

Investing for Impact

A Strategy of Choice for
African Policymakers



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About the authors

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

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

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Executive summary

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

Impact investment is a strategy to align the power of private markets to the social and environmental development needs of society at-large. From 2012-13, the Rockefeller Foundation, through its Impact Investing initiative, funded research in five Sub-Saharan African countries¹ with the aim of understanding the barriers for impact investing across Africa, as well as recommending national policies to encourage the growth of the industry. This report synthesises the findings of that work, examining the potential of impact investing as a 'strategy of choice' for African policymakers.

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

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

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

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

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

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

A note on the approach taken

This report draws primarily upon the findings of five country-level studies¹. It also presents ideas raised in associated global research² and key insights from a series of interviews conducted with stakeholders from across the impact investing ecosystem in Africa³. We acknowledge that Africa has over 50 distinct countries, each with their own cultures, history and politics. The intention of this report is not to generalise but rather to highlight common themes that are relevant across the continent. Indeed, it is a characteristic of the impact investing industry globally that countries - and policymakers - are learning from each other. Finally, while the research examines issues affecting the broad investment environment (e.g. factors such as ease of doing business) our focus is on highlighting areas where policy can improve the specific environment for impact investing.

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

² See Impact Investing: A Framework for Policy Design and Analysis. <http://www.rockefellerfoundation.org/blog/impact-investing-framework-policy>

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

Introduction: the relevance of impact investing in Africa

The African development agenda

In the coming years, African policymakers face a unique challenge and opportunity: Impressive economic performance, manifested as strong growth rates in several African countries over the last decade, has bolstered expectations that the continent will be an important and equal player in the global economy. Yet, for most African governments, despite this growth and substantial progress towards meeting some of the Millennium Development Goals (MDGs)⁴, the increasing trends of population growth, environmental change, resource scarcity and civil unrest may actually make social-economic development goals harder to achieve going forwards.

The need for more and better investment

Recent estimates place the total global post-2015 development financing gap at between US\$180 and US\$500 billion annually (by comparison, total net official development assistance by DAC donors was US\$126 billion in 2012), of which well over 50% will be required in Africa and South Asia alone⁵. For Africa, the region currently

Target audience

The recommendations made here are intended to be generic and are addressed at the centre of government (presidents' and prime ministers' offices, as well as ministries of finance and planning) at the national level. Ultimately, we hope that the report becomes a useful resource for African governments wishing to create a supportive – even catalytic – policy environment for impact investing. We also hope that the report serves as a practical resource for other development partners, investors and funders, as well as researchers with an interest in the advancement and maturation of Impact Investing in different African countries.

most dependant on external resources, and in particular Official Development Assistance (ODA), the main part of these resources will not be aid from developed countries, nor from public expenditure. Even over the last decade, the main driver of progress was not Official Development Assistance flows but growth, underpinned by private sector activity. Looking forward, the most important source of long-term finance will be private capital, such as foreign direct investment and portfolio investment from pension funds, as well as investment from sovereign wealth funds and development banks⁶.

Africa doesn't just need more investment though; the nature of investment must improve too. While globalisation and economic liberalisation has hugely increased both prosperity and economic efficiency, increases in the levels of social inequality and environmental degradation have underlined that it has also come at a high cost to society. Investment is required that generates, rather than undermines, social and environmental goods. Without it, there is a very real danger that the benefits that do accrue through economic growth could do so without a net positive social gain.

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

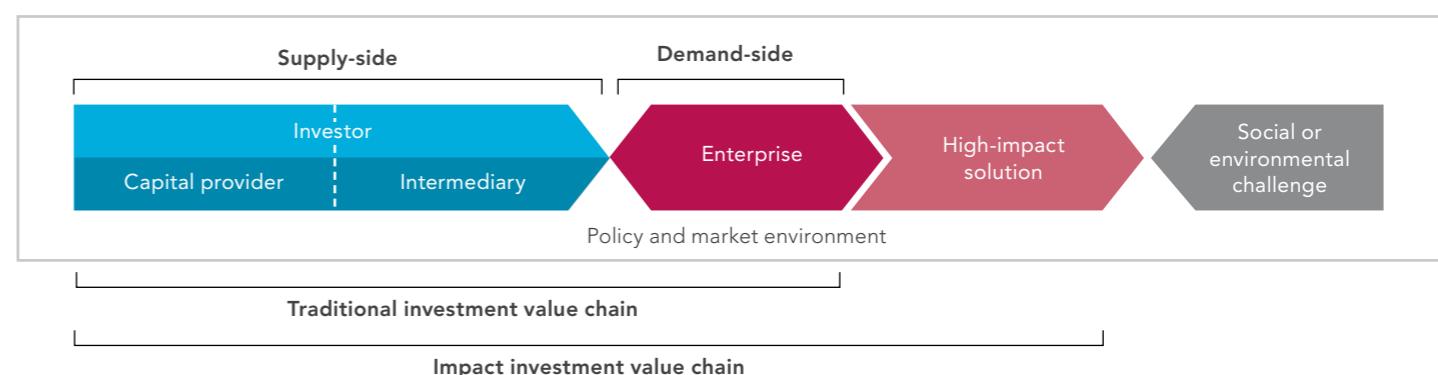
How is impact investing relevant?

The diagram below shows a simplified version of the traditional investment value chain. This same value chain occurs in impact investment with one distinct difference: in impact investment, investments are made with the intention to generate positive social and environmental impact alongside a financial return⁷. In other words, while all investments create various impacts (which can be positive or negative), impact investments are distinguished by their deliberate intention to generate specific positive impact(s), which includes an articulation of the societal challenge they are seeking to address, as well as measurement of progress against such social or environmental goals.

For Africa, many of the issues relevant to public funders and charities are also the domain of impact investing: inadequate housing, hunger and malnutrition, low educational levels, limited access to clean water, sanitation and hygiene, employment

challenges, social protection measures, low levels of agricultural productivity, infrastructure, limited financial and professional services availability and low levels of productivity in the economy.

