GSG
Driving real impact

AFRICA
State of Impact Investing Report

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About GSG

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

About Intellecap Advisory Services

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

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

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About Impact Investment and The Impact Economy

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

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

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

About the Report

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

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

Executive Summary

The Global Impact Investment Market is estimated to be valued at USD 135 Billion in 2015 and is expected to grow at a CAGR of 17.86 % to reach to USD 307 Billion by 2020[1]. While the industry continues to grow, the introduction of Sustainable Development Goals (SDG) has strengthened the framework for impact investing. With the introduction of the SDGs, the private sector has been greatly influenced to channel capital towards addressing some of the most critical social and environmental challenges that the world currently faces. According to GIIN's Seventh Annual Impact Investor Survey, 209 impact investors from around the world had reported to have channeled USD 114 Billion of capital to impact enterprises. In addition, while traditionally, investors believed that the financial returns on high social-impact projects were most likely to be unrewarding, impact investors globally have proven that it is possible to invest in positive socio-economic and environmental impact while being financially sustainable. This has further fueled the growth of impact capital disbursements across emerging economies in the Global South.

Impact investment as a practice remains nascent in Africa but has the potential to significantly contribute to the continent's economic growth and development objectives. Private financial flows[2] to Africa, over the last decade, have risen, growing from 63 percent of total external resources in 2002 - 2006 to over 70 percent in 2010 - 2014[3]. However, these private flows have largely gone into the natural resources and extractives sectors and have not been sufficiently deployed in the provision of basic products and services to address the continent's development challenges. Therefore, even with an increase in available private capital, the lack of investment in key areas and sectors, coupled with a general decline in traditional official development assistance (ODA), means that African governments will need to continue to diversify sources of funding to be able to finance the achievement of the African Union's (AU) Agenda 2063 and the Sustainable Development Goals (SDGs).

Data indicates that in 2016, Africa received 12 percent of impact investment assets under management (AUM)[4], with Sub-Saharan Africa constituting the third highest regional allocation, globally. Though, the impact investment market in Africa is geographically focused on a few single markets while few financing opportunities exist in many other countries. Impact investment therefore has the potential to complement public spending and development assistance by crowding-in private sector capital and skills to reduce African economies' vulnerability to external shocks, providing a market-based solution to address environmental and socio-economic needs. In addition, impact investment can allow ODA inflows and public spending to focus on addressing social needs for which there is no viable market-based solution. It is therefore not surprising that the impact investment community sees a big opportunity and has a keen interest to deepen its engagement in the continent.

As a result, this report details out the state of the impact investment sector in 10African countries (Kenya, Ghana, Rwanda, Egypt, Rwanda, Côte D I'voire, Nigeria, Uganda, Senegal and Zambia) with an aim of sensitizing the ecosystem actors on some of the barriers – and recommendations to overcome the barriers – stifling the growth of the impact investing sector in each of the countries.

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1 Impact Investing Market by Illustrative sector and country-Global Forecast to 2020

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

3 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

4 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

COUNTRY BY COUNTRY ANALYSIS:

AFRICA

CÔTE d'IVOIRE

Country Context

Côte d'Ivoire has a population of more than 24 million people and a total labor force of more than 8 million people[5]., Côte d'Ivoire had a Gross Domestic Product (GDP) of USD 40.389 Billion (2017). The GDP is expected to grow[6] at a rate of 7.8%[7]. In 2017, Foreign Direct Investments (FDIs) inflows into Côte d'Ivoire stood at USD 675 Million, signifying a 17% rise from the year 2016[8]. This is because the Ivorian government, as part of its post-crisis economic reconstruction plan, encourages FDI and is committed to doubling foreign investment. Although the government encourages all foreign investment, French firms have traditionally dominated key sectors of the Ivoirian economy[9]. Côte d'Ivoire went up 2 places in the World Bank's Ease of doing business index[10] and currently stands at number 139. This is partly due to government reforms that have helped ease the creation of companies and attracted, supported foreign investors in the Country[11].

Côte d'Ivoire is a member of the West African Economic and Monetary Union[12] (WAEMU), which uses the Franc CFA, a convertible currency. The French Treasury continues to hold the international reserves of WAEMU member states and maintains a fixed rate of 655.956 CFA to the Euro.

TABLE 1:
FACT CHECKS FOR INVESTORS

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

The Impact Investment Landscape in Côte D'Ivoire

SUPPLY OF CAPITAL

Impact investors have taken note of Côte d'Ivoire and it was the third largest recipient of impact capital in West Africa (2005-2015).

Abidjan – capital of Côte D'Ivoire is the headquarters of the African Development Bank (one of the largest and most active Development Finance Institution (DFIs) on the continent). Côte d'Ivoire is the fourth fastest growing economy[13] and is gaining investors' attention due to high levels of political stability and strong growth. The country remains relatively underdeveloped, offering impact investors an opportunity to have significant impact through capital deployment. Investors have noted a number of sectors that are attractive for investment, these include; energy, financial services and agriculture[14]. Côte d'Ivoire is a member of the West African Economic and Monetary Union (WAEMU), which confirms its participation in the regional stock exchange (BVRM). A report by the Global Impact Investing Network (GIIN) indicated that Côte d'Ivoire was the third largest recipient of impact capital accounting for USD 879 Million in direct DFI investments and USD 11 Million in direct private impact investments in the 2005-2015 period[15]. More capital inflows have been made into the country. DFIs channel most of their capital in energy and infrastructure sectors, whilst non-DFIs focus primarily on a combination of debt and equity deals in agriculture and financial services sectors.

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

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

7 The World Bank

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

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

10 World Bank: Ease of Doing Business 2018

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

12 The WAEMU countries are Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo

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

14 GIIN: The Landscape for Impact Investing in West Africa (2015)

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

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

An increasing number of Ivory Coast based companies are listing on the Bourse Régionale des Valeurs Mobilières SA[16] (BRVM).
The BVRM, which is located in Abidjan, provides a convenient source of capital for local enterprises and exit option for impact investors. The same is open for participation for both foreign investors and impact enterprises. The bourse had 39 companies listed in 2015[17]. Currently, of the 51 companies listed on the stock exchange, 28 are Ivorian based companies. The close proximity of the BVRM is seen as an enabling factor to impact enterprises and investors considering Côte d'Ivoire for their activities.

Post the political crisis of 2010-2011[18], financial sector in Côte d'Ivoire has seen sustained double digit growth.
It's apparent that the political crisis had an insignificant impact on the economy[19]. Côte d'Ivoire has since experienced an aggregate growth rate of around 9%, which has benefited the country's financial services industry[20]. The banking sector, a formidable source of capital, has seen sustained double-digit growth since 2011, reinforcing the country's role as the UEMOA bloc's primary banking centre. According to the World Bank, if Côte d'Ivoire's financial sector were to reach similar levels of development as South Africa's, the country's entire economic growth rate would increase another 5% on top of existing levels. As a matter of fact, the regime change meant better environments for business and industry thereby earning the country the third highest amount of impact investments between 2005 and 2015.

DEMAND FOR CAPITAL

Small and medium-sized enterprises (SMEs) represent 80 percent of Côte d'Ivoire's companies[21].
SMEs play a significant role in the economy of Côte d'Ivoire. The most common forms of businesses in the country are Sole Proprietorships, Limited Liability Companies (LLC) and Public Limited Companies (SA). The law in Côte d'Ivoire subdivides and defines micro, small, and medium-sized enterprises as follows:

- A micro enterprise as an enterprise that continuously employs less than 10 people or which has an annual turnover of less than or equal to $50,000 excluding tax.
- A small business as an enterprise that continuously employs between 10 and 50 employees, or has an annual turnover excluding tax exceeding $50,000.
- A medium-sized enterprise is an enterprise that continuously employs between 51 and 200 employees, or has an annual turnover exceeding $250,000 but less than $1.7 million, excluding tax.

Enterprises in Côte d'Ivoire raise most of the capital from Francophone investors as they find challenges in raising capital from non-francophone investors.
Francophone impact enterprises generally, and Ivoirian ones specifically, raise most of their capital from French investors. One such enterprise is Janngo, which raised USD 1 million in May 2018 from French investors including Naxitis. Another is Coliba[22] which raised capital from French investors through crowdfunding. This is largely attributed to an ease in cultural integration and a common language. This is also because most investors[23] who lack local offices in Cote d'Ivoire do operate from French speaking European countries.

Clearly, challenges such as language barriers locks out startups in francophone Africa from English speaking sources of funding[24]. Moreover, Côte d'Ivoire is heavily influenced by French business practices, technical standards which are very different from the rest of non-francophone Africa. It follows that enterprises in Côte d'Ivoire that are looking at scaling throughout Africa will have to do so at a higher cost as the cost of producing sales collateral and packaging for the francophone region[25] is higher.

REGULATORY ENVIRONMENT

In addition to its membership to WAEMU, Cote d'Ivoire has set up national ministries, agencies, policy organizations (independently from the WAEMU framework) that seek to drive up enterprise activity and investments. These include an investment promotion agency that is more investor facing than enterprise facing, ministries that seek to create and issue policies to drive commerce, industries in the country. The government has enacted measures to control and monitor foreign exchange flows, for example, the external finance and credit office of the Finance ministry must approve investments from outside the West African Franc (CFA) zone. Free-hold tenure outside of urban areas is difficult to negotiate and prohibits investment. There is no public register of national land ownership and land tenure disputes exist all over the country[26]. The Ivorian government has also put in place a National Development Plan that includes plans for infrastructure development – most notably in the power sector –that calls for adding 150 megawatts to the grid every year until 2020. Further, the Government has adopted an ambitious strategy to develop and support the growth of a culture of entrepreneurship and innovation and aims that SMEs should contribute to 20% of GDP.

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17 Reuters: https://af.reuters.com/article/investingNews/idAFKBN0NJ13K20150428

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

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

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

21 UN CDI Country Presentation (2018)

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

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

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

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

26 Export.gov – Cote d 'Ivoire Country Commercial Guide: https://www.export.gov/article?id=Cote-d-Ivoire-openness-to-foreign-investment

The government is taking initiatives to help set up an enabling environment for both local and foreign business.
The government has been establishing agencies and enacting legislation to drive up the economy through enterprise. Legislation such as the Investment Code, which was enacted in 2012 aims at catalyzing investments in Côte d'Ivoire largely because of the presence of incentives to investors. The government set up CEPICI also in 2012 as a one stop shop for business registration and investment promotion. CEPICI has a clear mandate to shorten company registration lead times. The creation of companies within 24 hours after the application of company registration[27] has propelled Côte d'Ivoire up the doing business rankings[28] and made it easier for foreign, local impact ecosystem players to start operations in the country. In 2014, the government in Côte d'Ivoire made starting a business easier by reducing the notary fees and replacing the requirement for a copy of the founders' criminal records with one for a sworn declaration at the time of company registration[29]. The government also made starting a business easier by reducing the minimum capital requirement and lowering registration fees in 2015[30].

Côte d'Ivoire has differential payroll taxes for local and foreign employees.
Payroll Taxes are levied at the rates of 2.8% for local employees and 12% for expatriate employees on the total taxable remuneration, including salaries, benefits, and benefits in kind[31]. This inhibits impact investments as it makes it difficult for foreign impact investors and investment firms to set local offices and hire experienced talent to support their investment operations in Côte d'Ivoire due to a high tax on expatriate human capital.

There are restrictions on foreign investment in the health sector, law and accounting firms, and travel agencies[32].
Government of Côte d'Ivoire has put limits and has created restrictions on foreign investments in the sectors such as health, law and accounting and travel. This is an impediment to impact investments particularly for health sector as it bars impact enterprises in the healthcare sector from attracting and receiving capital from foreign sources.

Côte d'Ivoire strictly monitors and regulates the movement of foreign exchange.
Rule N°09/2010/CM/UEMOA of Côte d'Ivoire regulation requires that any foreign exchange transaction, movement of funds or payments between a WAEMU member and a non WAEMU country must be done through the Central Bank of West African States (the BCEAO), post-offices or authorized agents. In addition, within WAEMU's area, the same restrictions apply to foreign exchange transactions, movement of funds and payments between residents and non-residents as well as loan transactions, the issue and sale of stock and fixed assets and foreign currency concessions. This results in backlogs as the Central Bank of West African States monitors all share, asset and fund transfers in the region.

INTERMEDIARIES OF CAPITAL

Decreasing mandatory interest caps have negatively impacted the MFI sector.
In 2013, the West Africa Economic and Monetary Union lowered the interest rate ceiling to 24% - initially established in 1997 – by three percent[33]. The maximum effective interest rate banks could charge was 15% and MFIs could charge 24%. The average interest rate in the banking sector has fallen between 7% and 8% compared to the 10% to 11% rate in 2011[34]. This is significantly below the level of interest charged in the region's other major economies, Nigeria, which was 14%, and Ghana, which was 25.5% as of January 2017.

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

Diaspora funds can be a key to a strong crowdfunding space in Côte d'Ivoire.
Côte d'Ivoire enjoys a strong diaspora base in France and Canada. These often participate in the economic growth of their home country through remittances. Remittances into Côte d'Ivoire have been on a steady rise since 2008[35], despite a slump in 2011 and subsequent revival in 2016 to date. France still remains the top year on year European source of remittances into Côte d'Ivoire[36]. A strong diaspora presence is fueled by immigration and refugees[37]. This diaspora resource has been tapped by the growing number of local crowdfunding platforms that connect local enterprises to diaspora capital as well as international crowdfunding platforms that connect the Ivorian diaspora to channel impact capital in their home country.

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

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

29 World Bank Doing Business Rankings 2014

30 World Bank Doing Business Rankings 2015

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

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

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

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

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

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

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

ECOSYSTEM SUPPORT PROVIDERS

There are few ecosystem support players in Côte d'Ivoire[38], however Tech hubs are now mushrooming in Abidjan.
There are few ecosystem support players in Côte d'Ivoire[39] - a significantly lesser presence of incubators and accelerators than Nigeria and Ghana[40] but a considerable number of research and knowledge organizations. However, this is changing with the emergence of tech hubs as well as international ecosystem players that source for and support enterprises in Côte d'Ivoire. GSMA[41] has estimates the presence of 13 tech hubs in Côte d'Ivoire, a rise from just 4 in 2015[42]. Further, ecosystem support players are increasingly acquiring funding from DFIs, the governments, international philanthropic organizations and corporations[43] to run their programs as existing entrepreneurs are unable to afford their services.

KEY CHALLENGES IN CÔTE D'IVOIRE

Access to finance for SMEs[44]: This is attributable to the informality of SMEs in Ivory Coast. The high degree of enterprise informality is common across West Africa, and Ivory Coast is no exception, with an estimated 70% of total Ivoirian SMEs being informal or semi-informal. This means that most SMEs have a short-term vision and limited growth capacity, as well as a lack of proper financial and enterprise management practices, and insufficient assets to pledge as collateral[45].

Ecosystem support providers find a difficulty in sourcing for pipeline: Most SMEs do not value SME Support programs. SMEs are resistant to allowing any stranger to come in and tell them what to do with their business. The only incentive for entrepreneurs to participate in such programs is if there is a clear and credible opportunity to improve access to financing[46].

Investors' are unable to source local entrepreneurs at the root: More and more investors have been entering the market since the national political crisis in 2010. However, their capacity is limited and they tend to focus on larger enterprises as these present less risk and can be sourced for investments at ease[47].

RECOMMENDATIONS

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

▲ Supply of capital

- New lending and pipeline generation models
  - Intermediaries of capital ought to promote digital and mobile phone solutions as an SME access to finance tool to facilitate the delivery of financial products and its repayment to SMEs as well as provide solutions to improve the SME credit record and data mining. This reduces on the inefficiencies present in the current agency model of microfinance which is capital intensive to MFIs.
  - Supply side and ecosystem support players need to promote the development of one centralized platform for promotion of financing sources / instruments and SME development programs. Such will be of great benefit to local enterprises who are otherwise locked out of opportunities as well as foreign impact investors who will be able to source for pipeline.

▲ Government

- The Central Bank of West African States (BCEAO) could increase consultations with intermediaries of capital to set more robust and systems of interest rate capping. These need not to be necessarily low but should be arrived through sufficient consultation and putting into the interest of all stakeholders to achieve stable rates for a stable financial system.
- There is need for further advocacy to drive open doors further than the UEMOA block to other Anglophone countries in Africa. This may be achieved by cutting the apparent language barrier and encourage interchange of cultures. This will result to more non-francophone impact investors looking at possible investments in the country.
- There is need for more incentives to impact investors and impact enterprises. Côte d'Ivoire has a less robust system that seeks to support impact enterprises and investors alike. This might be achieved by the introduction of tax holidays, tax cuts to NGOs, new startups as well as investors who channel capital into these enterprises in a bid to drive earnings and keep businesses competitive.
- The WAEMU Monetary council ought to consider relaxing its regulations and controls on foreign currency. Its approvals of foreign investments into the economic block ought to be transparent and the systems made clear to impact investors and enterprises. There is need for a faster, more efficient system of currency regulation that will provide a much easier incentive for foreign investors who need to channel capital in currencies other than the Central African Franc.

