
Rating and Accreditation				
Global Impact Investing Rating System (GIIRS)	GIIRS is a rating system for impact measurement in the impact investing sector.	The GIIRS rating system using a standard set of metrics. It provides comparable ratings of an enterprise or fund's social and environmental performance.		http://b-analytics.net/giirs-ratings

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Impact Investment in Africa is on the Rise ...

The recent upsurge of impact ventures and entrepreneurs who aim to run financially successful businesses while also addressing some of the social and environmental challenges on the continent is resulting in growth that is more inclusive and benefits low income communities and the poor in Africa.

What this tells us, is that the world has not exhausted its sources of sustainable financing, but, through innovative applications, can harness the potential of capital to be more impactful.

Evidence shows clearly that most African countries will not meet the huge investment needs required for the implementation of the SDGs on their own. These countries will need to mobilize all public and private sources of finance, and impact investment presents a much needed complementary and sustainable source of funding to traditional development financing approaches.

This report is a survey that assesses the current key players, trends, constraints and opportunities of the African impact investment landscape. The report also features some evidence-based examples of impact ventures and practices. The UNDP Regional Service Centre for Africa, through this report, aims to inform and inspire all key stakeholders to come together to support the development of an "Impact Investment in Africa Action Plan."



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