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



4 According to the 2013 MDG Report published by the UN Economic Commission for Africa, the African Union, the African Development Bank and the UN Development Programme, at the regional level Africa is on track to meet MDGs 2, 3 and 6: universal primary education; gender equality and women's empowerment; combating key communicable and non-communicable diseases. See www.undp.org/content/undp/en/home/librarypage/mdg/mdg-reports/africa-collection/

5 Source: www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8319.pdf

6 Source and more information: <http://www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf>

7 <http://www.thegiin.org/cgi-bin/iowa/resources/about/index.html>

The landscape of impact investment

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

The 3 Ps: Product, Practices, Place

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

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

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

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

Impact investment approaches vary not only in terms of the enterprise model they use to generate societal change but also in terms of their financial motivation, which can also differ at both the level of the enterprise and the investor. We have developed the following 'spectrums' to help clarify the various approaches of investors and enterprises that make up the impact investing eco-system. In doing so, we aim to clarify the wide variety of agents that policymakers can enable. Importantly,

we use only dotted lines to distinguish between types, as we do not want to over-simplify the picture and recognise that some enterprises and investors may consider themselves as between or across categories.



Left and top: Sekaf, organic shea warehouse, Ghana.

Above: Sekaf, shea butter, finished product

The New Paradigm					
	Impact-only	Impact-first	Lock-step	Responsible	Commercial-only
Focus	Models whose ability to address a societal issue cannot generate a financial return to investors	Enterprise models whose ability to address a societal issue can generate a below-market financial return for investors	Enterprise models whose ability to address a societal issue can generate a competitive financial return for investors (i.e. the financial and societal return are in 'lock-step')	Enterprise models that manage their environmental, social and governance practices (ESG) to protect/enhance competitive financial returns for investors	Enterprise models focused on financial returns, with limited or no focus on their environmental, social and governance practices (ESG)
Examples	<p>Proplast, Waste management Senegal, 2010</p> <p>Small Enterprise Foundation, Financial inclusion, South Africa, 1992</p>	<p>Takamoto Biogas, Offgrid energy access Kenya, 2011</p> <p>Nest for All, Access to healthcare Senegal, 2012</p>	<p>Pwani Feeds, Animal feed manufacturing company Kenya, 1998</p>	<p>SOCOCIM/Vicat, Cement manufacturing Senegal, 1999</p>	

KEY**Name of Enterprise**Geographic reach of enterprise
Year of launchMore detail on these examples
can be found in the Appendix**The Enterprise Spectrum**

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

Taking this further, there are also enterprises who recognise that some social or environmental issues can create highly commercial growth opportunities, with the potential for an enterprise to deliver targeted societal impact alongside market,

or even above market, risk-adjusted financial returns. We call enterprises adopting this approach **Lock-step** enterprises because the societal impact is inextricably linked to the enterprise's ability to deliver strong financial returns and vice versa (in other words, impact and investor returns move in 'lock-step').

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

	Focus	Examples
Impact-only	Focus on solutions to social issues that require 100% financial trade-off	
Impact-first	Focus on solutions to social issues that can generate a below-market financial return	Investisseurs & Partenaires PDEV Fund Pan-Africa \$42mn, 2002
Lock-step	Focus on solutions to social issues that can generate market-rate or market-beating financial returns	Jacana Partners Jacana SME Fund Sub-Saharan Africa \$75m, 2013
Responsible	Focus on managing environmental, social and governance practices that prevent negative impact and increase positive impact, thereby protecting/enhancing competitive financial returns	Self-owned (pensioner members) Government Employees Pension Fund South Africa, \$128bn, 1996
Commercial-only	Focus on competitive financial returns with limited or no focus on environmental, social and governance practices (ESG)	CDC, Norfund, EIB for Africa Investment Fund Abraaj Capital Africa Fund, Pan-Africa, \$381m, 2008,

KEY**Name of Asset Owner(s)****Name of Intermediary**

Geographic focus, Fund size, Vintage year

Year of launch

More detail on these examples can be found in the Appendix

The Investor Spectrum

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

The Motivation Matrix

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

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

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

Finance Institutions seeking to generate job creation, tax revenue and economic growth in underserved regions.

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

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

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

	Impact-only	Impact-first	Lock-step	Responsible	Commercial-only
Impact-only					
Impact-first					
Lock-step					
Responsible					
Commercial-only					
Enterprise motivation					
DFID, AusAid, MF, IFAD & others African Enterprise Challenge Fund Tanga Fresh Tanzania	Various Acumen Ecotact Kenya	Mulago, Jasmine Social Investments, Peery Root Capital/ Durabilis Foundation Terral Senegal	SEDF, AGRA, Lundin Foundation Injaro Investments Neema Agricole du Faso SA (NAFASO) Sub-Saharan Africa	IFC Eiffage: Dakar-Diamniadio Toll Road Project Senegal	Various Abraaj Group Fan Milk International West Africa
HBD Ventures, Genesis Capital, CDC and AfDB Emerging Capital Partners Africa Fund III Société d'Articles Hygiéniques Tunisia					

KEY

Example Asset owner
[Name of intermediary \(fund\)](#)
[Name of enterprise](#)

More detail on these examples can be found in the Appendix

Case studies of impact investing in Africa

SENEGAL

Sector: Clean energy	Enterprise: SPEC	Example asset owner: Agence Francaise de Development
	Model: Product – providing off-grid access to solar energy	
	Intermediary: PROPARCO, CBAO and BICIS	
	Motivation: Lock-step	Motivation: Impact-first

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

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

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

Source: More information is available in the Senegal grantee report



GHANA

Sector: Agri processing	Impact enterprise: Sekaf	Asset owner: SEDF, AGRA, Lundin Foundation
	Model: Practice – Increasing value-add for smallholder farmers	Investment manager: Injaro
	Motivation: Impact-first	Motivation: Various

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

Enterprise solution: Injaro has invested in SeKaf, a Ghanaian social enterprise that aims to be an innovative leader in the global Shea industry by coordinating processing, packaging, quality control and logistics to deliver produce and market Shea based bath and beauty products sourced through an environmentally friendly and ethical supply chain. Sekaf Group provides producer cooperatives with loans, credit facilities and quality control expertise and a higher price for their quality processed Shea butter. In turn this provides employment security and economic empowerment for cooperative members.