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

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

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

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

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

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

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

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

46 Ibid

47 Ibid

EGYPT

Country Context

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

Egypt has a GDP of USD 336 Billion (2016). The uprising of 2011 increased the perceived risk of investing in the country and this was not only caused the collapse of the tourism sector but also the sharp reduction of FDI inflow in the country. This scenario birthed a financial crisis in the country so much so the Egyptian pound (EGP) has been depreciating in value for the past 5 years losing up to 70% of its value. However, the situation is improving after the government started to implement different economic reforms to spur economic growth.

Though Egypt ranks 165th worldwide and 4th in Africa in terms of Venture Capital/Private Equity (VC/PE) Attractiveness at a score of 57.1, impact investing is still at its progressive stages.[48] In the first half of 2018, 21 investment deals had been closed in Egypt ranking it 3rd after Nigeria and Kenya.[49]

By the end of the first half of 2018, 6 of 9 ecommerce companies that received funding by Africa were based in Egypt, illustrating its positioning as an ecommerce hub for Africa. [50]

TABLE 1:
FACT CHECKS FOR INVESTORS

FACTORS	INDEX SCORE	DESCRIPTION[51]
GDP Growth (2018)	5.2%	Egypt's GDP stood at to 5.2% by H1 2018 and is forecasted to grow gradually to 5.8% by FY20.
Financial Access (2017)	33%	The account penetration as of 2017 stood at 33%. The total number of banks in Egypt is 38 and subscribers to the mobile financial service is 7.9 Million
Digital Access (2016)	35.9%	39.5% of the population in Egypt are reported to be Internet users
Ease of doing business (2018)	128	Egypt ranks 128 having dropped 6 places from 2017
Unemployment rate (2018)	11.3%	The unemployment rate by end of Q3 2015 stood at 12.8% and declined to 11.3% by Q2 2018.The IMF predicts a further decline to 9.7% in 2019
Inflation rates (2018)	14.4%	Annual inflation rate increased to 14.4 % in June 2018 up from 11.4% in May. The IMF also expects inflation rates in Egypt to fall to 13% in 2019
Corruption Index (2017)	117	Egypt ranked 117 in the annual CPI of transparency international

The Impact Investment Landscape in Egypt

SUPPLY OF CAPITAL

While there are many private equity investors that are currently present and deploying capital in Egypt, presence of private impact investors is still limited.

As of 2016, Egypt ranked second after Morocco at 40% (USD 960 million) in terms of the percentage share of Private Equity (PE) deal value in North Africa.[52] However, in terms of Impact investments, the MENA region attracted the second smallest share of investment representation and general investor interest globally. According to the JP Morgan, GIIN report (2015), only 3.7% of impact funds focus on MENA with only 2% of assets under management earmarked for in the region[53].

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

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

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

49 Wee tracker_Africa startups and VC ecosystem report_H1 2018

50 Wee tracker_Africa startups and VC ecosystem report_H1 2018

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

52 AVCA: Spotlight on North Africa private equity

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

Religious giving dominates the funding landscape; Islamic financing in Egypt contributes to a majority of impact capital in the country.

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

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

High Net worth Individuals (HNWIs) and crowdfunding platforms are actively supplying capital to start-ups in the country, evidenced by the growing number of angel networks in the country.

Local investors are actively supplying capital in the country. For instance, Khaled Ismail, is an active HNWIs who actively invests into start-ups. He uses the triple bottom line (people, planet and profit (PPP)) framework to evaluate sustainability for potential investee companies.

Cairo Angels, launched in 2011, is a network of over 80 angels with over 50% of them actively investing between USD 14,000 –USD 112,000. By end of 2017, Cairo angels had made over 20 investments amounting to over USD 2.2 Million. Another such network is Nile angels, a network that was seeded by GIZ and a group of 10 angel investors. It seeks to support Startups based in Upper Egypt and Nile delta.

Crowdfunding platforms are also emerging as a source of impact capital in the country with some of them having very innovative models. As of 2015, Egypt had 5 crowd funding platforms having raised USD 842,000 for various projects.[54] Such platforms include Shekra- it provides investment readiness support to the promoter of a project before being promoted to a closed network of investors, Madaad- it relies on public funding where sustainable impact focused projects/ NGOs are identified and selected to fund raise through the platform, Yomken- it combines crowdfunding with open innovation. Such crowdfunding platforms are filling the gap in early stage financing.

The government of Egypt has started to play an active role as the financier of impact capital for the social enterprises (SEs) in the country.

The Egyptian government has recognized the role that micro and small social enterprises play in driving the economic growth and creating jobs which ultimately leads to the reduction of poverty and ultimately achieving the SDGs. It has therefore sort to promote the growth and competitiveness of startups to a global level by trying to reduce the financing gap and providing the technical support. Further, so as to attract funding into high priority sectors and areas the government has offered incentives to investors who supply capital in these areas with an objective to augment impact investing.

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

DEMAND FOR CAPITAL

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

- Social enterprises in Egypt are not recognized as a separate entity and have the option of registering as a for-profit company or NGO. If it is a for-profit, the most common business registration used is joint stock companies (minimum share capital is USD 13,997- some MFIs take this as legal option), limited liabilities company or branch offices. Foreign SEs are allowed to set up in the country but are only deemed to have permanent establishment (PE) if it establishes a local entity that will be governed by the Egyptian laws. The key players are either registered as non-profits (Over 45,000) or companies/ SMEs (Over 2.5 million).
- Social Enterprises or fair trade organizations in Egypt have no provisioning under law to receive tax incentives (if registered as for profits) and are treated no different from traditional companies. The absence of tax incentives hampers social enterprises from maximizing profits which would ultimately lead to the maximization of distributions to the Bottom of the Pyramid.
- According to a report done by Wamda capital, 73% of SE founders are said to have attained a master's degree, 18% bachelors and 9% Doctorate. 5% have 1-5 years of experience, 50% (5-10 years), 32% (10-20 years) and 9% (over 20 years)[55]. This may indicate that many SEs are being founded by experienced promoters, which is an encouraging trend as such individuals contribute to the business their

54 Afrikstart: Crowdfunding in Africa

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

management and transferable skills and this ultimately fosters and strengthens the sector.

- There are over 45,000 non-profits in Egypt (2015) which operates as social enterprises, ecosystem providers and intermediaries.[56] Some of the non-profits are largely short term in nature and financially unsustainable because of the restrictions imposed by the government on the sources of funding for NGOs (NGO law). Given that such SEs cannot engage in profit making activities, they are bound to be unsustainable in the long run.

REGULATORY ENVIRONMENT

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

Government of Egypt has defined ceilings on the deposits and withdrawals of foreign currency by individuals and entities.
The government has been working to stabilize the financial crisis by liberalizing the EGP through a loan (USD 12Billion) granted by the IMF, liberalizing the exchange rate by floating the EGP and imposing a USD 10,000 ceiling on the maximum amount of deposits/withdrawals per day per individual with a maximum of USD 50,000 per month per entity.[57] These limits were later abolished but still apply to companies importing non-essential goods. These limits affects the enterprises especially those in imports and exports of such products and services.

Government provides tax incentives to investments in certain priority impact areas.
Companies in Egypt are taxed at the flat rate of 22.5% except for non-profits. The investment law offers tax rebates to investors whose investments are directed in geographical areas that are in most need of development, labor intensive projects, small &medium projects, food and agriculture sectors among others i.e. they would qualify for deduction of investment costs from the taxable net profit capped at an upper ceiling of 80%. Further, amounts that are channeled to CSR activities are considered to be deductible costs (costs are capped at 10% of annual profits).[58] The government has also signed over 50 different DTAs with different countries.

Central Bank of Egypt (CBE) has developed policies favorable for lending to SME sector.
The Small and Medium Enterprises (SME) unit within the CBE was established in 2009 to facilitate access to finance to SMEs. The Unit that is hosted within the Egyptian banking Institute (EBI) and acts as a catalyst for the CBE and works on bridging the gap between bankers and SMEs by offering training programs so as to facilitate the process of access to finance and create an enabling ecosystem for SMEs in Egypt and support SMEs to be bankable. One of the perks provided to banks under this unit is that any direct credit facilities extended by banks to an SME cluster are exempted from the reserve requirement. This has incentivized banks to give credit to SMEs. Further, in a bid to create favorable policies for SMEs, the CBE in 2016 issued a unified definition of Micro, Small and Medium Enterprises to be adopted by all banks. Within the same year, EGP 200 Billion (~USD 7 Billion) initiative was launched to facilitate financing for MSMEs. It also consisted issuing of a number of instructions to the banking sector, aimed at creating an enabling environment for MSMEs. They included; banks operating in the Egyptian market were required to direct 20% of their total loan portfolios to MSMEs with lending rates not exceeding of 5%. The risk weighted for lending requirements was also set at 75% to make it applicable only to micro firms and it established a specialized unit within each bank mandated to provide technical assistance and training opportunities to MSMEs.[59]

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

INTERMEDIARIES OF CAPITAL

Most intermediaries in Egypt not only provide investment advisory services but also offer other services such as tax and auditing services, consulting, advisory on mergers and acquisitions among others.
Intermediaries of capital in Egypt are generally perceived as non-bank financial intermediaries (NBFIs) and notably, there isn't any general regulation for financial advice or financial intermediation. However in this context, intermediaries refer to investment bankers or players acting in liaison with both suppliers and seekers of capital.

Some non-profits act as intermediaries of capital and promote the collaboration between the ecosystem pillars, facilitate capital and partnerships and mentorship to SEs.

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56 According to Madad- an online platform that seeks to provide a directory of high impact development NGOs

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

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

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

For example, RISE Egypt which is a non-profit leverages its network of top experts, investors and researchers to accelerate entrepreneurship for development in Egypt.

Lot of government aid from other countries into Egypt is channeled into economic and social development including employment creation.[60] Most of these aid monies tend to support the whole ecosystem and support providers. For example, The British government in collaboration with IFC has funded (USD 2.8 Million) some of the ecosystem players' programs such as Start Egypt. Another example is The Egyptian American Enterprise Fund (EAEF) that was established by the US Secretary of State Hillary Clinton following the Arab Spring protests in 2011, funding efforts such as Algebra Ventures.

ECOSYSTEM SUPPORT PROVIDERS

Recently, the startup scene in Egypt, as well as the number of support providers, has improved. Egypt ranks third in Africa in terms of concentration of tech hubs with 33 hubs (23 of which are quite active)[61]
The Key players who support the entrepreneurship ecosystem include co-working spaces, accelerators/incubators, Technical assistance service providers and conferences, startup news aggregators. Some notable names include; Icealex /Fablab, MINT incubator, NM Incubator, Egypt Innovate, Endeavour, Rise Egypt, Flat6Labs, Greek campus, Seedspace Cairo,G-space, District, Injaz Egypt, Ashoka, Hult prize, Orange startup cup, startup scene among others.

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

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

KEY CHALLENGES IN EGYPT

- **Lack of access to financing**: According to the World Bank enterprise survey 2016, 13.2% of SMEs cited access to finance as their biggest constraint and this is attributable to the lack thereof of affordable options.[62] Further, SEs registered as NGOs are affected by the NGO law which means they face restrictions in regard to the source of funding i.e. they cannot access commercial funds from banks and/or private investors and would only depend on donations.
- **Regulatory environment:** For-profit SEs or fair trade organizations are equally affected by the taxation law as any other company and do not receive any incentives. According to the World Bank enterprise survey 2016, 7.6% of enterprises surveyed stated taxation and 9.9% stated trade regulations as an impediment to growth. This ultimately impedes the growth of the impact sector as stakeholders have to trade-off on social benefits that would have otherwise been accrued through the use of these funds and taxation optimization.
- **Political instability:** Since the uprising in 2011, Egypt has been undergoing political unrest which has had an effect on the FDI inflows and investments, as the perceived risk associated with investing in the country have increased. 33.8 % of enterprises cited political instability as the biggest challenge for their business, as per the World Bank enterprise survey (2016). However, this is currently stabilizing under the current regime with the government having implemented different policy reforms.
- **Insufficient pipeline:** According to the research conducted by JP Morgan & GIIN, impact investors stated finding viable (companies that pass initial financial and impact screening) pipeline as a challenge. 33% of them stated that they found none, 44% found few, 19% found some and only 4% stated found many investable enterprises. This may allude to the fact that not many SEs have created a bankable business model. However, given that the ecosystem support is now vibrant with lots of support on investment readiness training and TA support, this challenge may significantly be mitigated.
- **Challenges of sustainability:** The law that inhibits NGOs in participation in income generating activities and given that most microfinance institutions are also registered as NGOs they are affected by the NGO law. This brings issues of sustainability of social enterprises or ecosystem enablers that are registered with such status.
- **Bureaucracies:** Regardless of the passing of new NGO law, it is still bureaucratic in terms of requirements to seek for pre-approval of any donations above USD 550 and if no approval is granted within 60 days, the request is automatically declined. Therefore in reality, this may be subject to misinterpretation and thus create delayed funding for NGOs.

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

61 GSMA: Ecosystem accelerator Africa Tech hubs landscape 2018

62 World bank: Enterprise surveys (2016)

RECOMMENDATIONS

The following recommendations surface from impact investment landscape analysis of Egypt

Supply of capital

- **Islamic finance as a tool for impact investments:** Islamic financing takes some aspects and forms of Impact investing and Egypt already has policies which guide the principles of Islamic financing, there is also a national body that has been set up to manage Zakat funds. Therefore, the Zakat funds could be structured in a way that returns could be earned disbursing the capital from the pool to high development sectors or impact focused SEs and the returns re-invested back into the pool. If the funds are better managed, this could be used to make a case for impact investing.
- **Unlocking the national pension fund:** Egypt's social insurance and pension system is one of the oldest, most comprehensive and most expensive systems in Africa and the Middle East. The reserves are typically invested in government debt and projects; and the pension portfolio is very heavily concentrated in fixed income. Historically, returns have not been sufficient to ensure the sustainability of the system.[63] Therefore, if structured properly; such funds could be used as a fund of funds for impact investment vehicles and set a return for the funds.
- **Leveraging the vibrant, active PE/VC sector to make a case for the supply of impact capital.** Generally, investors are more likely to invest in a deal when there is an option of an exit in mind. With the exception of an IPO, other strategic and financial exits depend on a vibrant PE /VC sector. Egypt has historically been a private equity hub in North Africa; therefore in this case, this could present the opportunity for investors (both Impact and traditional) to supply impact capital to the investment ready deals knowing that there is different exit options available in the market. This factor could be used to convince investors to supply capital to early stage SEs.
- **Designing policies to channelize CSR funds into impact sector:** CSR funds from cooperates could be mobilized into start-ups/social enterprises who would receive tax incentives (as per the law) on such donations/investments.

Demand for capital

- **Conducting an overall assessment study of social entrepreneurship:** There is little and fragmented data on SEs in the country their unique challenges and needs, their spread and options of financing available to them. This in-depth study should be done in order to comprehensively understand the subject matter**.**

Government

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

[63] Leveraging African Pension funds for financing Infrastructure

ETHIOPIA

Country Context

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

Ethiopia's location gives it strategic dominance in the Horn of Africa, close to the Middle East and its markets. Landlocked, it borders Eritrea, Somalia, Kenya, South Sudan, and Sudan; its tiny neighbor, Djibouti, is also its main port. Ethiopia's huge population of about 102 million (2016) makes it the second most populous nation in Africa, after Nigeria. Although it is the fastest growing economy in the region, it is also one of the poorest, with a per capita income of $783. Ethiopia's government aims to reach lower-middle-income status by 2025. A new Prime Minister, Mr Abiy Ahmed, is seemingly bringing the country to peace, normalizing relations with Eritrea and managing fractious groups within Ethiopia and focusing on an economic transformation agenda.

TABLE 1:
FACT CHECKS FOR INVESTORS

FACTORS	INDEX SCORE	DESCRIPTION[64]
GDP Growth (2017)	10.9%	The economy has been steadily growing with an average of 10.3% a year from 2005/06 to 2015/16, closing FY 2017 with a GDP growth of 10.9%
Financial Access		There are 16 private banks in the country, 3 government-owned banks and 35 licensed MFIs and 17 insurance companies.
Digital Access (2016)	11.6%	11.6% of the population in Ethiopia are reported to be Internet users
Ease of doing business (2018)	161	Ethiopia Ranks 161 having dropped 2 places from 2017
Unemployment rate (2016)	7.6%	Youth (ages 15-24) unemployment rate stands at 7.6%
Inflation rates (2018)	15.6%	Inflation has significantly slowed from a high of 39.2% (2008) to 15.6% by the end of February 2018
Corruption Index (2017)	107	Ethiopia ranked 107 in the annual CPI of transparency international

The Impact Investment Landscape in Ethiopia

SUPPLY OF CAPITAL

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

REGULATORY ENVIRONMENT

The current government of Ethiopia is increasingly becoming investor-friendly and has relaxed some of the previously stringent regulations.

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

- **Setting up bodies such as Federal Micro and Small Enterprises Development Agency (FeMSEDA):** Ethiopian government launched its revised Micro and Small Enterprises (MSEs) Development Strategy in 2011, in order to integrate the development of the MSE sector with the country's 5 year Growth and Transformation Plan (GTP). With the revised strategy, an institution Federal Micro and Small Enterprises Development Agency (FeMSEDA) was established with clear responsibilities to promote the MSE sector in the country. As a result of comprehensive support and policies by the Government towards the MSE sector, it was able to:
  - Generated ETB 25.62 billion (~USD 1 Billion) through Domestic Market linkage and USD 65.37 Million through foreign market linkage
  - Facilitated transfer of 3,141 micro and small enterprises to medium enterprise level
  - Provided technical and management training for 5,087,358 Million MSE operators

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

- **Development of Industrial parks:** In order to transform itself from a predominantly agricultural country into a manufacturing country – the government of Ethiopia created a special entity in 2014: the Industrial Parks Development Corporation (IPDC). Under this, the government has established multiple industrial parks that focus on the production of textiles, leather and garment, pharmaceutical, agro-processing and equipment manufacturing. It provides various forms of tax incentives and benefits to investors in the park. The establishment of these industrial parks played considerable role in supporting the endeavor of the Government to promote investments into these sectors. According to Ethiopian Investment Commission, in the first Growth Transformation Plan (GTP-I) the country was able to attract 1.2 billion USD from Foreign Direct Investments (FDIs).
- **Tax Incentives:** Companies are taxed at the rate of 30% however, incentives are granted if investments are directed towards defined high priority sectors such as agro-processing for export, pharmaceuticals, tourism, sugar and related products. Ethiopia has also signed 13 double taxation treaties (DTAs) with different countries which could promote cross-country investments and trade. Further for businesses which have created employment for at least 50 Ethiopian nationals or engaged in manufacturing and have invested more than USD 200,000, they are entitled to duty free privileges for capital goods at any time.[65] This has resulted in increased inflow of investments into the country.

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

Some of such policies include:

- **Minimum capital investment:** According to the Ethiopian Investment commission (investment proclamation no769/2012) the minimum capital requirement from a foreign investor to invest in Ethiopia has been capped to a minimum of USD 200,000 for a single investment project (revised up from 100,000) but if the investor invests in partnership with a domestic investor(s), the minimum capital injection required is USD 150,000 (revised up from 60,000) with the exception of sectors such as architectural and engineering works or related technical consultancy services, technical testing and analysis or in publishing works whose investment is capped at USD 100,000 and USD 50,000 respectively.[66] However, a foreign investor reinvesting his profits or dividends generated from existing enterprise is not required to allocate a minimum capital. Further, foreign investors that wish to purchase an existing private enterprise, or shares in an Ethiopian Entity should obtain prior approval from the Ministry of Trade. This is applicable to any foreign investor channeling capital into the country.[67]
- **Foreign Investment Restrictions for certain sectors:** The government has restricted and heavily regulates foreign investments in sectors including financial services, banking, insurance, power transmission and distribution, wholesale and retail trade, telecommunications and some transportation. If a foreign investor would otherwise want to invest in the above sectors, they can do so by supplying goods and services to domestic firms operating in these sectors. The government has been reluctant to ease restrictions on non-state participation in energy, telecoms and financial services sectors though recent developments point to the fact that this may be relaxed in future as the country seeks to attract more foreign investments.
- **Foreign exchange controls:** Ethiopian firms face many restrictions in accessing the foreign currency that they need to either import goods or buy services, often used as inputs. Ethiopia maintains several foreign exchange restrictions that diverge from international standards. The government limits foreign currency trade as well as the amounts that individuals and corporations can hold and restricts this USD 50,000. This can create significant shortages of foreign currency reserves. However in 2017, the government, to some extent relaxed the foreign exchange controls through the issuance of two directives on external loans and suppliers' credit and retention and utilization of export earnings and inward remittances (External Loan and Supplier's Credit Directives No.47/2017). These strategies will see more FDI inflows into the country and ensure the stabilization of the ETB and this will have a ripple effect in the spurring of the growth of entrepreneurship.

SUPPLY OF CAPITAL

Local financial institutions in Ethiopia remain markedly underdeveloped compared to other countries in the region, signifying the need for impact investors in the country. With approximately USD 1 Billion under management, Ethiopia's banking sector is orders of magnitude smaller than those in other large East African countries such as Kenya, which boasts more than USD 30 Billion in assets held by its banks. Ethiopian banks continue to be extremely risk averse and are mostly unwilling to invest in start-up or early-stage enterprises. Even when they are willing to lend to start-up or early stage enterprises, their requirements for collateral can be greater than 100% of the loan amount. Many early-stage businesses are unable to satisfy these requirements. Further, local banks lack the sophistication to offer creative structures like trade financing or crop cycle-based repayments. As a result, there remains a large gap in the market for early-stage investments that offer risk capital to high-potential businesses.

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65 ALN: Investment Guide_Ethiopia 2016/2017

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

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

The main sources of finance for start-ups/social enterprises in Ethiopia are from personal savings, credit from MFIs, Mobilizing Iqub and contribution from family and friends.
As of 2015, Ethiopia received marginal amount of approximately 7% of all the impact capital that was disbursed in East Africa by private impact investors. A total of USD 90 Million was placed in about 25 impact deals, which is far behind Kenya, Tanzania and Uganda, despite a significantly larger economy.[68] Microfinance institutions (MFI) in Ethiopia come in to play a significant role in filling this gap between the demand and supply of impact capital. According to the National Bank of Ethiopia, there are 34 MFIs (2017) with a client base of over 3 million and USD 1.5 billion (2016/17) held in assets. Their model is to provide credit through a group based lending methodology so as to reduce the risk of default with some of them having incorporated some models from the informal financial systems such as '*iqub*' and '*iddir*' in order to widen their client base.[69]

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

INGOs in the country are changing their strategy to not only focus on pure donations and charities but to increasingly adopt a hybrid model.
There was an influx of INGOs in Ethiopia fueled by the adverse drought that caused a humanitarian crisis in the country in the 1970s, as of 1999 there were more than 120 INGOs in the country. These INGOs are currently shifting their strategy to focus on a more long-term development strategies as a result of the changed conditions in the country. According to a report by amplify 29% of INGOs are actively engaged in impact investing, 42% are exploring opportunities in impact investing and developing their strategies for engagement and 29% are piloting their new approaches in impact investing with 62% focused in East Africa. Most of them prefer to channel capital through technical assistance and capacity development programs while 62% of them are considering making direct investments. [70]

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

DEMAND FOR CAPITAL

Social entrepreneurship is a growing sector in Ethiopia and according a report done by British council, there are approximately 55,000 Micro- small enterprises (MSEs), Non-governmental organizations (NGO), Cooperatives and individual entrepreneurs whose core objectives are creating having a social/environment impacts. Most of these enterprises are either family-owned or informally structured which creates the issues of cooperate governance.[71]

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

Growth-stage companies are generally fewer in Ethiopia and mostly there are early-stage companies.
An enterprise survey done by World Bank (2015) shows 49% of SMEs in the private sector have been in operation for less than 10 years, 32% between 11-20 years and merely 20% above 20 years. Further, in terms of categorization by the number of employee**s,** 48.8% are small (5-19 employees), 30.3%-medium (20-99 employees) and 20.8% large (Over 100 employees). This implies that formal entrepreneurship is still in its nascent stages in the country; however, informal micro businesses abound. Furthermore, according to the GIIN report, many impact investors feel that the most appealing businesses for investments do not explicitly present themselves as social enterprises, even when their potential for impact is high and this could be due to the lack of a standard definition of "social enterprise" in the region.

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[68] GIIN the landscape for Impact investing in East Africa- Ethiopia 2015

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

[70] The INGO value for impact investing

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

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

INTERMEDIARIES OF CAPITAL

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

ECOSYSTEM SUPPORT PROVIDERS

The support providers' space in Ethiopia is largely untapped, concentrated and lack specialization.
The country has the fewest active support providers compared to other East African countries. The support providers can be categorized to Business development providers (36), Accelerators/Incubators (27), consultants (16) and various conference and Awards. Some of the key players include: IceAddis, Xhub, Growth Africa, iCog labs, Bluemoon, DOT Ethiopia, Reach for Change, TechnoServe, Seedstars, UNDP entrepreneurship award, and Solve IT. 40% of these support providers offer business strategy and planning support, value chain development (32%), access to networks and partners (32%) financial management (25%), technology development (22%), marketing research and support (18%) and financial management (25%).[72]

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

KEY CHALLENGES IN ETHIOPIA

- **Foreign exchange controls and strict monetary policies:** Foreign exchange controls have an effect on the fluctuation of commodity prices and causes hesitation in the confidence of investors. Further, due to these currency controls, entrepreneurs are forced to run operations in ETB, leaving them exposed to currency risk.
- **Fluctuation of the ETB:** This causes hesitation among investors in supplying capital in the local currency due to high currency risks. Thus there is a strain on capital disbursements as foreign investors are inclined to disburse capital in a universal currency which makes capital very costly.
- **Foreign investment restrictions for certain sectors:** Ethiopia places restrictions on foreign investments into sectors such as financial services, banking, telecommunication etc. This deters the social benefits that could be accrued by investing in these sectors. At the same time, investors who have mandates to invest only in these sectors would not any supply capital in Ethiopia.
- **Repatriation of profits and dividends:** Though allowed, it requires careful structuring and disclosure of all investments to Ethiopian Investment Commission. Realistically, the process may be very bureaucratic and could be delayed depending on the availability of reserves of hard currency held by the National Bank.
- **Few investment exits to model from:** Except in the cases of IPO, other exit strategies require that the market have a vibrant PE/VC sector. Ethiopia lacks these because the market is still nascent hence there is limited data available on comparable impact deals or exit multiples for impact funds to use as a benchmark for their exit valuations or financial performance.
- **Land lease challenges:** In Ethiopia, land is public property and it can only be obtained through rent or a lease of up to ~99 years. Investors are expected to negotiate lease agreements with local governments, which exponentially increase administrative costs especially when implementing cross-regional projects.
- **Internet penetration is very low:** 11.6% of the population in Egypt is reported to be Internet users and the mobile phone subscription per 100 people is 42.8. This challenge hinders innovation as some of the sectors such as Fin-Tech, Ag-tech depend on technology as an enabler. Low Internet penetration also inhibits the availability of data and interaction that is otherwise useful to the flourishing of a social enterprise ecosystem.
- **Financial institutions are very risk averse** and are therefore unwilling to invest in early stage companies with a high risk profile. Commercial banks are described as 'conservative lenders' according to a study done by Kfw (2005) and don't do non-collateralized lending because of reasons such as fraud. On the other hand, SMEs reported, that they are

[72] ANDE Ecosystem Snapshot

discouraged from applying for loans in banks due to high collateral requirements, high transaction costs, interest rates and tedious application procedures in fact; only 7.8% of the proportion of initial investments to SMEs was financed by banks.[73]

- **Limited viable pipeline:** Data points to the fact that impact investors disburse large ticket sizes (USD 500,000 and above) whereas the turnover for SEs is reported to be an average of USD 9400. Visibly, such SEs may not be able to absorb capital disbursed and offer adequate Return on Investments for the investors. Further, the existence of a mismatch in terms of the instruments of capital that investors prefer to use and what the SEs prefers, points to the lack thereof of a viable pipeline.

RECOMMENDATIONS

The following recommendations surface from impact investment landscape analysis of Ethiopia

- **Supply of capital**
  - **Setting up of a catalytic fund to catapult the angel investments:** Some of the risks that inhibit investments in Ethiopia include currency and investment risks and repatriation of profits due to low foreign reserves held by the NBE. To cushion against these risks, a catalytic tool could be designed from which funds could be drawn to quicken the process of repatriation of profits pending payback by the NBE whenever reserves are available. Further, for investors that would want to issue small ticket size capital to SEs, this catalytic tool could be used to cushion against the risks of default or liquidation therein.
  - **First loss capital (FLC) and other creative financing model for funds:** Many impact investors keep Ethiopia low in their investment priority list because of high risks that they perceive in the country. The first loss capital could be designed where donors, foundations, the government or even Development Financial Institutions (DFIs) agree to take up the first losses of a commercial investment for an institutional fund. This will catalyze more impact investor to venture into the country which is an otherwise highly perceived risk country. The FLC in other markets has been seen to catalyze social investments and impact especially in industries such as education, home ownership for low-income populations and health.
  - **Forging key partnerships and establishing local presence:** Striking partnerships with local firms allows foreign firms to access better incentives and could be used as a channel for directing investments into domestic designated sectors. Further, these partnerships could help in building trust over time and help in the due diligence process especially given that some SEs are run informally. This would require concerted effort in having local hires and opening local offices in the region.
  - **Blended financing:** To eliminate the overreliance of grant and philanthropic funding, DFIs/donors could create a blended finance facility to mobilize inflow of private commercial capital that's pegged on achieving social outcomes to the country thereby increasing the supply of impact capital.
- **Demand for capital**
  - **Extensive Investment training.** Promoters of SEs should be educated on the availability of commercial instruments such as equity, quasi-equity investments and low cost debts. This will help catalyze the growth of commercial investments and improve the quality of pipeline for investors. TA facilities could be leveraged to provide this pre-investment training and support.
- **Government**
  - **Design an impact investment Policy:** This policy could be designed to explicitly define social enterprises and give leeway and define mechanisms for foreign investors looking to make investments in SEs within the defined sectors as long as they are set on creating Impact.
  - **Public Credit Guarantee schemes for SMEs:** This is a common tool used by governments to unlock financing for SMEs. The government through the NBE should consider setting aside a credit guarantee fund that will help de-risk SME lending especially in startup phase.

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

GHANA

Country Context

After years of good economic performance, Ghana entered an economic deceleration phase with rates of 7 per cent in 2013, down from 9% in 2012 and 14% in 2011. The slowdown continued in 2014 with a growth rate of 4 per cent, further down to 3.7 per cent in 2016.[74] However, the country's gross domestic product (GDP) bounced back to 8.5 per cent in 2017 compared with 3.7 per cent in 2016. The fiscal deficit as a percentage of GDP remained high at 7 per cent in 2015, after a level of 10 per cent in 2014. As at 2015, the ratio of debt to GDP hovered around 70 per cent. The threat of inflationary pressures is high, as the inflation rate rose from single digits in 2010 to nearly 17 per cent in 2015. However, since assuming power in January 2017, the administration of President Nana Akufo-Addo has moved to rein in fiscal spending, industrialize rural regions and improve the business environment in order to jump-start economic growth. The government has brought down the fiscal deficit (to 6 per cent as a percentage of GDP in 2017) and freed up capital spending for priority projects, and Ghana's economic prospects appear strong for 2018. In recent years, FDI flows to Ghana have been increasing steadily, up to 2016. However, in 2017, inflows of FDI declined by 6.6% from USD 3.5 billion to USD 3.2 billion dollars[75].

TABLE 1:
FACT SHEET FOR INVESTORS

FACTORS	INDEX SCORE	DESCRIPTION
World Giving Index (2017)	23 (77 in 2016)	Between 2016 and 2017, Ghana's World Giving Index score increased eight percentage points from 33% to 43%
GDP (PPP, 2017)	USD 144.5 Billion	According to the Ghana Statistical Service latest numbers released in April 2018, Ghana's economy expanded by 8.5% in 2017 from 3.6% in 2016 driven by the mining and oil sectors whereas non-oil growth declined to 4.8% from 5.1% in 2016 as growth in the services sector decelerated in 2017
Financial Access (2017)	58%	Driven by digital banking and smartphones, financial inclusion doubled between 2011and 2017. According to Global Findex Database, the proportion of adults (+15 years old) with access to formal financial service access increased from 41% in 2014 to 58% in 2017. The number has doubled since 2011 when it stood at 29%.
Digital Access (2017)	112%	The mobile penetration in Ghana stands at 79.94% with the total subscriptions of mobile data in the country at 22 Million
Ease Of Doing Business (2018)	120	Ghana recorded one of its biggest drops in the latest World Bank's Ease of Doing Business having dropped 12 places from 2017.
Unemployment Rate (2017)	2.4%	Unemployment rate ticked up by 0.1% from 2016 but crucially remained below 2.5%, a trend that has held since 2013 and is one of the five lowest rates across Africa[76].
Inflation Rates (2016)	17.5%	Inflation rates have been gradually increasing in the country since 2011from 8.7%
Corruption Index (2017)	81[77]	Ghana ranks 81st according to the Global Corruption Perception Index (CPI) report with a rank 40 having dropped 5 places from 2012.

[74] United Nations Economic Commission for Africa, 2017

[75] United Nations Conference on Trade and Development (UNCTAD), 2018, World Investment Report

[76] Trading Economics

[77] Transparency International

The Impact Investment Landscape in Ghana

SUPPLY OF CAPITAL

There are not many impact investors targeting early stage enterprises. As a result, there is virtually a gap in provision of funding to enterprises below seed stage (USD 20K - 500K).
According to GIIN, DFIs invest mostly in energy, manufacturing, and information and communication technology (ICT) through large deals of approximately USD 50-60 million, while private impact investors prefer investing in financial services, housing, and agriculture through much smaller deals of USD 1-2 million. Of the total DFI capital deployed between 2005 and 2015, energy took a lion's share (40%), followed by manufacturing (26%), ICT (13%) and agriculture (11%).[78] However, agriculture (21%) and energy (17%) saw the highest number of deals closed in the same period. On the other hand, financial services made up the majority of private impact investment, with USD 29 million deployed between 2005 and 2015 in the sector, representing approximately 40% of total capital deployed. The investments mostly went to microfinance institutions (MFIs) and, to a lesser extent, rural banks serving individuals and SMEs, reflecting investors' recognition of the large financing gap for both individuals and enterprises in Ghana, as well as the strong "culture of accountability" underpinning low default rates, even among low-income populations.