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

Source: Interview. More information at: <http://www.tamacosmetics.com/sekaf-shea-butter-village/>

NIGERIA

Sector: Financial Services	Enterprise: Pagatech	Asset owner: Various (undisclosed)
	Model: Product – Financial inclusion for the unbanked	Investment manager: Alitheia Capital
	Motivation: Lock-step	Motivation: Lock-step

Challenge: Nigeria lags behind many of its peers in Africa with respect to financial inclusion. 64% of the country's adult population remain without access to formal financial services, reinforcing the cycle of poverty and weakening the pace of the country's economic growth and development. The vast majority (80.4%) of those excluded live in rural areas, where branch branches, ATMs and POS machines are few and far between.

Enterprise solution: Alitheia Capital invested in Pagatech, a savings and payments company that leverages a mobile banking platform to enable its clients to save, remit funds, buy airtime and pay bills via the mobile phone and/or a network of retail agents at a relatively lower cost than traditional providers. Pagatech is leveraging the deep penetration of mobile telephony – more than two-thirds of Nigerian adults use a mobile phone – to deliver innovative and universal access to financial services.

Benefits: Pagatech is bringing relevant financial services to the doorstep of millions of Nigerians. In two years of operations, Pagatech has attracted over 1.2 million users. Leveraging the ubiquity of its platform, Pagatech is able to reach populations that are excluded or unreachable by traditional institutions.

Source: Interview. More information available at: <http://www.pagatech.com/about-us>

KENYA

Sector: Manufacturing	Impact enterprise: Athi Steel	Example asset owner: UK DFI – CDC Group
	Model: Place – creating a major employment centre in an underserved area	Intermediary: Abraaj Group
	Motivation: Responsible	Motivation: Lock-step

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

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

Benefits: The number of people employed has risen from 29 in the 1990s to nearly 800 full time jobs today.

Source: www.cdcgroup.com/Global/Case%20Studies/Athi%20Steel/Final%20AthiSteel_4pageCaseStudy.pdf

REGIONAL

Sector: Agriculture	Enterprise: Western Seed	Example asset owner: USAID, Gates Foundation, GATSBY, Rockefeller Foundation, JP Morgan
	Model: Practices and products – investing in agricultural enterprises	Intermediary: Pearl Capital Partners, African Agricultural Capital Fund

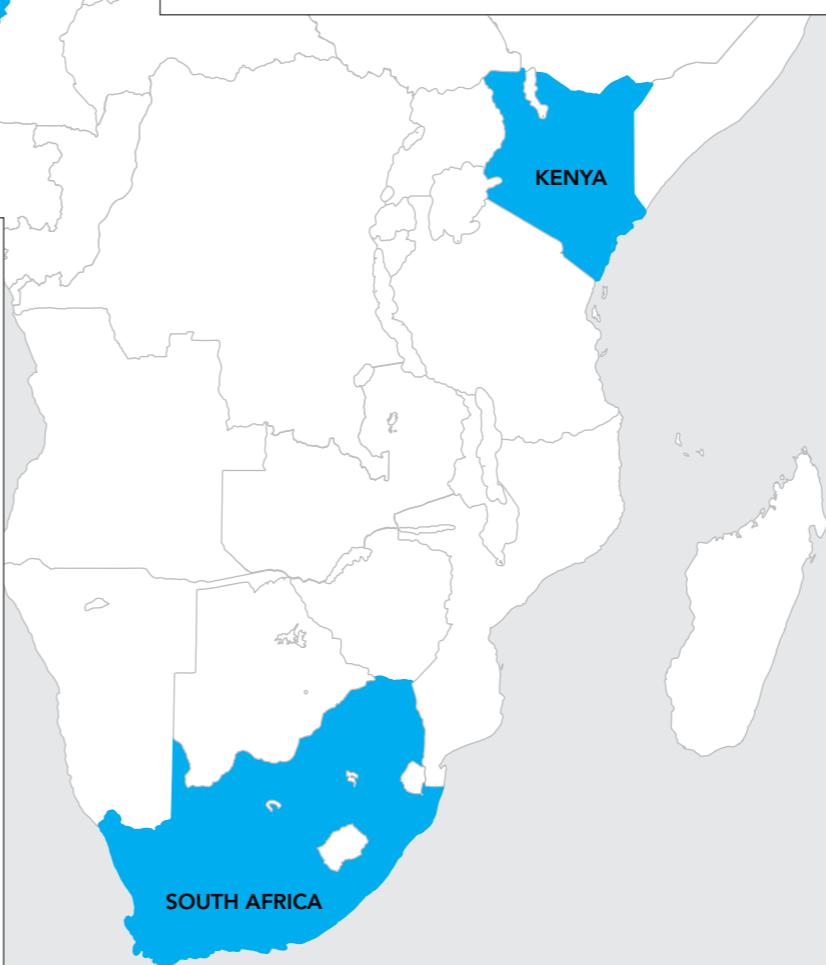
Motivation: Various (layered structure)

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

Enterprise solution: Western Seed has developed a hybrid maize variety that generates a 300% increase in yield over traditional seeds. By launching a Direct Access Sales program, Western Seed can market the hybrid varieties directly to rural farmers in parts of Kenya where farm-saved seed is traditionally used.