Even though a number of local impact investing players feel that many more investments need to be targeted at the agriculture sector, impact investors based locally note that there are not many investable enterprises at the production level.
Agriculture sector, which contributes 18% to the Ghana's GDP, is dominated by very small enterprises (smallholder farmers) and thus investors tend to favor enterprises at the processing or market linkage levels of the value chain

only. As a result, there is need for a lot more capacity building interventions at the production level so that the enterprises in the sector can tap into the available funding.[79]

Relative to other impact investors in the region, there is high preference of debt over equity in Ghana; reason being that there is a strong perception among enterprises that equity deal imply a loss of business control.
Whereas non-DFI investors tend to balance their portfolios more evenly between debt (56% of total capital deployed and 82% of deals) and equity (37% of capital deployed), DFIs focus almost exclusively on debt and debt guarantees (70% of capital deployed and 75% of deals)[80]

Across the impact investors present in Ghana, there is no standard impact measurement metric in place.
Two out of five impact investors interviewed in Ghana had developed their toolkits for impact measurement based upon the number of smallholder farmers supported, improvement of livelihoods, etc. One of them even had metrics for monitoring and evaluating gender-lens investing. These investors would use the popular environmental, social and corporate governance (ESG) matrix and other globally accepted matrix such as the IFC Toolkit, GIIN Indicators to measure impact; the investors insist on customizing the impact measurement matrix for each particular investment.

DEMAND FOR CAPITAL

Most of the social enterprises operating in Ghana are in their early stages of growth and target very small market segments (typically in villages, sub-regions or townships). As a result, they require a lot of support to be able to scale up their operations and tap into available funding opportunities.
Social entrepreneurship is a relatively new phenomenon in Ghana. As a result, start-up activity has only been vibrant over the last three years only. Over 90% of the social enterprises surveyed by the British Council in 2016 began operating in 2004 or later and almost half (47%) began operating since 2013. Social enterprises operating in the Ashanti, Northern, Central and Upper East regions were most likely to have started before 2013, with social enterprises based in Greater Accra being proportionately younger. This may be related to the relatively recent opening of key social enterprise support organizations in Accra, such as Growth Mosaic (2011), Reach for Change (2012), Acumen Fund (2012), iSpace (2013) and Impact Hub Accra (2015). Social enterprise leaders (i.e. owners, CEOs, directors, etc.) are young. It is estimated that, 43 per cent of people in charge of social enterprises are between the ages of 25 and 34.[81] The next largest age group is the 45-64 age group (27%), followed by those aged between 35 and 44 (22%), with only 2% of the social enterprises being run by people older than 65. Among social enterprise leaders aged below the age of 45, the women running social enterprises are proportionately slightly younger than men[82]. However, both the total number of women running a social enterprise and proportion of them under 35 is lower than for male counterparts.

Social enterprises in Ghana are more likely to receive non-returnable capital as opposed to raising equity or debt capital.
Owing to the nascent nature of the impact investment sector in Ghana, 44% of social enterprises have accessed forms of non-returnable capital (grants, donations and support from family and friends), and very few have secured either equity (9%) or any form of loan (14%). According to the British Council, female-led social enterprises are more likely to receive grants from foundations and government, but less likely to access equity and commercial loans.

REGULATORY ENVIRONMENT

The government is much more proactive in creating a favorable environment in Ghana as compared to other countries.
This Ministry of Trade & Industry in partnership with the Social Enterprise Ghana (SE Ghana), the British Council, STAR Ghana and the West Africa Civil Society Institute are currently developing a policy and it has seen significant advancement due to the proactive nature of government. The goal of the policy is to support achievement of the SDGs through the growth of strong, innovative and financially sustainable social enterprise sub-sector that drives measurable social impact in prioritized areas of social need, provide jobs and support economic transformation especially for the urban and rural poor. The policy is currently in discussion at the cabinet level.

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

79 Intellecap Research

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

81 British Council, 2017, The State of Social Enterprise in Ghana

82 There are many more women entrepreneurs in Ghana than in any other country. They make up 46% of the total business owners in Ghana; according to the MasterCard Index of Women Entrepreneurs 2018 (MIWE). The majority of these women entrepreneurs are returnees from diaspora.

INTERMEDIARIES OF CAPITAL

Ghanaian financial institutions, just like their other African counterparts, remain risk averse and are usually unwilling to invest in start-up or early-stage enterprises.

Despite the challenges faced in the economy in general – for example, the decline in the currency, the rise in government debt, low commodity prices and a persistent deficit – the Ghanaian banking sector has remained profitable and well capitalized. The country's lenders have managed not only to survive but also to thrive. However, Ghanaian financial institutions, just like their other African counterparts, remain risk averse and are usually unwilling to invest in start-up or early-stage enterprises. When willing to lend, banks typically require extremely high collateral ratios, occasionally higher than 100% of the loan amount. Further, prevailing interest rates are very high in Ghana (over 30%). Despite the strong "culture of accountability" underpinning low default rates, even among low-income populations, banks and other financial institutions prefer to invest in government securities given the high returns posed by these investments (as at march 2017, the yields on government treasuries ranged from 16% for a 91-day treasury bill to 21% for a two-year fixed note) as opposed to lending to enterprises and the private sector (at interest rates of between 20 – 25%)

ECOSYSTEM SUPPORT PROVIDERS

Most accelerators and incubators are now setting up their own funds in an attempt to address the missing middle; this in spite of the fact that there are not enough incubators and accelerators yet in the country. Some players such as the Venture Capital Trust Fund feel that this will divert the ecosystem support players' attention; this, in cognizance of the fact that there is still need for high-touch support of social enterprises in Ghana.

Ecosystem support ecosystem in Ghana is small but growing. The ecosystem consists mostly of incubators, technical assistance providers as well as research organizations. Incubators have recently increased in number to accommodate the growing number of small and growing businesses that require support. However, these players are still concentrated in urban areas such as Accra and Kumasi. From our in-depth interviews, we noted a growing trend whereby accelerators and incubators are raising their own funds in order to try and address the "missing middle" gap in supply of capital to social enterprises. There are about 7 key accelerators and incubators operating in Ghana. Out of these, three (InnoHub, Growth Mosaic and MEST) are either planning or are currently raising their own funds to invest in the enterprises they support.

KEY CHALLENGES IN GHANA

- **Lack of enough impact capital in the market, and at the right ticket sizes:** Impact investment is not available across the whole continuum of the enterprises' growth stages. Most enterprises are at an early stage whereas available funding is in large ticket sizes (over USD 500,000). According to fund managers, it is expensive to manage low ticket-sized funds. As a result, social enterprises have access to funding of up to USD 5,000 only; available through self-financing and grants. Commercial loans are very expensive in Ghana and there is need to address this. Further, local financial institutions request for a lot of documentation and collateral in order to qualify for loans. In many cases, the small social enterprises and more so the women enterprises will not have such documentation thus locking themselves out.

- **Lack of understanding of equity as an instrument by promoters:** Most Ghanaian promoters treat equity ownership as loss of control of their enterprises. As a result, they end up only absorbing grant or debt funding instead of using other available mechanisms / instruments.

- **Instability of local currency makes it hard for social enterprises to raise foreign debt:** Repayment is required in hard currency (USD, Euro) while revenue is earned in local currency. In the past few years, the Ghanaian currency has been exposed to shocks and fluctuations. When the local currency depreciates, it makes it difficult for enterprises to repay their debt. Due to fluctuation of forex, the cost of raising international / dollar debt is high and this stifles the growth of local enterprises as debt funding becomes largely unavailable locally.

- **Minimum capital limitation for foreign investors:** When a foreign company invests in Ghana, minimum equity required is as follows: USD 200, 000 for joint venture with Ghanaian partner, USD 500,000 for 100% foreign ownership and USD 1 million for trading activity.

- **Unavailability of investment-ready (high growth potential) enterprises to invest in:** Social enterprises in Ghana tend to be small in nature thus not attracting enough capital to enable them achieve their growth potential. While there are number of ecosystem support players available in the market, most of them offer very short technical assistance programs, boot camps or co-working spaces. There is need for many more "high-touch" and long-term advisory support so as to adequately prepare social enterprises for investment.

- **Liquidation processes take unnecessarily long time to close in Ghana:** This is mostly due to lack of update of the collateral registry and the credit reference bureau system. For instance, it is hard to track down physical locations of companies

RECOMMENDATIONS

The following recommendations surface from impact investment landscape analysis of Ghana

▲ Supply of capital

- **Impact investors should consider developing innovative funding structures:** While angel and seed capital are appropriate financial instruments to meet the demand of high growth SEs, mezzanine instruments can play an important role on the growth journey of low and moderate growth SEs. Most of the impact investors in the market have deployed the same investment vehicles (straight up equity and debt) as their commercial counterparts thereby cutting off a significant number of investees from their portfolio. Impact investors should consider other innovative structures of deploying impact capital, such as:
  - Development of a tiered venture debt fund to increase the availability of different types of investment
  - Structuring a deal with first loss or matching-grant guarantee
  - Provision of matching grants to de-risk investments
- **Sensitization of social enterprises (SEs) on the different instruments / mechanisms of impact investments:** Many SEs are not aware of how they can benefit from the different masterclasses / mechanisms / instruments available in the market. The ecosystem support players (incubators, accelerators, research institutions and networks) need to hold regular (monthly or quarterly) meetups or convening platforms to sensitize the social enterprises on the various investment instruments or mechanisms available and ways of tapping into them.
- **Increased focus by the ecosystem support players on early stage enterprises:** All sector experts interviewed by Intellecap intimated the need to have a healthy pipeline of startups with refined and scalable ideas to feed into the incubators or accelerators. These experts advice that a lot more support should be targeted at these early stage enterprises (start-ups and idea-stage enterprises) so that they can be investment ready by the time they are raising seed capital. At the moment, such support is provided by ecosystem support players such as MEST, InnoHub, among a few others.
- **Impact investors and entrepreneur support organizations should come up with initiatives meant to assist SEs in attracting and retaining the necessary talent that they need to grow:** Such initiatives can entail creating linkages and / or partnerships with relevant tertiary academic institutions or ecosystem support players so that they can develop and implement specific and customized curricula to supplement the skills of the management team of the SEs. They can also organize for short term externships / secondment of support ecosystem players' staff members to the social enterprises for capacity building.
- **Leverage technical assistance (TA) facilities for pre-investment pipeline building:** More pre-investment support for businesses is needed to develop a strong pipeline of investible opportunities. Increasingly, TA funders (e.g. USAID, DFID) recognize the importance of pre-investment support to get companies to the point where they can successfully raise capital. Several impact investors have successfully developed TA facilities for portfolio companies. Targeted, tailored support requires an upfront commitment of resources, but has proven effective in preparing potential targets for investment and building high-quality deal flow. This process can also dramatically reduce diligence timelines if the investor is able to increase familiarity and visibility into the business pre-investment.
- **Government should put in place a favorable regulatory environment for mobilization and deployment of local funds:** There is need to find ways of de-risking pension funds by putting in place guarantees so that social security and pension funds can be injected into social enterprises.

KENYA

Country Context

Kenya is not only East Africa's largest economy; it is also emerging as an African financial services hub.[83] Its financial sector is more developed than any of its neighbors'. As a result, East Africa has been described by the Global Impact Investing Network[84] as 'one of the centers of global impact investing', with Kenya in general and Nairobi in particular singled out as the regional hub of East African impact investing[85]. Investing momentum in Kenya in general is strong. Foreign direct investment (FDI) in Kenya soared to USD 672 million (Sh67.7 billion) in 2017, according to the United Nations Conference on Trade and Development[86]. The robust 71 per cent increase contrasted starkly with a 22 per cent drop in FDI in Africa as a whole and a 23 per cent fall-off globally. GDP Growth has been relatively strong and stable over the last half decade with growth rates hovering between four and six per cent annually since 2011.[87] It is predicted to increase over the coming years: recent numbers from the World Bank predict that annual growth in 2018 and 2019 will be 5.8 per cent and 6.1 per cent respectively. Private consumption, driven by a rise in real incomes, is to a large extent responsible for the recent uptick in growth. With a young population that is expected to increase by more than 50 per cent over the coming 20 years[88], demand for goods and services will surely increase. Investments that benefit the Bottom of the economic Pyramid (BoP) and help to broaden the middle class have not only the potential to create a huge social impact, it will also create tomorrow's customers and clients.

TABLE 1:
FACT SHEET FOR INVESTORS

FACTORS	INDEX SCORE	DESCRIPTION
World Giving Index (2017)	3 (12 in 2016)	Between 2015 and 2016, Kenya's World Giving Index score increased eight percentage points from 52% to 60%, driven by improvements across each of the three giving behaviors.
GDP (PPP, 2017)	163.3 Billion[89]	Due to drought, weak credit growth, security concerns and pick-up in oil prices, GDP growth was 4.9% in 2017. However, medium-term GDP growth is expected to rebound to 5.8% in 2018 and 6.1% in 2019.
Financial Access (2017)	75%[90]	Financial inclusion is growing, and fast. Kenyans excluded from any form of financial service dropped from over 40% of adults to 17% between 2006 and 2016.
Digital Access (2017)	112%[91]	99% of internet users in Kenya access the internet through their mobile phones. As a result, the high internet penetration was driven by a high mobile penetration of 90.4% of the adult population.
Ease Of Doing Business (2018)	80	Kenya has been ranked third in Sub-Saharan Africa in the 2018 World Bank Ease of Business Index, moving up 12 places, from the previous year, to a global ranking of 80.
Unemployment Rate (2017)	11.5%[92]	Unemployment rate has been fairly constant over the past 8 years; only declining at a rate of 0.74%.
Inflation Rates (2018)	4.35%[93]	Inflation has been low in recent months mainly due to improved food production on the back of good rains and a strengthening of the shilling currency against the dollar. However, this is anticipated to go up following the recent introduction of 16% Value Added Tax (VAT) on petroleum products as from 1st of September 2018.

83 Herbling, 2015

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

85 Saltuk et al., 2015

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

87 World Bank, 2018

88 UN, 2015

89 World Bank Group

90 FSD Kenya

91 Communications Authority of Kenya

92 World Bank Group

93 Central Bank of Kenya (CBK)

FACTORS	INDEX SCORE	DESCRIPTION
Corruption Index (2017)	143[94]	Kenya is ranked among the top 50 most-corrupt countries in the world according to the Global Corruption Perception Index (CPI) report. There has been no marked improvement over the past 3 years.

The Impact Investment Landscape in Kenya

SUPPLY OF CAPITAL

About half of all impact investments deployed in East Africa end up in Kenyan social enterprises (SEs). However, most of these enterprises struggle to raise subsequent tranches of funding due to poor structuring of investments. From our research, we observed that social enterprises which had raised heavy debts at the onset of their growth stages struggled to grow thereafter. As a result, very few social enterprises raise funding beyond Series A or B Therefore, it is important for impact investors to structure their investments innovatively so as to enable SEs to demonstrate traction and proof of concept.
As at 2015, almost half of all impact capital disbursed in East Africa had found its way into the Kenyan market to date, representing more than USD 650 million of private impact capital and more than USD 3.6 billion of DFI capital. According to a 2015 study by the Global Impact Investing Network (GIIN), at least 136 impact capital vehicles are active in Kenya, managed by some 95 impact investors (excluding DFIs). However, despite the large number of impact investors in the country, the capital they provide does not adequately span the entire risk-return spectrum, nor is it equally available at all ticket sizes. Specifically, most players interviewed noted a 'missing middle' in capital availability for ticket sizes in the range of USD 200,000 to USD 5 million.

The venture capital (VC) space has seen increased activity of late with venture capitalists and impact investors present in the country focusing on growth-oriented impact enterprises.
High growth early stage enterprises are increasingly tapping into venture capital (VC) to supplement the angel funding they receive in the early stages. Venture capital is nascent in Kenya, with most investments taking place post 2011. Ever since 2015, the sector has seen the emergence of an increasing diversity of VC funds. Our analysis suggests that USD 93 Million of VC funding has been committed to the Kenyan enterprises[95]. The average ticket size of VC investments in Kenya is USD 1 Million, with ticket sizes ranging from USD 10,000 to USD 6 Million. On average, VC funds acquire a 25% - 49% stake in an enterprise.

Kenyan impact investors primarily focus on energy, health and education sectors.
Out of more than 130 impact capital vehicles available in the market, 32 per cent are targeted at social enterprises in the energy sector, 28 per cent in the health sector, 25 per cent in education sector and 15 per cent in water and sanitation sector. Interest, however, does not equal actual deals. Energy and education are sectors with high interest, but few deals imply that investors are finding it hard to place their money. For social enterprises in this sector, the disconnection is a signal of potential, but also shows the challenges on matching requirements with the enterprises' business models.

As is the case with the other African countries, there is no standard impact measurement metric in place in the Kenya impact investment ecosystem.
Even though a few of the impact investors derive their impact measurement metrics from generally accepted organizations such as IRIS and GIIRS, majority (~70%) of the interviewed investors do not have a defined framework for measuring impact but would tend to develop their metrics at the time of closing investments. According to most of them, the enterprises must aim to improve lives of the people at the bottom of the economic pyramid either through enabling their increase in income or access to basic goods and services.

DEMAND FOR CAPITAL

Despite the high number of social enterprises in Kenya (~44,000), not many are successful in scaling up their operations. The reasons given for this notable trend is that most of these enterprises are still in their early stages of maturity. As a result, they do not have refined business models yet and thus are not investment-ready.
The Kenyan social entrepreneurship ecosystem is relatively young. This presents an opportunity for impact investors who actively pursue early-stage investment opportunities. However, these would need to see some sort of a track record or experience from a social enterprise before feeling confident enough to invest. There was an upsurge in number of impact enterprises between 2013 and 2016 (at a CAGR of 59%) as a result of a number of government initiatives targeted at job creation. Such initiatives include, but not limited to:

- Creation of the Ministry for Youth Affairs in 2005 with an aim of representing and addressing youth concerns, including employment.
- Launch of a presidential directive on 'Youth Access to Government Procurement' in 2012. Under the initiative, government earmarked 10 per cent of all state contracts for businesses owned by young people.
- Development of the Ministry of Youth Affairs and Sports (MOYAS) strategic plan 2008 – 2012. The plan was linked to the Vision 2030 and was prepared to cater for youth and development. It was meant to raise labor participation in the country to 85 per cent by among other projects promoting an entrepreneurial culture and developing infrastructure for SMEs.

Given the young age of leaders of impact enterprises in Kenya, there are few 'lessons learned' specifically anchored on the Kenyan context. It also means that there are few successful exit stories for impact investors to draw upon.
70 per cent of Kenya's population is under the age of 35 years. Therefore, it is not surprising that 79 per cent of social enterprises are led by people aged 25 to 44 years, and 37 per cent by young people aged 25 to 34 years. In addition, 42 per cent of the social enterprises surveyed are led by people aged between the ages of 35 and 44 years. The fact that the ecosystem is relatively young also presents a risk as there is

94 Transparency International

95 Intellecap, 2015, Closing the Gap Report

little in the way of institutional knowledge in relation to social entrepreneurship dating beyond a generation.

Early stage impact enterprises struggle to raise capital. The few that have been able to raise funding did so by way of grants, cash or 'in-kind' donations.
A significant number of social enterprises in Kenya (57%)[96] have been supported by grants – either by way of government or foundation grant and/or cash or 'ín-kind' donations. According to a British Council survey conducted in 2016, a larger proportion of female-led social enterprises (53%) had been supported by way of donations in cash or in kind as at 2017. Only 5 per cent of the social enterprises had accessed commercial loans. This is unsurprising given that banks in Kenya find it expensive to monitor loans of small value and carrying out due diligence is costly because of a lack of credit ratings agencies, which makes it harder for banks to lend to small firms. Further, the coming into effect of the Banking (Amendment) Act of 2016 as well as the requirement by most banks for assets as collateral makes it hard for small social enterprises to access bank loans. In Kenya, banks do not lend against cash flows, making it particularly difficult for early stage enterprises with limited assets to access finance.

REGULATORY ENVIRONMENT

Over the past five years, the government has moved with speed to curb the rising unemployment rates in the country. The approach that the government is using to overcome this challenge is by working with its development partners to support the setting up and growth of micro and small enterprises (MSEs) across the country.
Kenya's population is young: 80 per cent of Kenyans are less than 35 years old. The highest unemployment rates are for people around 20 years old, at 35 per cent. Young people joining the labor market early (aged 15-16) face unemployment rates of above 20 per cent, but rates are even higher for older age groups, and are highest for 18-20 year-olds. After that age, unemployment rates decrease rapidly. In response to the youth bulge, the government has set up relevant bodies meant to support the setting up and nurturing of micro, small and medium enterprises so that they can create employment and / or improve the livelihoods for the youthful population in the country. Such bodies include:

- Kenya Investment Authority (KenInvest): In December 2015, KenInvest put in place an eRegulations program making it easier for investors and entrepreneurs to invest in the country. This step made the country to move up 21 places in the World Bank's Ease of Doing Business Index in 2016, ranking 92 out of 190 countries surveyed.
- Micro and Small Enterprises Authority (MSEA): Established in 2013, MSEA has facilitated over 1,450 MSEs to participate in various exhibitions countrywide. It has also supported entrepreneurial and skills upgrading programs training of more than 2,000 MSEs spread across various counties.
- ICT Authority: In March 2015, they launched Enterprise Kenya, a national accelerator to catalyze innovations and provide entrepreneurs with support. Enterprise Kenya will drive engagements with relevant government agencies to cause a review of the current procurement law with a view to giving Kenyan ICT businesses more opportunity to supply government technology solutions. The entity also looks at the establishment of an Equity Fund to support ICT innovations that could be quasi-government or private; and the creation of ICT Centers of Excellence that are linked to government ICT spending
- Youth Enterprise Development Fund (YEDF): YEDF was transformed into a State Corporation in May 2007 and offers a variety of loans and financing products, as well as training and mentoring. The government has so far released over USD 100 million to the YEDF.
- Uwezo Fund: The fund is aimed at supporting the incubation of enterprises, catalyzing innovation, promotion of industry, creation of employment, and growth of the economy. It provides loans to qualifying groups, and is administered locally. The government has disbursed over USD 40 million under the Uwezo Fund
- Women Enterprise Fund (WEF): In 2011, WEF emerged the winner of the Sustainable Development Goals Award for outstanding achievement on promoting Gender Equality and Women Empowerment. Under the WEF, the government has disbursed over USD 74.5 million

INTERMEDIARIES OF CAPITAL

Despite high volume of impact investing activity in Kenya, it represents a small part of the overall investment picture.
As at 2015, banks, Savings and Credit Cooperative Organizations (SACCOs), and Chamas[97] together had almost USD 39 billion in total assets under management and there are other sources of capital, such as commercial private equity funds, hedge funds, and others, that even further increase assets under management. Banks had more than USD 17 billion in loans outstanding in 2013 alone, which was almost 27 times the disbursements made by private impact investors and more than 4 times more than disbursements made by all impact investors over the same period. Chamas are reported to have combined assets of at least USD 3 billion shillings – 6.3% of GDP. One in three Kenyans is thought to be in a Chama, registered or unregistered. Because of this, banks and MFIs have begun developing products for Chamas. K-Rep, Cooperative Bank, Barclays, Kenya Commercial Bank and Bank of Africa have all developed products for this segment. Impact investing fills an important gap in the market for early-stage financing, even though it only represents a small portion of total investment activity to date. Though more willing to lend than banks in much of the region, Kenyan banks remain risk averse and are usually unwilling to invest in start-up or early-stage enterprises. When willing to lend, banks typically require

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

97 A Chama is an informal cooperative society or investment groups that is normally used to pool and invest savings by people in East Africa, and particularly Kenya. Chamas have matured over the years, with some registering as companies and other investment vehicles. Most of the groups initially invested at the Nairobi Securities Exchange and the real estate sector.

extremely high collateral ratios, occasionally higher than 100% of the loan amount. Many early stage businesses are unable to satisfy these requirements. Kenyan banks are improving access, offering creative structures like trade financing or crop cycle-based repayments, but there still remains a large gap in the market for early-stage investments that may be higher risk.

ECOSYSTEM SUPPORT PROVIDERS

Even though more than 50% of the East African region's support players are based in Kenya, there is still need for more ecosystem support players especially for early stage enterprises that are looking to raise seed capital.

Kenya is home to almost 50% more intermediaries, service providers, and other ecosystem players than any other East African country. The broader business environment is becoming more supportive and sophisticated, providing more options to partner with suppliers, distributors, and other commercial entities. It is expected that Kenya's strong growth will continue as it garners more attention and support. Kenya has more than 30 different organizations geared up in supporting impact investment and social entrepreneurship in Kenya. Besides having more active organizations in-country, these same organizations tend to focus more on Kenya despite the fact that many operate regionally. Nevertheless, impact investors still believe there are gaps in the support available, in particular for organizations that can produce a large number of investment-ready opportunities.

KEY CHALLENGES IN KENYA

- **Access to funding is still one of the main challenges for most social enterprises (SEs):** While majority of the social enterprises are still in their early stage of growth and thus require small ticket-size financing, that is usually catered to by microfinance institutions, there are other SEs that are too big to avail microfinance and too small or risky for commercial investors; both debt and equity. These are often referred to as the 'missing middle'. Youth and women entrepreneurs in this segment face additional challenges in accessing capital, due to the lack of necessary business skills, appropriate networks and support required to succeed, and hence, need targeted solutions. Most investors do not target early stage enterprises as they require more than just capital support. These require business development services (BDS) services as well and when these are availed, management fees tend to be higher than financial returns for smaller enterprises; this renders the investment non-viable.

- **Long due diligence process:** Correlated to the lack of investment-ready deal flow and the international decision making common to many impact investors, the due diligence process can often stretch 12-18 months for both debt and equity investments.[98] This can frustrate entrepreneurs and put additional pressure on the business, reducing long-term returns as companies must survive without needed capital

- **Hesitation of SEs to raise capital for fear of change in direction of their enterprises:** Due to the sectors of operation of most SEs (education, health, education, etc.), a significant number of SEs (57%) has received grant funding. However, the new crop of social entrepreneurs is continuously shying away from such investments due to fear that the donors will change the strategic direction of their enterprises.

- **"Cookie-cutter" approach by impact investors due to lack of understanding of the local context:** Only a few impact investors are based in Kenya and the rest in foreign jurisdictions such as America, Europe or South Africa. As a result, most of the decision-makers are internationally based which makes it difficult for them to interpret risks on the ground.

- **The pattern recognition problem[99] - most social enterprises don't fit what impact investors recognize or don't know anyone with money:** Because of the high cost of early stage due diligence in Kenya and the vast East African region, investors often fall back on pattern recognition to find companies and make investment decisions, relying on networks and indicators like attending a prestigious university or accelerator program thus starving unique SEs of capital.

- **Instability of local currency makes it hard for social enterprises to raise foreign debt:** Repayment is required in hard currency (USD, Euro) while revenue is earned in local currency. Even though in the past few years the Kenyan Shilling has been fairly stable, the currency is prone to shocks and fluctuations. When the local currency depreciates, it makes it difficult for enterprises to repay their debt. Due to fluctuation of forex, the cost of raising international / dollar debt is so high (18 – 20%) and this stifles the growth of local enterprises as debt funding becomes largely unavailable locally.

- **Lack of fund raising skills and contacts among local social enterprises especially those based outside of Kenya:** Raising capital locally is a hard task as there are not many funders available in the market. To make matters worse, majority of the few funders who look at this market are not based there. As a result, social entrepreneurs who don't have good fund raising skills and / or contacts with foreign funders find it hard to raise capital.

- **Unavailability of investment- ready (high-growth) enterprises to invest in:** Though there are many SEs in the market, there are currently very few scalable solutions.

- **Few exit examples:** Since the impact investment market in Kenya is still nascent, there are very exit examples that impact investors can learn from.

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

99 Village Capital, 2017, Breaking the Pattern Report, Interviews, Intellecap Research

- **Gap in impact finance supply:** Despite the large number of impact investors in Kenya, the capital they provide does not adequately span the entire risk-return spectrum, nor is it equally available at all ticket sizes. Specifically, most players noted a 'missing middle' in capital availability for ticket sizes in the range of USD 100,000 to USD 5 million.
- **Bureaucratic process of obtaining licenses and permits (such as patents) from government bodies:** According to a number of respondents we spoke to, government bodies have a very bureaucratic process thus delaying roll out of SEs' products into the market. For example, it takes up to 6 months to get an approval from the Kenya Bureau of Standards (KEBS) and it can take up to 3 years to register a patent with the Kenya Industry Property Institute (KIPI). Without the necessary permits, the products cannot be launched in the market. This eventually results in delays to raise capital as most impact investors would like to see that the enterprises have gained some traction in the market before they can invest in them.
- **Interest rate capping following the coming into effect of Banking Act (2016):** Interest rate capping has resulted in banks changing their lending behavior, viewing loans to small borrowers such as small and medium enterprises (SMEs) and individuals, riskier and expensive to manage. Thus, they tend to offer less credit to these borrowers, preferring lending to government and large private borrowers. Given that most of the social enterprises fall in the category of SMEs (68%), these enterprises are the hardest hit by the credit crunch.
- **Lack of recognition of the social enterprises by government:** There is no recognition of social enterprises (SEs) in the current regulatory framework.
- **Constantly changing regulatory environment:** Government constantly keep changing the applicable taxes on various product and services. For example, government had earlier waived import duties and taxes on all components of Solar Home Systems but recently brought back taxes on certain components such as bulbs and batteries being subjected to taxes thereby complicating importation of the solar home system units as these are normally packaged together.

RECOMMENDATIONS

The key recommendations that emerge from impact investment landscape analysis of Kenya are:

- **Impact investors should consider developing innovative funding structures:** While angel and seed capital are appropriate financial instruments to meet the demand of high growth SEs, mezzanine instruments can play an important role on the growth journey of low and moderate growth SEs.
- **Sensitization to SEs on the different instruments / mechanisms of impact investments:** Many SEs are not aware of how they can benefit from the different masterclasses / mechanisms / instruments available in the market. As a result, they end up only absorbing grant or debt funding in instead of the other available mechanisms / instruments.
- **Collaboration among ecosystem support players and with investors:** According to sector experts, there is no shared understanding on the support provided to social enterprises across the board. Even though more than 50% of the East African region's support players are based in Kenya, most of these work in silos and thus end up duplicating their efforts and thus diluting the overall impact of their efforts in the market. For instance, some social enterprises have been known to move from one incubator / accelerator to another at the expense of other SEs who would have benefited from such programs.
- **Increased focus by the ecosystem support players on early stage enterprises:** All sector experts interviewed by Intellecap indicated the increased need to have a healthy pipeline of startups with refined and scalable ideas to feed into the incubators or accelerators. They noted that the local curriculum of education does not prepare the entrepreneurs well to be able to articulate their business ideas in a compelling way to the investors. Therefore, given the majority age of the social enterprises in Kenya, they propose that a lot more support should be targeted at these early stage enterprises (start-ups and idea-stage enterprises) so that they can be investment ready by the time they are raising seed capital. At the moment, such support is provided by ecosystem support players such as Gear Box, Tangaza University College, StartupWave, Chandaria Business Incubation and Innovation Centre, Strathmore, among a few others.
- **Reduction in red tape by government bodies and better facilitation of trade across the East African Community (EAC) Countries:** Following the promulgation of the new constitution in 2010, some central government's powers were devolved to the county governments. As a result, certain aspects of regulation are under the devolved units and this has been a challenge, especially to small social enterprises, as some counties have put in place so many regulations increasing regulatory burden for these enterprises. For instance, enterprises which have branded delivery vehicles have to pay fees and penalties as they cross different county borders to make deliveries. The enterprises that operate within the EAC region have in certain instances faced hurdles at border points due to stringent and constantly changing safety / quality compliance requirements thereby affecting their operations adversely. Earlier this year, Tanzanian government agencies destroyed more than 5,000 Kenyan-sourced chicks citing safety concerns.[101]

[101] https://www.nation.co.ke/news/Tanzania-destroys-another-5-000-chicks/1056-4303090-r1idwuz/index.html

- **Impact investors and entrepreneur support organizations should come up with initiatives meant to assist SEs in attracting and retaining the necessary talent that they need to grow:** Such initiatives can entail creating linkages and / or partnerships with relevant tertiary academic institutions or ecosystem support players so that they can develop and implement specific and customized curricula to supplement the skills of the management team of the SEs. They can also organize for short term externships / secondment of support ecosystem players' staff members to the social enterprises for capacity building.
- **Entrepreneur support organizations should come up with initiatives meant to overcome pattern-recognition fallbacks:** Support organizations should develop a diagnostic tool to increase transparency and enable connection between investors, entrepreneurs and local entrepreneur-support organizations and investors that can provide access to networks and credibility to social entrepreneurs. This can also be achieved by organizing frequent investor deal rooms and engagement forums between impact investors and social enterprises. That way, the impact investors will get to appreciate the local context and the local social enterprises.
- **Leverage technical assistance (TA) facilities for pre-investment pipeline building:**[102] More pre-investment support for businesses is needed to develop a strong pipeline of investible opportunities. Increasingly, TA funders (e.g. USAID, DFID) recognize the importance of pre-investment support to get companies to the point where they can successfully raise capital. Several impact investors have successfully developed TA facilities for portfolio companies. Kenya, in particular, offers a robust intermediary ecosystem, and many of these players operate across the region. Targeted, tailored support requires an upfront commitment of resources, but has proven effective in preparing potential targets for investment and building high-quality deal flow. This process can also dramatically reduce diligence timelines if the investor is able to increase familiarity and visibility into the business pre-investment.
- **Improve regulatory environment for social enterprises:** The government should put in place a favorable regulatory environment that recognizes social enterprises as separate entities. It should also create a favorable regulatory environment for these enterprises by coming up with incentives targeting them. At the moment, a number of support players are engaging the government to put in place a legal framework that will recognize social enterprises and put in place a compliance enforcement body. On this, Tangaza College are working in collaboration with the Ministry of Trade and Cooperatives, British Council (lobbying), Thomson Reuters (drafting) and KIPPRA (policy review). Other incentives that the government should consider putting in place include:
    - Making Export Processing Zone Laws conducive enough for small enterprises as they are currently pro-large enterprises
    - Clearly defining export services as those offered to foreign entities regardless of where the service was borne; currently, only those services that have been discharged outside of the country's borders make for export service and thus qualify for a waiver taxes
    - Making the regulatory environment in Kenya much more favorable so as to attract funds to set up local offices in the country as opposed to in South Africa and/or Mauritius
    - Providing tax incentives to SEs at their early years of operation so as to enable them gain traction. This will be a change from the current focus of government where they focus on short term oriented goals such as tax collection targets as opposed to long-term taxation strategies.
    - Improving on formulation and enforcement of Intellectual Property Rights (IPR) regulation and come up with better ways of arbitrating IPR disputes whenever they arise. In the current regulatory framework, whenever there is an IPR-related dispute, arbitration will follow an industrial court process which is not so effective and takes a lot of time to complete. Should consider putting in place a mechanism such as that of Kenya Bankers Association (KBA) which arbitrates inter-banks' disputes.