Benefits: Western Seed and Naseco have helped on average 850,000 smallholder farmers annually achieve increased yields to move from subsistence farming to generating income from selling to local markets. Average income benefit per smallholder farmer is US\$94, resulting in nearly US\$80 million of additional income to smallholder farmers since 2007.

More information: <http://westernseedcompany.com/>



SOUTH AFRICA

Sector: Financial services and healthcare	Enterprise: AllLife	Example asset owner: Several including JP Morgan, Omidyar
	Model: Product – providing life insurance for HIV+ and diabetics in South Africa	Intermediary: Leapfrog

Motivation: Lock-step

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

Enterprise solution: All Life provides affordable life and disability insurance to those living with diabetes and HIV+ people in South Africa. Their model is based on a unique system of 'continuous underwriting', which links insurance to adherence to medication. This ensures clients manage their health and take proactive action to maintain their wellbeing. AllLife also provides post-test counselling to thousands of people and public education, helping to de-stigmatise HIV/AIDS.

Benefits: Thanks to AllLife's cover, people with HIV are able to insure themselves, access capital, such as home loans, and participate in the economy. Access to insurance has also been shown to reduce stigma associated with HIV, and significantly improve health outcomes.

Source: Interview. More information available at: <http://www.leapfroginvest.com/lif/investment/portfolio-company-alllife>

Barriers to the growth of impact investing across Africa

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

This section examines some of the main barriers that are impeding the uptake of impact investing as a strategy to solve social and environmental challenges across Africa. It has been compiled by synthesising local challenges identified in the individual country-level analyses, along with insights from a series of semi-structured interviews⁸ with capital providers operating across Africa.

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

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

Overarching barrier

A lack of awareness around impact investing

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

Fund manager interview

A common challenge, relevant to both the supply and demand sides of the impact investing market, is a lack of awareness of the concept of impact investing and little shared understanding of how it works. Enterprises that might be generating social benefits are often unaware of impact

investors and the potential pool of ‘aligned’ capital. Similarly, many traditional investors lack awareness that they can invest to generate societal impact, as well as meet their financial return requirements.

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

Demand-side barriers

A lack of adequate or appropriate financing sources

“There is a clear gap in impact finance... a need for higher risk capital, a need for smaller deal sizes and/or, in certain circumstances, some financial trade-off for impact.”

Senegal country report

Many entrepreneurs with an impact motivation lack access to seed finance (typically c.USD\$10k to \$100k) to develop their business model to a stage where they are ready to take on investment and scale their operations. In several African

countries, this was described as a ‘missing middle’: a gap of suitable finance for enterprises which are too large to qualify for microfinance and too small to be considered for traditional investment.

Even when an enterprise does succeed in growing beyond start-up phase, appropriate bank finance (often for working capital) can then be a challenge. This barrier is particularly acute because such small-to-medium sized enterprises (SMEs) can form the bulk of an economy. In Ghana, for example, SMEs constitute c.90% of businesses but have difficulty in accessing credit and avoiding unfavourable terms⁹.

⁸ Nine investment managers, active across Africa, were polled through a semi-structured interview

⁹ Ghana Report: Since 2005, banks have established SBUs and partnerships with micro-credit institutions to focus on SME lending.

Limited availability of capacity building services

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

Intermediary

Impact-driven enterprises often pioneer new business models that are tailored to the needs (and constraints) of underserved markets. For many this means selling to customers who are difficult to reach, have a low resource base and can be volatile in their patterns of consumption. There is seldom specific support from

government to help businesses thrive in these conditions. Where there are support programmes, such as the ADEPME¹⁰ and FONDEF¹¹, which actively try to foster entrepreneurship in Senegal, they are not often known about or viewed as prohibitively complex to utilise.

Impact-driven enterprises, particularly early-stage ones, require more intensive support - from business plan development through to expert advice on operational and scaling issues - the results of which will often determine the nature (and amount) of investment that they should attract.

Lack of appropriate corporate structures

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

Entrepreneur

For impact investing to be successful, entrepreneurs need to be educated and enabled to transform their businesses into corporate structures that are appropriate for investment. In many African countries, there is currently a lack of incentives for SMEs even to convert from informal to formal business structures. Kenya, for example, stands at 126th out of 185 economies on the ease of starting business¹². The process

requires 10 procedures, takes 32 days and costs 40.4% of income per capita.

Although many governments do encourage informal businesses to formalise their structures, largely driven by a desire to generate tax revenues, companies need to be incentivised to do so, especially when the associated costs can be high. Even when entrepreneurs do establish formal business structures, company codes can be outdated and don't accommodate businesses with a social mission. The Ghana Companies Code, for example, was first drafted in 1963 with no revisions to date. The corporate structure provided by the Act is currently limiting for impact-driven enterprises¹³.

Regulatory challenges in high impact sectors

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

Investment Intermediary

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

Supply-side barriers

Lack of appropriate investment vehicles

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

Asset owner

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

At the continental level, language also limits the scope of funds. Typically funds like to

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

¹⁰ Agency for the Development and Support of Small and Medium Enterprises, Senegal

¹¹ Technical Education and Professional Training Fund, Senegal

¹² Source: World Bank & IFC, Doing Business 2013: Country profile; Kenya

¹³ See: <http://ghanalegal.com/?id=3&law=17&t=ghana-laws>

Limited deal flow

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

Investment intermediary

There are limited formal channels or networks that showcase impact enterprises for pipeline development and analysis, so investors rely heavily on word of mouth and their informal networks. This situation could be viewed as a barrier, or at least a hurdle, to entry for newer investors.

Limited exit options for impact investors

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

Investment intermediary

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

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

Public equity markets and secondary capital markets provide a potential route

Lack of credible and consistent reporting on impact performance

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

Investment Intermediary

Growth of the impact investing sector is hampered by a lack of transparency regarding how impact enterprises and funds define, track and report the performance of their activities. Approaches to measurement range from adopting reporting standards

Regulation of institutional investors

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

Investment Intermediary

Some countries in Africa place significant restrictions on domestic institutional investors. This can range from governments placing stringent rules on insurance companies and pension funds, so that they are not permitted to make private equity investments at all, through to the use of

such as the IRIS¹⁴, to reporting against DFI-defined social, environmental and economic indicators, through to using custom-developed approaches.