Government should put in place a favorable regulatory environment for mobilization and deployment of local funds: There is need to find ways of de-risking pension funds by putting in place guarantees so that social security and pension funds can be injected into social enterprises.

[102] The Global Impact Investing Network (GIIN), 2015, The Landscape for Impact Investing in East Africa

NIGERIA

Country Context

Nigeria is the most populous country in Africa, with a population of more than 196 million people and a total labor force of more than 58 million people[103]. Nigeria is the 8th largest producer and exporter of oil in the world, producing 37.45 Billion Barrels of oil per year[104]. As at the end of 2017, Nigeria had a Gross Domestic Product (GDP) of USD 375.771 Billion, which has been on the decline since 2014[105] due to shrinking of oil outputs. The GDP is however expected to grow, although slowly at a rate of 0.8%[106] as the Government seeks to catalyze the growth of non-oil sectors of the economy. In 2017, Foreign Direct Investments (FDIs) inflows into Nigeria stood at USD 3.5 Million, signifying a 24% drop from the year 2015[107].

TABLE 1:
FACT CHECKS FOR INVESTORS

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

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

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

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

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

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

The Impact Investment Landscape in Nigeria

SUPPLY OF CAPITAL

Development Financial Institutions (DFIs) lead in deploying the capital followed closely by private impact investors i.e. fund managers and foundations.

DFIs account for USD 1.9 billion across 92 deals, or 96% of total capital deployed directly in the country and private impact investors account for USD 79 Million across 89 deals[108]. The majority of identified impact investors (both DFIs and private impact investors) who are active in Nigeria are headquartered outside of Nigeria[109]. There are only a handful of impact funds which have local presence. This number takes a dip in light of indigenous or local founded impact investing funds. Most investors in Nigeria expect returns of between 13% and 17% Internal Rate of Return (IRR) in their equity and quasi-equity deals[110]. This is higher than the 9.5% global benchmark return rate[111]. This is attributable to high perceived risks that are associated with investing in Nigeria including macro-economic and currency volatility[112].

A large majority of impact investors haven't made exits yet and look into trade sale/strategic acquisition as preferred mode of exit[113].

Profitable exits are hard to come by as there are less secondary investors to ease this burden. This is because most impact investors invest in growth stage enterprises that might still be unripe for secondary sale or IPO after the investment horizon. It is however important to note that Nigeria has a much more developed stock market (compared to other markets in Africa), it follows that Initial Public Offerings (IPOs) offer a decent exit option for investors in Nigeria[114].

Impact fund managers find difficulty raising domestic capital to invest in social enterprises[115]**.**

Most of the capital invested into social enterprises in Nigeria is raised internationally. This is largely attributable to the skepticism exhibited by domestic investors towards impact investing resulting in major compromise on financial returns. This is a challenge to fund managers, who otherwise fundraise from a select few of fund investors, who are predominantly foreign DFIs. Most funding for impact investors originates from foreign sources. In 2015, there was only one (identified) impact investor that relied significantly on local sources of capital[116].

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

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

110 Ibid

111 Ibid

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

113 Ibid

114 Intellecap Research

115 Ibid

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

The Nigerian diaspora is proving to be a force to reckon as a source of impact capital.
According to the World Bank, personal remittances into Nigeria have been growing year on year despite a slump in 2016[117]. More than USD 22 Billion was received in 2017 by Nigeria in remittances. As a matter of fact, Nigerians in the Diaspora have year on year contributed more to Nigeria's economy than 34 of the 36 states. Furthermore, in 2017 – the government, through the first ever diaspora bond in Nigeria raised USD 300 Million in efforts to fund part of its budget deficit. The rising trend in remittances is made possible largely because of the bulging number of Nigerians in the diaspora – in 2017 there were an estimated 15 million Nigerians living as diaspora in different parts of the world[118]. There are also strong connections between Nigeria and European countries, especially the UK, with increasing opportunities for the Nigerian diaspora business community to develop its commercial presence and invest and contribute to socio-economic transformation of Nigeria. Efforts to encourage investment in Nigeria from the diaspora community are growing, and the overseas population is increasingly being looked to as a source of capital for the Nigerian businesses and economy as a whole.

The government in Nigeria is increasingly playing a part in the supply of impact capital.
The government through the establishment of its Development Financial Institutions such as the Bank of Industry (BOI) in 2001 and state funds such as the Lagos State Employment Trust Fund in 2016, is trying to cover the financing gap through self-involvement, efforts that are seen to encourage private sources to also deploy capital into impact enterprises in Nigeria. There have also been overlapping roles in the Nigerian financial system that resulted to inefficient intermediation and under-development of vibrant sectors of the economy. This has therefore necessitated the emergence of development financial institutions, federal and state funds to services to the large un-catered populations. This has proven to be a success, for example, the BOI in 2016 invested USD 230,000 in Nigeria's first ever social innovation fund. This fund was promoted by Nigeria's startup incubator, Co-Creation Hub (CCHub).

DEMAND FOR CAPITAL

Small and Medium enterprises (SMEs), including social enterprises, comprise of 96% of all Nigerian businesses and given Nigeria's strong entrepreneurial culture, investors see these enterprises as key drivers of economic growth and job creation in Nigeria.

Enterprises in Nigeria find it difficult to access financing from commercial lenders
Enterprises in Nigeria find it difficult to access financing from commercial lenders, who often have onerous collateral requirements that enterprises cannot meet. Even if the financing is available, it is often too expensive for these enterprises to take it and sustain it, since they are just starting up or too small in size. As much of the demand for financing is for working capital, this significantly hampers enterprises' abilities to conduct their day-to-day operations.

Further, there are very few angel investors or venture capitalists in Nigeria. The supply of impact investors is very small as compared to the size of the economy. This translates into a dire lack of available funding for small enterprise establishment and growth.

The largest recipients of capital (by size and number of deals) over the years for impact investors include players in energy, manufacturing, ICT and financial services.
DFIs focus their investments on large deals in energy, manufacturing, and information and communications technology (ICT), reflecting the country's large needs in these areas, with deals in these sectors representing a combined total of approximately USD 1.3 billion or 68% of total DFI capital deployed. Private impact investors, meanwhile, strongly favor financial services—microfinance, in particular, ICT, and agriculture —through small deals of less than USD 5 million. These sectors account for USD 51 million or 65% of capital deployed in the portfolio of private impact investors[119].

REGULATORY ENVIRONMENT

Whilst incentivization of impact capital goes a long way in promoting investing activity, further and/or heavy regulation is stifling it[120].
There are quite a number of legislation instruments that seek to impose tax obligations on both spectrums of impact capital that is both on the supply and demand sides. For example, Legislation such as the National Information Technology Development (NITD) Act[121] that was enacted in 2007 and the Tertiary Education Trust Fund (TETFund) Act[122] that was enacted in 2004 impose deductive tax obligations[123] to companies operating in Nigeria, thereby lowering earnings of impact enterprises.

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

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

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

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

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

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

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

NITD act establishes National Information Technology Development Agency to plan, develop and promote the use of Information technology in Nigeria and Tertiary Education Trust Fund act establishes the TETFund, an intervention agency charged with the responsibility for managing, disbursing and monitoring the education tax to public tertiary institutions in Nigeria. Section 12 of the NITD Act imposes a levy of one percent of the profit before tax of companies and enterprises enumerated in the Third Schedule to this Act with an annual turnover of N 100,000,000 to be credited to the NITD fund. On the other hand, Section 2 of the TETFund Act imposes a 2% tax on assessable company profits in Nigeria. Though, the Venture Capital (Incentives) Act provides tax reliefs on individual investments into venture projects, however, these impositions of Company Income, TETFund, NITD Fund tax obligations that target the profits of Venture capital firms thereby being counteractive to the incentivization idea as a whole.

The Central Bank in Nigeria has been issuing currency controls and regulations[124] that restrict the use of foreign currency in Nigeria.
The Export Promotion Council in Nigeria was established in 1977 to steer the country away from an oil focused economy and towards the export of other commodities that earn the country foreign exchange. However, currency controls in 2014[125] and 2015[128 above] by the Central Bank are inhibitive to efforts by the Export Promotion Council that are intended at catalyzing the involvement of impact enterprises (which are not involved in the upstream oil sector)[126] in the economy which will earn the country foreign exchange. For instance, The Central Bank of Nigeria (CBN) in November 2014, devalued the currency first from Naira 160 to Naira 176 to the US dollar and then again in February 2015 when it set a new official rate of about Naira196 to the dollar. In 2015, it also published a list of 40 types of transactions including those in rice and cement that would no longer be eligible to access foreign exchange in the official Nigerian forex market. It also curtailed the use of foreign currency-denominated Nigerian bank cards. The CBN also moved to completely ban the use of naira-denominated Nigerian bank debit cards for overseas transactions or withdrawals.

INTERMEDIARIES OF CAPITAL

Crowdfunding can be a powerful tool for economic growth and as means for raising capital for startups/early stage businesses, however a ban has been put on it by the Government
Crowdfunding can be a powerful tool for economic growth and wealth in developing countries in general. It enables entrepreneurs, artists, and other individuals to tackle traditional boundaries to financing in their country to bring products and services to market in a collaborative way. In Nigeria, home of millions of young entrepreneurs, crowdfunding could be a great tool to kick-start organizations and individuals.

In 2015, Nigeria accounted for between seven and eight million US dollars of crowdfunding activity in Africa[127]. However, in 2016 the Securities and Exchange Commission put a temporary end to equity crowdfunding in Nigeria[128] which rendered related crowdfunding platforms defunct and rendered a huge blow to such financing activities. This is a step backwards as this further widens the funding gap to social enterprises in Nigeria.

ECOSYSTEM SUPPORT PROVIDERS

Nigeria enjoys a relatively heavy presence of ecosystem support providers compared to other Sub-Saharan countries, with most support players being based in Lagos and Abuja.
Nigeria has relatively heavy presence of ecosystem support providers though plenty of them are skewed towards incubators and accelerators who support earlier stage enterprises, less of support to almost mature enterprises who need specialized support to scale their businesses[129]. Key players include:

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

Educational institutions out of urban cities of Lagos and Abuja are playing a role of ecosystem support providers.
Covenant University launched Hebron startup lab in 2017, which stood as the first incubation hub in a university. The University of Nigeria followed suit in 2017 - with the launch of Roar Nigeria Hub. A notable trend with the education-embedded startup hubs and labs is that both are established by educational institutions that are based out of the major cities in Nigeria such as Abuja and Lagos. These educational institutions are able to set up support resources for

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

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

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

[127] Crowdfunding Hub: Crowdfunding Potential for Nigeria report (2017)

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

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

entrepreneurs based outside these cities because of their ability to leverage on their strategic positioning and existing infrastructure in these out of city places in Nigeria. Whilst Hebron is fully funded and managed by Covenant university, Roar hub managed to land a partnership and funding worth USD 20,000 from Facebook to help run its operations.

KEY CHALLENGES IN NIGERIA

- **Lack of investable enterprises[130]:** Good pipeline is hard to come by as most entrepreneurs are made out of necessity – to fill the unemployment gap[131], the youth in Nigeria are starting businesses to employ themselves[132] rather than through a genuine calling to solve problems in society by starting businesses. Building a pipeline of investment-ready enterprises is the most common concern for impact investors as it is difficult to identify enterprises with robust business systems, financial accounts, and governance arrangements.
- **Lack of available financing options**: There are very few angel investors or venture capitalists in Nigeria. The supply of impact investors is also very small[133] to serve the size of the economy[134]. This translates into a dire lack of available funding for the establishment and growth of small enterprises.
- **Ecosystem support providers find difficulty in sourcing promising, dedicated entrepreneurs:** Particularly in the technology space, many entrepreneurs with promising ideas are very young—often fresh out of university—and expect quicker success than incubators can credibly give them.

RECOMMENDATIONS

The following recommendations surface from impact investment landscape analysis of Nigeria

- **Supply of capital**
  - **Co-Investments with local HNWIs:** The angel investing space in Nigeria is still nascent, with only two active angel investor networks. However, there are an estimated 15,400+ high net worth individuals in Nigeria[135]. Supply side players need to make a deliberate effort to co-invest with the already existing high number of local high net worth individuals. These angel investors would come in early than most funds – a healthy impact investing ecosystem will be achieved if there a balance in all continuums of capital. This will unlock more sources of impact capital like equity investors.
  - **Investments by Government:** Local state government agencies/authorities need to establish more impact funds, to invest in social enterprises. These funds will provide a reachable capital source and channel for otherwise marginalized entrepreneurs who are not based in urban centers. Most of the investors in Nigeria lack a local presence. The few with a local presence in Nigeria are based in Lagos, Abuja and Kaduna.
  - **Tap into burgeoning diaspora by lifting the ban on crowdfunding:** The Securities and Exchange Commission should consider revising or relaxing its ban against crowdfunding platforms. Crowdfunding platforms have proven to be highly effective channels of impact capital to entrepreneurs. They present a great opportunity to channel capital into social enterprises from the diaspora base.
- **Ecosystem Providers**
  - **Collaboration between supply side players and ecosystem support players:** This will help supply side players get a better understanding of the social and investment context in Nigeria. Such efforts might be through ecosystem players setting up affordable co-working spaces that are out of Lagos and Abuja. Also such collaboration could be through joint efforts to train conventional investment professionals in impact investment as well as share their learnings, insights and knowledge from other emerging markets
  - **Collaboration between the different players in the ecosystem support players:** The ecosystem support space is dominated by early stage incubators and accelerators with few technical assistance support providers who tend to support later stage enterprises. Ecosystem support players ought to create a bouquet of professional services for small and growing businesses at an affordable rate to attract more social enterprises. They also ought to find a delicate balance between supporting early stage & more mature stage enterprises as well as balance between the types of support provided.
- **Government**
  - **Incentivization for angel investing:** Government agencies could play a role in incentivizing high net worth individuals and corporations (especially those in the Oil and gas sector) to invest in social entrepreneurs.
  - **Currency policies:** The Central Bank of Nigeria should consider modifying its current policies to better promote foreign impact investment. Historically, most investments have been made and/or quoted in foreign currency (usually the dollar). It follows that preference on the Naira as the base currency will scare away impact investors. It should consider marking specific rates (which might be fixed) for impact investments, borrowing from the fact that there exist special exchange rates for religious travels and pilgrimage.

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

131 According to the National Bureau of Standards (NBS) stood at 18.8% in Q3 2017

132 ANDE: Abuja ecosystem snapshot (2018)

133 According to UNCTAD, FDI inflows in Nigeria were at USD $ 808 Million in the first quarter of 2018

134 According to the World Bank, Nigeria GDP was as USD $ 375 Billion in 2017

135 New World Wealth: Africa's Wealthy Class 2015

RWANDA

Country Context

Rwanda is situated in the Great Lakes region of central Africa with a population of approximately 11.8 million people, according to the 2017 census. The Rwandan economy has experience strong growth from 1995 to present, allowing for a recovery from the 1994 genocide. Annual economic growth averages more than 10% in the decade after 1995 with some variation and currently stands at around 7.6%[136]. While services and agriculture sectors have expanded significantly in the last few years, manufacturing remains a pain point. About 75% Rwandans are engaged in agriculture and about 39% reportedly live below the national poverty line[137]. Donor aid, political stability, relatively low corruption and pro-investor policies have contributed to Rwanda's recent economic growth. Key foreign exchange earners include tourism and export of coffee, tea and minerals. Key challenges facing the Rwandan economy include low agricultural productivity, an insufficiently skilled workforce, a landlocked geography and limited infrastructure.