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

specific fiduciary duties, limiting their ability to make higher-risk impact investments. In West African Economic and Monetary Union (also known by its French acronym, UEMOA) countries, for example, the Insurance Regulatory Body (CIMA) does not allow its member insurance companies to invest in private equity funds¹⁵. In Nigeria, pension funds are not permitted to make private equity investments. These restrictions limit the growth of the impact investing industry, which is currently dominated by private equity funds, as much-needed domestic capital is prevented from flowing into impact investing vehicles.

¹⁴ Impact Reporting and Investment Standards. More information can be found at: <http://iris.thegiin.org/>

¹⁵ See Impact Investing in West Africa [www.rockefellerfoundation.org/blog/impact-investing-west-africa](http://rockefellerfoundation.org/blog/impact-investing-west-africa)

10 policy recommendations to grow the impact investing ecosystem in Africa

Barriers to matching supply and demand

Poor policy coherence and competing incentives

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

Asset owner

For governments that are serious about creating an enabling environment for impact investing, it is important that they ensure that domestic policies don't conflict with one another. For example, tax incentives for oil production can effectively

draw capital away from investment in renewable energy¹⁶.

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

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

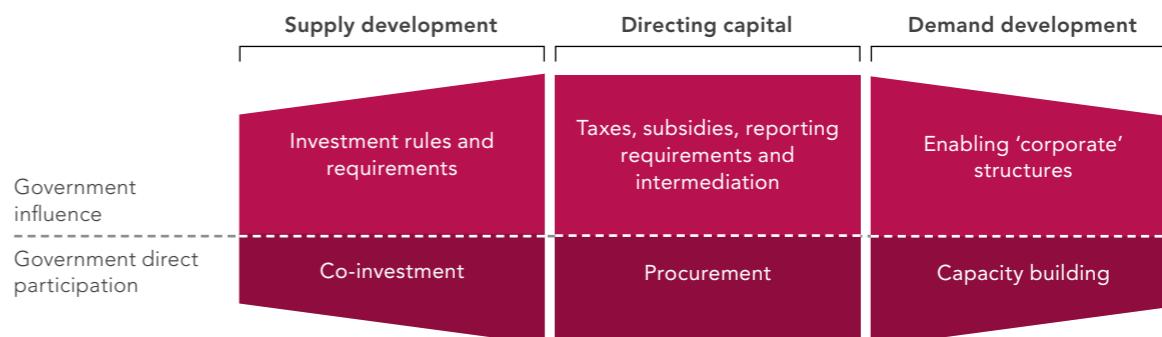
The Global Impact Investing Policy Project has developed a useful framework for policy analysis, which groups impact investing policies into three categories, linked to the way they intervene in capital markets:

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

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

Using this policy framework, we have identified 10 key policies that governments can take to help grow the impact investing eco-system in Africa. These actions reflect the findings of the five country-level reports, as well as interviews with a range of impact investing stakeholders from across Africa¹⁸. The recommendations made are intended to be generic and are addressed at the centre of government (presidents' and prime ministers' offices, as well as ministries of finance and planning) at the national level.

Policy framework¹⁷



¹⁶ See Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry www.rockefellerfoundation.org/blog/accelerating-impact-achievements

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

¹⁸ Specific survey and interviews conducted.

Policy recommendations

	Government influence			Government participation				
Key Barrier	Investment rules & requirements	Taxes, subsidies, reporting requirements and intermediation	Enabling corporate structures	Co-investment	Procurement	Capacity building		
Lack of awareness of the concept of impact investing	<p>TASK FORCE: Government to establish an impact investing taskforce to i) explore the country-specific potential of impact investing, ii) promote a country-relevant definition and iii) communicate the impact investing concept to all requisite stakeholders</p>							
Supply-side barriers	Lack of investment vehicles	CATALYTIC CAPITAL: Government investment to stimulate the growth of domestic impact investment funds		CATALYTIC CAPITAL: Government investment to stimulate the growth of domestic impact investment funds	INVESTMENT READINESS FUNDING: (see below)			
	Limited high quality deal flow	<p>REGIONAL SME EXCHANGE: Develop a regional SME exchange to provide liquidity for exit</p>						
	Limited exit options	<p>DO OR EXPLAIN: Government to expect institutional investors (including banks) to articulate social and environmental impacts</p>						
	Regulation of institutional investors	<p>FLEXIBLE REGULATION: Government regulation to allow institutional investors to invest in impact enterprises</p>						
'Directing' barriers	Poor policy coherence and competing incentives	<p>CASE BY CASE ANALYSES: Review of fiscal frameworks and fiscal incentives to promote investment in impact enterprises and ensure policy coherence</p>						
Demand-side barriers	Lack of finance sources to grow business	PRIORITY PROCUREMENT: Create a competitive advantage for impact-driven enterprises		GUARANTEE PROGRAMME: Enable impactful enterprises to demonstrate their creditworthiness	PRIORITY PROCUREMENT: Create a competitive advantage for impact-driven enterprises	INVESTMENT READINESS FUNDING: Provide government funding for investment-readiness (includes incubators, business plan competitions, etc.)		
	Limited capacity building services	<p>NEW CORPORATE FORMS: Ensure legal forms are suited to impact-driven enterprises' requirements</p>						
	Regulatory challenges within high-impact sectors	<p>CASE BY CASE ANALYSES: Review of fiscal frameworks and regulatory activity in each sector</p>						

Overall action

Key barrier	Key recommendations
A lack of awareness of the concept of impact investing	<p>TASK FORCE</p> <p>Governments can establish impact investing task forces to:</p> <ul style="list-style-type: none"> • Explore the country-specific potential of impact investing • Promote a country-relevant definition of impact investing • Communicate the impact investing concept to all stakeholders

Recommendations to build supply

Key barrier	Key recommendations
Lack of investment vehicles	<p>CATALYTIC CAPITAL</p> <p>Governments can invest directly into new impactful investment intermediaries in order to stimulate the growth of funds that generate both impact and a financial return.</p> <p>Such government funding may be pari passu with other investors or subordinated (in order to further incentivise investors) and can also work alongside favourable tax breaks.</p>

Key barrier	Key recommendations
Limited exit options	<p>REGIONAL SME EXCHANGE</p> <p>Limited exit options hamper the potential supply of capital for impact investment. Currently African stock markets are relatively incipient and don't offer the required liquidity for SMEs to list.</p>

Overall action

Key barrier	Key recommendations
A lack of credible reporting on impact	<p>DO OR EXPLAIN</p> <p>If capital providers are required to either report, or explain why they are not reporting, the social and environmental impacts of their investments, it would encourage the market to agree on conventional frameworks for reporting and could even shift investors' capital allocation strategies, increasing the overall supply of money for impact investing.</p>

Key barrier	Key recommendations
Regulation of institutional investors	<p>FLEXIBLE REGULATION</p> <p>Governments should review investor regulation to ensure that it is robust but that it also offers the flexibility to participate in and potentially benefit from contemporary capital markets in a responsible way.</p> <p>Effectively targeted regulation can help to unlock capital that would otherwise pass over impact investing opportunities.</p>

Recommendations to match supply and demand

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

Recommendations to match supply and demand

Key barrier	Key recommendations
Poor policy coherence and competing incentives	<p>PRIORITY PROCUREMENT</p> <p>Governments should introduce pro-impact procurement policies to incentivise investors to back impact businesses. Such moves have the effect of attracting private investment to impact sectors as they are viewed as having preferential access to markets, thereby creating jobs and providing an enabling environment for local business.</p>

Recommendations to develop demand

Key barrier	Key recommendations
Limited finance sources to grow businesses	<p>INCUBATION AND INVESTMENT-READINESS FUNDING</p> <p>Government should support incubators for impact-driven enterprises. Such support could be in the form of grants to private sector incubators. Alternatively, investment-readiness funding could be provided as a public funding scheme, accessible to impact enterprises demonstrating a need to up-skill and build capacity within their organisation. Governments could then explore facilitating the development of angel investor activity through tax incentives.</p> <p>Example In Senegal, for example, the Fund for the Development of Technical Education and Vocational Training (FONDEF) promotes and partially finances company investments in training, whilst improving the regulation of the market for continuing professional development. In turn, Angel investors can support these businesses through the early stages of growth.</p> <p>Example The Ghana Angel Investor Network (GAIN) is a network of angel investors looking to invest in early-stage businesses with significant growth prospects and the potential to generate superior returns. Entrepreneurs benefit from the expertise and experience of a group of highly qualified investors who would mentor their respective entrepreneurs and have access to a network of executives with a wide array of functional expertise. Further, by dealing with a network of investors rather than individual investors, entrepreneurs can save considerable effort in the process of getting the investment capital that they need. Importantly, the investment made by an angel investor can be offset against corporate and individual tax liabilities and there are exemptions given on capital gains and income generated by the capital invested</p>

Recommendations to develop demand

Key barrier	Key recommendations
Limited finance sources to grow businesses	<p>GUARANTEE PROGRAMME</p> <p>Government guarantee programmes, often in the form of public-private partnerships, can enable previously unbankable entrepreneurs or enterprises to demonstrate their creditworthiness and access vital working capital.</p>

Key barrier	Key recommendations
Lack of appropriate corporate structures	<p>NEW CORPORATE LEGAL FORMS</p> <p>New corporate structures can enable the effective channelling of capital by resolving the limitations of the limited liability or not-for-profit corporate forms.</p> <p>Governments should explore introducing new corporate forms that are more suitable for impact enterprises that are seeking to create social returns alongside financial returns.</p>

Example
Across much of central and western Africa, countries are members of the Organisation for the Harmonization of Business Law in Africa (OHADA). They share the same business laws (company law, secured transaction law, insolvency law, and commercial law), and have undertaken an effort to harmonize these laws and regulations since the early 1990s. OHADA members adopted a revised Commercial Law in December 2010, which came into force on May 2011. Among other provisions, the new Company Law introduced the legal framework for the 'Entreprenant status,' a simplified legal status specifically designed for small entrepreneurs with the objective of making them easier to become formal. The result is that individual countries, such as Senegal, have included the application of the new status of 'entreprenant' adopted by OHADA, among their proposed regulatory reforms. Similar laws could be adopted for impact enterprises.

Sector deep-dive: agriculture and food security

This section illustrates how the various frameworks presented in the report can be used to understand and address a thematic issue which is high on the political agenda for most African governments: food security.

Policy context

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

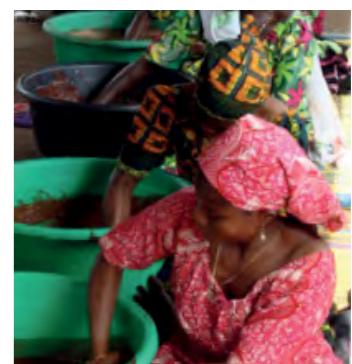
Meeting the food security challenge will require change across all parts of the food system and collaboration between governments, farmers, investors and citizens. Actions will be required that boost smallholder food production in poor countries; put sustainable resource use and ecology at the centre of farming; make financial markets work to address challenges to food security, such as waste all along the supply-chain and food price speculation; and pave the way to cope with higher and more volatile food prices.