TABLE 1:
FACT CHART FOR INVESTORS

FACTORS	INDEX SCORE	DESCRIPTION[138]
GDP Growth (2016)	5.9%	Rwanda's GDP growth rate has been increasing from 2014 (7.6%) to 8.9% in 2015 and dipped in 2016
Financial Access (2012)	72%	72% of Rwandan adults were financially included.42% of whom were formally served (23% served by commercial banks and 33% served by non-bank formal institutions) and 58% used informal financial mechanisms
Digital Access (2016)	39.5%	39.5% of the population in Rwanda are reported to be Internet users
Ease of doing business (2018)	41	Rwanda rose 15 places in the ease of doing business from 2017 after the implementation of 5 reform programs
Unemployment rate (2018)	16%	The unemployment rate in Rwanda decreased to 16% in 2018 from 16.7% in 2017.
Inflation rates (2018)	2.8%	The IMF 2018 Projected Consumer Prices (% Change) stands at 2.8% with the national institute statistics of Rwanda averaging the annual inflation rate between August 2018 and August 2017 as 2.1%
Corruption Index (2017)	48	Rwanda ranked 48th in the annual CPI of transparency international

136 Country Profile – Rwanda, by UNESCO & SIDA.

137 Congressional Research Services, Feb 7, 2018.

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

The Impact Investment Landscape in Rwanda

SUPPLY OF CAPITAL

While private impact investments have increased in recent years, Development Finance Institutions (DFIs) investments have declined since 2012 as foreign governments began to distance themselves from Rwanda after UN allegations of political interference in the DRC[139].
Rwanda accounts for about 7% of all deals, 4% of the disbursements and 3% of the private impact capital disbursed in the East African region[140]. According to the GIIN 2013 study, at least 38 deals were made by private impact investors resulting in about USD 44 million of capital disbursed in Rwanda while 43 deals were made by Development Finance Institutions resulting in USD 371 million of capital disbursed in Rwanda. The supply side of impact capital in Rwanda includes, at least 94 active private impact capital vehicles managed by 69 investors[141].

Some of the key highlights of impact investment space in Rwanda are:

- Pure debt contributes to about 90% of all capital disbursements by DFIs direct investments and close to 70% of the direct DFI deals in Rwanda[142].
- Of the sectors targeted by private impact investors, agriculture has received by far the most deals (~65% of all deals). Financial services category includes a large share of absolute investment, due to larger ticket sizes for established banks or microfinance institutions (MFIs). Infrastructure, financial services (~30% of all investments), and manufacturing absorb more than 50% of total capital

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

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

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

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

directly by DFIs. There are very few deals in the education and renewable energy sectors in Rwanda, despite these being high impact sectors because investors see few viable opportunities as compared to other sectors.

There have been very few impact investment deals of small ticket sizes in Rwanda even though a most of the enterprises are relatively small scale establishments.
The Rwandan MSME Development Policy[143] defines micro enterprises as having an annual turnover of less than 0.3 Million RwF and between 1 and 3 employees, small enterprises having an annual turnover of 0.3 to 12 million RwF and employing between 4 and 30 employees. These 2 categories themselves account for about 97.8 of the private sector in Rwanda[144]. Most enterprises in Rwanda employ only 1-2 people and are relatively small scale establishments. According to a GIIN study of 2013, there have been only about 17 deals in the below USD 250,000 category by private Impact Investors and another 5 in the below USD 1 million category for the DFI Direct Investment deals in Rwanda[145]. Most Rwandan businesses only require a small amount of capital to achieve early growth but most often are not able to able to attract investors due to the low levels of sophistication.

DEMAND OF CAPITAL

Roughly 70% of the population of Rwanda is under 35 years of age and highly entrepreneurial. Social enterprises are registered as private companies as well as NGOs in Rwanda. In Kigali, women entrepreneurs represent 43.2% of all entrepreneurial activity[146] although this number is much smaller in rural areas. Social enterprises are most visible in the energy sector, especially in rural service provision[147]. This is because most household resources are spent on energy and this has also been one of the priority sectors for the government of Rwanda.

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

More than two-thirds of micro, small and medium sized enterprises in Rwanda are not formally registered.
There are currently about 72,000 MSMEs operating in Rwanda[148] accounting for approximately 98% of all businesses, contributing to 55% of the total GDP and employing about 41% of the population[149]. Yet only about one third of them are formally registered. Most of them started off as micro businesses which grew or were formed to supplement the income of middle to upper income households and weren't incentivized to register their enterprises at a later stage. It is difficult for the government policy for SMEs to be a comprehensive and implementable one if most businesses are not officially registered with the government.

While impact investing represents a small proportion of total investment activity in Rwanda, it helps to fill an important credit gap that currently exists in the market.
Impact Investors are critical pipeline builders in Rwanda because commercial banks alone cannot fulfill the credit gap that exists for MSMEs in Rwanda today. According to a study carried out by MicroSave, 79% enterprises surveyed in Rwanda said that financial institutions did not meet their financial needs, 53% demanded working capital loans to finance their businesses while 37% expressed the need for investment, assets and vehicle finance to expand their businesses[150]. The same study also found that about 90% of the enterprises surveyed had accounts with formal financial institutions. This shows that, although the level of financial inclusion among Rwandan enterprises is relatively high, they are not able to avail of the benefits offered by financial institutions in the form of credit services. This is because of the following main reasons:

- High Lending Rates: The Rwandan bank lending rate has been among the highest in the region over the past decade, hovering around 16% between 2004 and 2015. Current lending rates in Rwanda are around 17%.[151]
- Rigid focus on collateral requirements and long processing periods: The rigid collateral requirements make it difficult for small enterprises to access these services. Commercial banks in Rwanda typically have high collateral requirements (3-5 times of borrowing) and can take 6 months to process.
- Limited potential to fund projects: Commercial loans can only fund 30% of the total project size[152]. This means that bank loans would need to be supplemented with other credit sources. Interest rates for these are about 18% as compared to 26% charged by MFIs[153].

Thus, the practical availability of bank financing is limited. This situation leaves most of the MSMEs in Rwanda to meet their total funding requirement using entrepreneurs own capital and borrowings from friends and family. This does not mitigate his/her risk because in case the enterprise underperforms in the short fund, they will face a fund crunch situation. Given the current financial landscape of Rwanda, it is clear that commercial banks cannot be the only source of credit for entrepreneurs and impact investors can be critical to filling the existing credit gap and facilitate business growth.

REGULATORY ENVIRONMENT

The Rwandan Government has, in recent years, formulated strong pro private sector policies that both social enterprises and impact investors can take advantage of and has thereby, built a reputation as the most welcoming business environment in the region as far as government regulatory policies are concerned.
Rwanda has strong pro private sector government policies that both social enterprises and impact investors can take

143 Rwanda SMEs Development Policy, June 2010.

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

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

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

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

148 MSMEs in Rwanda, Available here.

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

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

151 National Bank of Rwanda

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

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

advantage of. It has built a reputation as the most welcoming business environment in the region. Although there is no separate law governing social enterprises, but the other private sector regulations apply to them. The Government of Rwanda launched the Second Economic Development and Poverty Reduction Strategy covering fiscal years 2013/14 to 2017-18. This strategy aims to implement the 2020 Vision including a target of becoming a middle-income country by 2020, reducing poverty to below 30%. The private sector is seen as paramount to achieve these goals. As a result, there are many strategic policies that have been implemented to improve the business environment and competitiveness in Rwanda in the last few years as described below:

- Setting up of Rwandan Development Board: In 2008, the Government established the Rwandan Development Board, in order to fast track development projects as well as to encourage new investments. This was done by consolidating several government agencies including the Rwanda Investment and Export Promotion Agency, the Rwanda Commercial Registration Service Agency, the Human Resource and Institutional Capacity Development Agency, the Rwanda Information and Technology Agency and the Rwandan Office of Tourism and National Parks[154]. The RDB also plays an active role promoting investment and improving business conditions, regulations, privatization policies, etc. It is highly influential and reports directly to the President of Rwanda. The formulation of the RDB helps both social entrepreneurs and investors and acts as a one stop center to get all necessary business approvals and permits. The process of incorporation, immigration and certification can be completed in a matter of days with the RDB and it is an initiative that has seen business reforms initiated by the business community.
- **Setting up of the International Diaspora Fund:** In 2012, the Government launched a fund to attract investments from the international diaspora called 'Agaciro' which means dignity in Kinyarwanda, the official language of Rwanda[155]. This created a common platform whereby HNWIs from the international diaspora could contribute to investing in ventures that have the potential to create social impact in Rwanda.
- **Tax Incentive for Investors:** Many attractive tax incentives are also present for impact investors looking to invest in Rwanda to motivate them to invest in Rwanda:[156]
  - 7 year corporate income tax holiday for selected sectors like manufacturing, ICT, energy and health services for a company investing at least 50 million USD.
  - Capital gains tax does not need to be paid by a registered investor.
  - 0% Corporate Income tax for companies planning to relocate their headquarters to Rwanda.
  - 15% preferential corporate income tax for key selected strategic sectors i.e. exports, energy, transport, ICT and financial services.
- **Ease of Business Registration:** In 2016, Rwanda made starting a business easier by improving the registration process. Registering a social business in Rwanda can be done online, within 24 hours completely free of cost thereby decreasing the effort that a social entrepreneur needs to put in in order to register his/her business.
- **Expansionary Monetary Policy:** On the supply side, the Central Bank implemented an expansionary monetary policy in the first half of 2017 to support growth in private sector credit including MSMEs. Consequently, outstanding credit due to private sector increased by 12.9% in 2017 against 9.1% in 2016. This implied that the MSMEs had a small increase in their ability to access credit than they did prior to this policy change.
- **'Made in Rwanda' Program:** It was launched in 2014, with the aim of encouraging Rwandan citizens to buy goods and services from both local and foreign companies located in Rwanda. Under this program, 3 new garment companies established their factories in 2017. The following fiscal incentives were introduced under this scheme in order to encourage local industries and entrepreneurs who would otherwise face stiff competition from imported products and services to set up their businesses within the country:
  - Capital machinery used in textile and leather industry will pay import duty of 0%
  - Tax rate of certain raw materials will be 0%.
  - The Government maintains a high tax on second hand clothes being imported in an effort to protect locally manufactured garments.

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

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

156 Rwanda Development Board Publication.

- Setting up of Free Economic Zones (FEZs): The Rwandan government has put in place special economic zones on the outskirts of Kigali. These zones are designed to accommodate large manufacturing industries and have access to road networks, fiber internet and water facilities. Entrepreneurs in the free economic zones (FEZs) are exempted from paying import duties and this helps them bring down their transportation costs significantly. These zones offer better infrastructural facilities and reduced tax rates to entrepreneurs thereby increasing their potential to set up and scale their businesses.
- The Rwandan government through the National Bank of Rwanda has steadily cut lending rates over the years thereby encouraging commercial banks to do the same in order to boost lending to the private sector and also encourage investments. Low interest rates make debt investments cheaper.

The government has made a lot of efforts with the above stated regulations and others to promote exports by introducing quality seals and certification standards to make products import grade and also produce in large quantities for export. The overall regulatory climate in Rwanda for impact investors is well supported. The government's efficiency and transparency, as well as its receptiveness to listen and act on complaints, has been praised worldwide[157].

INTERMEDIARIES OF CAPITAL

Rwanda has few to relatively few intermediaries as compared to other countries in the region, though Government has been playing a role in intermediation of capital.

There were 472 MFIs working in Rwanda as of December 2016; of which 17 have limited liability company status and 455 are SACCOs (savings and credit cooperatives)[158]. As is the case for other countries in the region, banks are one of the key intermediaries of impact capital.

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

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

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

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

ECOSYSTEM SUPPORT PROVIDERS

There are different types of ecosystem players that exist in the Rwandan market, most of which are common to the East African region, although these are far fewer in number than those present in Kenya and Uganda. Many of them operate in Rwanda but are based elsewhere in the region like Nairobi or Kampala. Support is skewed towards early stage ventures[159] and sometimes investors tend to provide their own incubation services to circumvent this. There are currently very few business plan challenges and investor networks that operate in Rwanda.

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

158 Access to Finance, Rwanda. Available here.

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

KEY CHALLENGES IN RWANDA

- For Rwandan social entrepreneurs and small businesses, the main challenges faced include collateral to obtain loans, high tax rates, lack of information technology skills and access, high interest rates and high transportation costs, lack of management skills and proper education and training and the lack of a comprehensive support network. Some of these have been further highlighted below:
  - **High Import and Transportation Cost for Social Enterprises:** Due to the landlocked nature of the country, transportation costs are usually high. Rwanda has the highest imported freight service costs in the region, which is nearly 3 times that of the African average. It is also dependent on the infrastructure and administrative procedures of neighboring country coastlines like Kenya and Tanzania[160]. This increases the cost of production for enterprises since raw materials are now more expensive to source and this affects profits margins of the enterprise unless the shift this burden to the end beneficiaries by increasing cost of final products. This is the primary reason for why the manufacturing sector in Rwanda is not well developed.
  - **Social Entrepreneurs face Difficulty in Accessing Commercial Credit:** High interest rates and the lack of collateral are key issues in Rwanda. The rates of interest for credit from commercial banks vary from 18% in commercial banks and as high as 26% for MFIs, while the value of the collateral requested by the financial institution should be at least 3 times the value of the loan in question[161]. This makes it hard for small business to gain access to commercial credit that can enabling them to scale.
  - **Lack of experienced, qualified local staff to join social enterprises:** Rwanda's tertiary education does not prepare graduates with the necessary skill sets that most social enterprises are looking for. There have been some skill development programs that have been initiated by the government of Rwanda (E.g. SEEP – Skill, Employability and Entrepreneurship Program) but these have not been enough.
- **Exclusive focus on collateral for bank loans, leading to a credit gap:** Collateral requirements are a major barrier that prevents social enterprises from accessing loans. Bank lending is based solely on collateral instead of some emphasis also being laid on cash flows and credit history. Furthermore, the requirement for property (land and house) as the only form of collateral is a further cause of worry among social entrepreneurs.
- **Inadequate Banking Infrastructure in Rwanda**: This serves as a challenge both for impact investors as well as businesses looking for access credit.
- **Lack of Investment Ready Opportunities for Impact Investors in addition to the relatively small market size:** Even though the ecosystem players present in Rwanda support existing enterprises in building their institutional and financial capacities, there are a limited number of investment ready businesses in Rwanda especially for larger ticket size deals owning to the lack of comprehensive financial record keeping and management skills within early stage enterprises.

RECOMMENDATIONS

The following recommendations surface from impact investment landscape analysis of Rwanda

- **Demand Side:**
  - **Expanding to other countries in the region by forging meaningful partnerships:** Since the total Rwandan market is only about 12 million people, social enterprises should look towards expanding into neighboring markets like Burundi and Congo, both of which are in close proximity to the capital city and also well connected. This will add another 30 million potential customers and could help to leverage some useful synergies[162].
  - **Increased Focus on Development of Local Social Enterprises in Rwanda:** Although the government has taken some steps to encourage local entrepreneurship (For example, the 'Made in Rwanda' program mentioned above), the majority of the social impact capital continues to be diverted towards social enterprises that have their headquarters overseas. Deliberate and sustained efforts need to be made in incentivizing local Rwandan bred social enterprises both with capital as well as skill development[163].
  - **Improve managerial, financial and other relevant skills for local enterprises**: Managerial and financial skills training options need to be explored in order to develop local capacities. Impact fund managers have cited significant improvements in their portfolio through local decision making and local support[164]. Using local staff also enables the social enterprise team to quickly adapt to changing situations on the ground due to increased familiarity with the local context.

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

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

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

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

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

- **Supply Side:**
  - **Lower Financing Thresholds:** Most enterprises in Rwanda employ only 1-2 people and are relatively small scale establishments. Thus, more impact funds that provide lower financing thresholds (<=$100K) should be encouraged and promoted to help bring more SMEs into the impact investing pipeline and bridge the access to credit gap that currently exists especially for small ticket sizes.
  - **Improve Access to Loans by through Process Re-Engineering:** Banks in Rwanda take an average of 2 months to process loans. This can frequently extend up to 6 months. Banks should review their operational systems, identify process bottlenecks and work towards expediting and re-engineering these in order to make the whole process more streamlined and speedy. Additionally, the criteria adopted for loan disbursements should also focus on credit history and cash flows instead of solely on collateral requirements in the form of property and land.
- **Government**
  - **Proactive Role in Promoting RDB as a one stop shop:** The Investor's Perception Survey of 2018 for Rwanda found that many international respondents (86%) had not heard of the RDB. However, 80% of the companies were happy to be contacted by RDB to discuss FDI opportunities in Rwanda. Business partnership services and market research were the most important services that investors would like[165]. The Government should take a more proactive role in reaching out to investors through the RDB and raising awareness about the investment opportunities in Rwanda while simultaneously being ready with market research insights and joint venture opportunities.
  - **Incentivize Registration of MSMEs:** The government needs to provide incentives for all MSMEs to be registered with the government since it will be unable to create a comprehensive and implementable MSME policy without this.