Although the specific 'blend' of the future food system is widely debated, it does

seem that there will be roles for both large-scale agricultural producers and smallholders alike. For policymakers, the question is how to create the conditions that will enable both to thrive. For example, while smallholders can benefit from being included in formal value chains, additional support systems such as working capital, training, access to inputs, etc. are often necessary for these benefits to be realised. Further, other dimensions related to nutrition, resource scarcity, natural capital degradation, gender, nutrition, and postharvest waste and losses need to be addressed.

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

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



Left: Nafaso processing plant, Burkina Faso.

Top: Pagatech, financial inclusion for the unbanked, Nigeria

Above: Sekaf, Shea butter processing, Ghana

¹⁹ Source: <http://www.fao.org/about/who-we-are/director-gen/faodg-statements/detail/en/c/213162/>

²⁰ Source and more information: http://pcfisu.org/wp-content/uploads/pdfs/TPC0632_Resilience_report_WEB11_07_SMALLER.pdf

Activity	Output	Short-term outcome	Long-term outcome
Geography: Senegal Asset owner: Various Intermediary: Durabalis, Root Capital (Impact-first) Enterprise: Terral (Lock-step) More information: http://durabilis.eu/business/Terral	Terral facilitates access to finance, eliminates value chain inefficiencies and introduces innovation and technology for rice farming	Cost of locally growing rice drops and can compete with massively imported products	<ul style="list-style-type: none"> Increased food availability in rural communities Increased incomes from the sale of surpluses / other crops
Geography: Kenya Asset owner: Several including Calvert, Deutsche-Bank Intermediary: Grassroots Business Fund (Lock-step) Enterprise: Pwani Feeds (Responsible) More information: http://global-growing.org/en/content/kenya-pwani-feeds	Pwani collect eggs from local farmers and sells to retailers using a wholesale distribution system. They also offers post-sales support and assistance with animal health	<ul style="list-style-type: none"> Created 300 jobs in two factories Route to market for produce Improved livestock productivity 	<ul style="list-style-type: none"> Higher and more stable incomes for farmers Fewer livestock deaths
Geography: Burkina Faso Asset owner: SEDF, AGRA, Lundin Foundation Capital provider: Injaro Capital Holdings (Lock-step) Enterprise: Nafaso (Lock-step) More information: http://www.privateequityafrica.com/wp/regions/west/injaro-invests-in-nafaso/	Nafaso provide high quality maize, rice and cowpea seeds to smallholder farmers across Burkina Faso	Improved seed achieve increased agricultural yields for ~ 14,000 farmers within the Sahel region	Small farmers increase incomes as food prices rise worldwide
Geography: Nigeria Asset owner: Olam International (Responsible) Intermediary: NA – Olam international Enterprise: Olam International Limited (Responsible) More information: http://boardroomng.com/olam-introduces-innovative-model-for-nigerias-rice-production	Olam international established nucleus farm and installed infrastructure to connect to surrounding rural areas	<ul style="list-style-type: none"> 600 people from local community employed on farm Up to 20,000 farmers participating as out growers 	Nucleus farm employees are well paid. Family members are able to start small businesses such as food stalls and shops
Geography: Ghana Asset owner: Ghana Ministry of Food and Agriculture (MOFA) Intermediary: AgDevCo (Lock-step) Enterprise: Bamboi commercial farming block (Commercial-only) More information: http://www.agdevco.com/portfolio.php?projectId=18	Bamboi commercial farm hub, rice mill and irrigation infrastructure are built to provide services for emergent local farmers	Smallholder farmers increase productivity and have marketing channel for produce and access to value-add processing services	Nucleus services increase incomes and skills levels amongst smallholder producers
Geography: Nigeria Asset owner: DFID – Propcom Mai-karfi (Impact-first) Intermediary: Doreo Partners (Impact first) Enterprise: Babban Gona Farmer Services Limited (Impact-first) More information: http://www.doreo-partners.com/press-release-dfid-purchases-nigerias-first-social-impact-bond/	BGFS organises smallholder farmers with 1-4 ha under cultivation into 'Trust Groups' and provides them with training, inputs and marketing	This enables farmers to produce high-quality maize at 4 times the yield of the average Nigerian farmer	Increased income. e.g. BGFS's best farmer made a profit of \$1,350 net of his loans, catapulting him from poverty to the lower middle income bracket

Different motivations in each approach

The above examples illustrate the diversity of actors involved in impact investing approaches that can enhance food security. However, enhancing food security is not necessarily the primary motive for every stakeholder profiled. Strategic and commercial reasons are important too. Here we have mapped the above cases onto the Matrix of Motivation.

The below mapping shows that the intent to create positive societal impact can be at any level – either at the level of the

enterprise, at the level of the investor, or at the level of the policymaker (or across all three). Developing an understanding of where this intent lies is important for policymakers because it can help them to identify where there is already a concentration of beneficial activity from certain stakeholder groups, as well as where there are gaps, with unfulfilled potential. In both cases, favourable government policies can shape and expand the market.

KEY
Example Asset owner
Name of intermediary (fund)
Name of enterprise

	Impact-only	Impact-first	Lock-step	Responsible	Commercial-only
Investor motivation	Enterprise motivation				
Impact-only					
Impact-first	DFID Doreo Partners Babban Gona Farmer Services Ltd	Various Root Capital / Durabilis Terral			
Lock-step			SEDF, AGRA, Lundin Foundation Injaro Capital Holdings Neema Agricole du Faso (NAFASO)	Various Grassroots Business Fund Pwani Feeds	MOFA AgDevCo Bamboi Commercial farming block
Responsible				Olam Olam rice nucleus	
Commercial-only					

Applying the policy model of intervention

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

Supply development

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



Government as influence: investment rules and requirements

Government as participant: co investment

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

Directing capital

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



Government as influence: taxes, subsidies, reporting requirements and intermediation

Government as participant: procurement

- **The National Financial Inclusion Framework, Tanzania** aims to ensure that small-scale farmers and farming businesses have access to credit and other services that they require to commercialise. The programme focuses on priorities such as payment platforms, infrastructure and consumer protection, with an overall goal of giving 50% of the country's population access to formal financial services by 2016, up from 22% today²¹. The framework was launched in late 2013 so it is still too early to determine whether or not it has or will be effective.
- **The Kilimo Biashara Partnership, Kenya** aims to help subsistence farmers make the transition to commercial agriculture through improved access to credit, the

- **New Alliance for Food Security & Nutrition in Cote d'Ivoire.** The Government of Côte d'Ivoire and the G8 members are working together to generate greater private investment in agricultural development, scale innovation, achieve sustainable food security outcomes, reduce poverty and

end hunger. Specifically, the government of Côte d'Ivoire intends to improve incentives for private sector investment in agriculture, in particular, taking actions to facilitate inclusive access to and productive use of land; developing and implementing domestic seed laws that encourage increased private sector involvement in this area; and supporting transparent, inclusive, evidence-based policy formulation. It must be noted, however, that the new alliance cooperation frameworks have been met with high levels of criticism from NGOs worldwide, with some commentators calling their design a new wave of colonialism²².

- **The Home Grown School Feeding Programme, Ghana.** Under this programme, children in schools in the poorest parts of the country are provided with one hot meal per day, using locally grown food. The long-term goal is to support food security in three main ways:
 1. to provide a ready market for farm output, leading to wealth creation at the rural household and community level;
 2. in turn, to help communities to generate wealth through improved incomes and
 3. with improved incomes, poor household can afford additional food intake needed to ensure the full complement of nutritional needs that address short-term hunger, under-five and maternal malnutrition. Importantly 80% of supply-chain spend is in the local vicinity of schools, creating immediate local benefits and sustaining school enrolment rates²³.

Demand development

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



Government as influence: enabling 'corporate structures'

Government as participant: capacity building

- **2009 Legal reform in Mozambique.** 50% of agricultural produce is marketed via cooperatives globally; however cooperatives are often subject to more burdensome regulations than other private sector players with high cost and time burdens associated with setting up a co-operative. They can also be subject to state control and used as vehicles for political patronage. The success of the co-operative sector depends on their operating without government favour or interference. In 2009, the Mozambique government passed a new law to support cooperatives. Under the new law, no minimum initial investment is required to form a cooperative, thus eliminating a key barrier for rural farmers; the autonomy of cooperatives from government intervention is guaranteed; and the delivery of goods or services to a cooperative are not subject to taxation.²⁴

²¹ More information at: <http://www.fao.org/news/story/en/item/210623/icode/>

²² Source: <http://www.theguardian.com/global-development/2014/feb/18/g8-new-alliance-condemned-new-colonialism>

²³ More information is available at: <http://www.gcnf.org/library/Ghana-School-Feeding-Programme-Overview-and-Progress.pdf>

²⁴ Source and more information: <http://www.ncba.coop/>

- **The Smallholder Commercialisation Programme, Sierra Leone.** This programme is a Government of Sierra Leone initiative aimed at helping the rural poor to increase their food security and incomes on a sustainable basis for long-term economic development. The SCP will invest an estimated US\$403m within a five year period to help over 70% of the country's population out of poverty and in the process boost the economy to put Sierra Leone on the right path of achieving its Millennium Development Goals. The process normally starts with Farmer Field Schools (FFS) where farmers are trained in viable agricultural and soil management technologies before they are grouped into Farmer Based Organisations (FBOs) and provided with subsidised packages that give them the means to develop commercial farming practices. The hallmark of the SCP is the establishment of Agricultural Business Centres (ABCs) nationwide²⁵.
- The above examples illustrate the types of intervention that government can use to shape market activity and its contribution towards food security. They should be read as indicative and not as a policy recipe. Although the model above provides an important starting point, it does not identify when, specifically, impact investing policy might be justifiable, and in what form. Governments will need to consider their own unique environment, the specific food security challenges and the investment infrastructure within their market. Determining where the market has shortcomings and identifying the appropriate forms of policy intervention are two critical steps for impact investing policy development and assessment.

Carrying good momentum forward

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

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

However, the criteria that make impact investment-specific policies successful may be widely applicable. The Global Impact Investing Policy Project, which explores the role of public policy in impact investing²⁶, recommended that governments consider six criteria to design and assess potential policy (see opposite page).

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

Six criteria to design and assess potential policy

1. Targeting

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

2. Transparency

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

3. Coordination

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

4. Engagement

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

5. Commitment

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

6. Implementation

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

²⁵ Source and more information at: <http://communicationsunit.wordpress.com/2013/03/06/president-dr-ernest-bai-koroma-has-launched-the-smallholder-commercialisation-programme-global-agricultural-and-food-security-programme-scpafsp/>

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

Concluding remarks

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

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

Appendix

Ecotact

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

<http://ecotact.org/ecoweb>

Eiffage: Dakar-Diamniadio Toll Road Project

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

<http://www.eiffage.com/EN/news/the-dakar-diamniadio-motorway-on-track.html>

Fan Milk International

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

<http://www.fanmilk.com/>

Nest for All

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

<http://www.ietp.com/nest-all>

Proplast

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

www.proplast-sarl.com

Small Enterprise Foundation

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

<http://www.sef.co.za>

Acknowledgements

Société d'Articles Hygiéniques

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

<http://www.theafricareport.com/News-Analysis/case-study-clean-leap-for-tunisian-family-firm-expanding-with-private-equity.html>

SOCOCIM/Vicat

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

<http://www.vicat.com/en/Groupe-Vicat/Presentation/Vicat-dans-le-monde/Senegal/Sococim-Industries-reaches-new-heights>

Sustainable Power Electric Company

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

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

Takamoto Biogas

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

<http://takamotobiogas.com/>

Tanga Fresh

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

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

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Errors and omissions are the responsibility of the authors alone.



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