[165] Rwanda Investors Perception Survey 2018

SENEGAL

Country Context

Senegal has a population of more than 15.85 million people and a total labor force of more than 5.18 million people[166]. As at the end of 2017, Senegal had a Gross Domestic Product (GDP) of USD 16.37 Billion[167] that is expected to grow at a rate of 6.8%[168] due to increased activity in the Services sector which contributed 53.76% to the national GDP. In 2017, Foreign Direct Investments (FDIs) inflows into Senegal stood at USD 532 Million[169], largely due to the strategic position of the port of Dakar that serves as a major transport and economic hub to francophone West Africa. Senegal ranks at number 140 in the World Bank's Ease of doing business index[170] an improvement from position 147 in 2016 partly due to reforms made by the government to ease the registration of property[171] and starting a business[172].

TABLE 1:
FACT CHART FOR INVESTORS

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

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

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

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

169 UNCTAD Senegal Fact Sheet (2018)

The Impact Investment Landscape in Senegal

SUPPLY OF CAPITAL

By 2015, Senegal had received the fourth highest amount of declared impact investment in West Africa, behind Nigeria, Ghana, and Côte d'Ivoire.

Development Finance Institutions (DFIs) make up a majority of direct impact investment, accounting for USD 535 million or 97% of total capital deployed across 53 deals. Private Impact investments account for USD 16 million in declared investments across 21 deals[173]. Further, fund managers rely primarily on a combination of financing from DFIs, family foundations, and high net-worth individuals (HNWIs), with the vast majority of raised capital originating outside of the Senegal.

Only a handful of Senegalese enterprises have been participating on the Bourse Régionale des Valeurs Mobilières SA[174] (BRVM), none of them identify as impact enterprises per se[175].

Senegal is a member of the West African Economic and Monetary Union (WAEMU), which confirms its participation in the regional stock exchange Bourse Régionale des Valeurs Mobilières (BVRM). By the end of 2015, there were only two Senegalese companies on the BVRM[176] that is the Bank of Africa Senegal and Sonatel, with the latter accounting for an estimated one third of the total market capitalization[177]. 3 years down the line, the number of Senegalese companies on the BVRM has grown to 8 companies, which is still a low number.

This is attributable to the fact that successful Senegalese businesses are typically individual or family owned businesses and have a general reluctance towards equity investors[178]. This reluctance is therefore extended to the capital markets where ownership of their businesses will be touted and exposed to public participation.

DEMAND FOR CAPITAL

Micro Small and Medium enterprises form a backbone of Senegalese economy.

Micro Small and Medium enterprises represent 90 percent of Senegalese enterprises, contribute 33 percent of the country's gross domestic product and employ 42 percent of

170 World Bank: Ease of Doing Business 2018

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

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

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

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

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

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

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

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

its population[179]. Impact Investors target MSMEs in Senegal as they play a significant role in creating social and economic impact in the society.

Most impact investors target early and growth stage enterprises[180]. Enterprises in the Infrastructure, Energy and Manufacturing sectors receive more investments from DFIs than those in Agriculture, Water and Sanitation and Education[181]. According to a 2015 GIIN report, enterprises in Infrastructure received approximately USD 204 Million over 13 deals. Those in the Energy sector received USD 109 million over 9 deals and those in the manufacturing sector received USD 93 million over 5 deals.

On the other hand, enterprises in the Financial Services and Agriculture sectors received more impact investments from private impact investors than their counterparts in the construction, health and manufacturing sectors[182]. According to a 2015 GIIN report, enterprises in Financial services received approximately USD $ 10 Million over 9 deals. Those in the Agriculture sector received USD $ 3 million over 7 deals.

The economy in Senegal is powered by informal industries.
Informal enterprises[183] in Senegal have year on year contributed more than 40% of the national GDP and accounted for 90% of job creation and 80% of total employment in Senegal[184]. Cultural and religious inclinations in Senegal continue to drive informalization, and make it difficult to establish the formal structures required by investors. For example, the Mouride Islamic brotherhood has a significant influence on trade in Senegal, and operates several large firms led by individuals with complex political, business, and religious links.

REGULATORY ENVIRONMENT

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

- Bureau d'Appui à la Création d'Entreprise (APIX), the government provides a one-stop shop is in charge of securing efficient and timely approval of investment incentives through the Investment Code and Free Export Enterprise Status.
- Banque Nationale pour le Développement Economique SA (BNDE), the government commercial small business bank has a capitalization of USD 45 million, of which 70% is intended to explicitly benefit SMEs with target interest rates of 9% to 10%.
- Fonds de Garantie des investissements Prioritaires (FONGIP), the government partners with commercial banks and in 2015 had deployed USD 25 million in guarantee funds alongside international DFI actors providing similar instruments (AFD and IFC). FONGIP intends to reach a portfolio of at least 70% SMEs.
- Agence de Développement et d'Encadrement des PMEs (ADEPME), the government provides direct technical support and enable business advisory and networking for their respective constituencies.
- Bureau de Mise à Niveau (BMN), the government improves businesses' competitiveness via access to advice on technology, marketing, and human resources.

The Senegalese government has also been putting in place policy incentives to promote foreign investments.
In 2015, the Senegalese government created policies that ensured greater protection of minority investors[185]. Shareholders of companies in Senegal are now able to remove members of the board of directors without cause before the end of their term and their approval must be sought by buyers of new shares.

In 2016, it simplified the process of starting a business by reducing the minimum capital requirement to USD 2,000. The government also (in 2016) enabled creation of a new company structure, the Société à Responsabilité Limitée (SARL) – a Limited Liability Company that is cheaper and faster to incorporate. In 2018, Senegal made starting a business more affordable by reducing the notary fees for company incorporation.

INTERMEDIARIES OF CAPITAL

Concepts that earlier applied to the insurance market are being extended to the Senegalese MFI space.
The Senegalese insurance market has traditionally been characterized by cooperatives and community based organizations commonly known as mutuelles. Mutuelles provide effective health financing by pooling financial resources and risks across communities. In 2005, there were more than 833 recognized mutuelles. This number has grown with the adoption of the concept to the MFI market[186] where microfinance products are being offered to individuals in groups.

Digital lending in Senegal is increasingly tied to partnerships. MFIs are trying to survive by applying high touch or adding a personal touch to their offerings, strategies that boost customer relationships.
According to the World Bank[187], the mobile penetration had reached 99.9% in 2015 translating to more than 14 million subscribers. By mid-2016 the mobile penetration rate reached about 117% and there were more than 15 million mobile subscribers at the end of 2017. As such, mobile money technology has seen a significant increase in usage.

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

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

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

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

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

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

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

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

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

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

ECOSYSTEM SUPPORT PROVIDERS

Senegal has a growing ecosystem support space[188]
A number of incubators and accelerators have been cropping up in Senegal. However, it should be noted that the larger majority of these support providers are tech focused i.e. they were either set up to support tech enterprises or to boost digital literacy and tech expertise in Senegal. These include CITIC, Innodev Mobile Senegal, Jjiguene tech, Defaral Sa Labo, Coders4Africa, jokkolabs and hubsocial.

Corporations and fund managers are also playing an ecosystem support role.
Societe Generale, a global banking institution launched the African Innovation Lab in 2016 to enhance, and provide very early stage capital in the form of prizes to winners of hackathons[189]. Grofin, a private impact investor impact investor also launched in 2018 technical assistance support to enterprises in Senegal.

KEY CHALLENGES IN SENEGAL

- **Impact investors cite a lack of investable enterprises in Senegal**[190]**.** This is attributable to the fact that many SMEs in the country lack well-developed business plans, standardized monitoring systems, administrative structures, predictable operations and adequately skilled employees. A 2015 GIIN publication reports that multiple sources, including commercial banks, noted that over half of SME loan applications are rejected due to problems in the dossier even before due diligence. Impact investors in Senegal have responded to this business reality by offering technical assistance, either through dedicated funds and grants (for DFIs) or in-kind via taking board seats and guiding management (for private impact investors).
- **The economy in Senegal is powered by informal industries**. The informal sector in Senegal contributes upto 58% of the national GDP[191] and accounts for 80% of total employment in Senegal. It is reported that cultural and religious inclinations in Senegal further drive informalization, and make it difficult to establish the formal structures required by investors. For example, the Mouride Islamic brotherhood has a significant influence on trade in Senegal, and operates several large firms led by individuals with complex political, business, and religious links[192].
- **Lack of awareness about impact investment instruments**[193]. In as much as SMEs struggle to obtain investment, they also often lack the awareness that pools of capital exist offering more favorable terms than typical commercial investors, especially impact focused investors. Further, enterprises are also reluctant to accept equity investment. This is attributed to the act that most SMEs in Senegal begin as family-owned and operated businesses and as such they hesitate to grant third parties stakes in their businesses.

RECOMMENDATIONS

The following recommendations surface from impact investment landscape analysis of Senegal

- **Government**
  - The government should consider revising the corporate income tax rate downwards. The same is currently capped at 30% - which is higher than the average corporate income taxation system in other African countries[194]. Such a high rate is a clear impediment on impact investments as it further minimizes already minimal earnings made by impact enterprises and investors realized after setting up businesses and investing for the main intent of creating social impact.
  - The government should create policies that will help drive the formalization of the burgeoning informal sector. Some of the reasons as to why there is a large informal sector in Senegal is because of tax obligations that are associate with registration for example corporate income tax which is pegged at 30%. Therefore, policies such as tax holidays for newly formed and/or newly registered enterprises might incentivize informal enterprises to formalize without the fear of the taxman's noose.

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

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

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

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

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

193 Ibid

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

- Government agencies in Senegal enjoy privileges such as zero taxation. Further, they enjoy widespread power of reach to all geographies in Senegal. Therefore, the government should participate in impact investments by partnering with private sector impact players to set up a catalytic fund(s) that will invest in vacuumed spaces including very early stage enterprises, as well as enterprises out of Dakar, that are otherwise underserved by the large majority of impact capital due to the apparent ticket size, enterprise stage focus and geographical mismatch.

Others

- Supply side and ecosystem support players need to advocate for and demystify misconceptions on equity related investments to enterprises. This might be achieved by organizing workshops that seek to train entrepreneurs on diverse sources of capital available to them. This will help reduce enterprise bias against equity related investment instruments.
- Ecosystem support players and investors alike need to collaborate in providing enterprise and technical assistance support so as to eliminate duplicates and improve on efficiencies. Supply side players might play their role by financing technical assistance programs then sourcing for pipeline from these programs.
- Demand side players need to advocate for special tax rates and/or tax incentives to non-governmental organizations operating in Senegal. This incentivizes enterprise in Ghana to focus on impact creation as compared to return generation to offset the already high corporate taxes imposed on businesses.

UGANDA

Country Context

Uganda is a landlocked country in East Africa which has a democratic republic form of government. Population of Uganda is around 35.6 Million; it has high population density compared to other African countries, with most people concentrated in the southern and central parts. Agriculture is predominant sector that employs 80% of the workforce. Rain-fed agriculture continues to be a downside risk, to growth and income for the people dependent on it. Since 1990, Uganda's economy is characterized by investments in infrastructure, low inflation, export promotion (coffee being the main item of export) and information and communication technology services. Real GDP product growth was 5% in 2018 and could rise to 6% in 2019[196]. Unemployment rate was as high as 9.4% in 2014[197].

TABLE 1:
FACT CHART FOR INVESTORS

FACTORS	INDEX SCORE	DESCRIPTION[195]
GDP Growth (2016)	4.6%	Average annual growth was 4.5% in the five years to 2016, compared to the 7% achieved during the 1990s and early 2000s.
Financial Access (2017)	16%	16% of the adult population keeps their savings at formal deposit taking institutions, including banks, micro finance institutions and savings and credit institutions. With up to 60% of adult Ugandans still keep their savings at home with more than 65%, are unable to access formal financial institutions for credit.
Digital Access (2017)	45.4%	According to the Communications Commission of Uganda, the internet penetration increased from 43.8% to 45.4% indicating a 1.6% increase
Ease of doing business (2018)	122	Uganda dropped in its ranking from 115 in 2016
Unemployment rate (2017)	2.1%	The unemployment rate measured as a percentage of the total labor force stood at 2.1% having a steady increase from 1.9% in 2015
Inflation rates (2018)	3.6%	The IMF 2018 Projected Consumer Prices (% Change) stands at 3.6% down 5.5% in 2016
Corruption Index (2017)	151	Uganda ranked 151th in the annual CPI of transparency international

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

196 World Bank Country Overview.

197 CIA World Factbook.

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

199 Uganda Entrepreneurial Ecosystem Map, March 2017, Aspen Network of Development Entrepreneurs.

The Impact Investment Landscape in Uganda

SUPPLY OF CAPITAL

Uganda accounts for more than 20% of the total investment activity taking place in the East African region[198].

There is a growing presence of venture capital and impact investing funds in Uganda. According to a GIIN 2013 study, at least 139 impact deals were made by private impact investors resulting in more than USD 300 million disbursed while 79 deals have been made by Development Finance Institutions (DFIs) resulting in USD 879 million USD disbursed in Uganda. The supply side of impact capital in Uganda includes at least 119 impact capital vehicles, 82 private impact investors, 89 MFIs (Microfinance Institutions) registers under the Association of Micro Finance Institutions of Uganda, SACCOS (Savings and Credit Co-operatives) as well as a few commercial banks[199] including Centenary Bank, Diamond Trust Bank and DFCU Bank. Some of the key highlights of the impact investment sector in Uganda are:

- Debt instruments account for about 38% of the total financial support received while equity, mezzanine and others account for 39%, 15% and 26% respectively. Uganda has the highest lending rate in East Africa, which reached a record of more than 26% in 2012 and 23% in 2013. The collateral requirements combined with high interest rates make debt investments expensive for businesses and there is a limited range of financial instruments that are available on the supply side which further increases the existing credit gap.
- Roughly about 40% of private impact deals are made in the agriculture and services sectors. Among the DFI direct investments, financial services make up 50% of direct deals and 25% of the capital disbursed directly. The energy sector has seen a few deals with large ticket sizes which account for 40% of DFI direct capital disbursed[200]. As is true across the region, most impact investors in Uganda do not apply a specific pre-determined framework for measuring the impact of their investments.

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

DEMAND FOR CAPITAL

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

Ugandans are some of the most entrepreneurial people in Sub Saharan Africa. The percentage of Ugandan adults who own a new business or will soon own one is 35.5% (Total early stage entrepreneurial activity) unusually high for Uganda compared to the African average[201]. The Ugandan SME policy of 2015, estimates that there are about 1,100,000 enterprises in Uganda employing 2.5 million people (~7% of total population) and accounting for 90% of the entire private sector, generating over 80% of the manufacturing output that contributes 20% to GDP.

Yet, the mortality rate for Ugandan MSMEs is over 40% per annum[202]. This implies that for every new business being established, another is closed within a year of its operation. Studies show that only about 8% of all Ugandan MSMEs have been around for 15 years or more[203]. According to the Global Entrepreneurship Monitoring Study of 2014, only 2% Ugandan entrepreneurs expect to employ 20 people or more in the next 5 years. One study characterizes the local private sector as having "small and new as perennial features", which reduces the credibility of firms as potential business partners, increases financial insecurity and further constrains the competitiveness of local SMEs[204].

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

Most enterprises in Uganda are predominantly informal and young, with about 50% of them less than 5 years old implying that there is a concentration in earlier stages. According to a report by B-space, 70% of all Ugandan enterprises can be categorized as micro, 20% as small and 10% as medium[205] Since 70% of Ugandan enterprises fall in the micro category (employing up to 4 people with annual sales/revenue turnover or total assets not exceeding Uganda shillings 10 million), they fail to access financial resources because they are evaluated based on financial and accounting records which may missing or inaccurate. The study found that currently, around 70% of MSMEs in Uganda have unfulfilled credit needs, 41% need working capital loans and 29% expressed the need for investment (capital assets) and vehicle finance to help expand their business[206].

Even though it seems like there are funds operating across all key financing ranges, there is a disproportionately higher need for funds at or below the USD 100,000 range as this is the category that represents the highest financing needs for the SME sector in Uganda today[207]. More impact funds that provide lower thresholds are required to fill this credit gap for enterprises in Uganda. There are a few relatively low ticket size existing funds like Yunus Business Fund, Mango Fund, Root Capital and the Government of Uganda Youth Fund which was started to support youth led enterprises including those where entrepreneurs are between 18 to 35 years of age. Yet, these don't seem to be enough to meet the current funding needs for enterprises at these early stages of growth.

On the other end of the spectrum, most MFIs only lend up to 13-26 million Ugandan shillings[208], but typical size of the loan is 2.6 million shillings or less (~ $700 USD)[209].

A large number of Ugandan enterprises are thus caught in the missing middle where they are too big for microfinance and yet too risky for impact investors.

REGULATORY ENVIRONMENT

Uganda does not have any specific policy recognition of social enterprises in legal or statutory form. Social enterprises in Uganda can register in form of Company Limited by Guarantee (CLG), Company Limited by Shares (CLS) or NGOs[210]. Some of the Government bodies that regulate the investment and SME sectors are:

- In general, the Ugandan Investment Code Act governs all investing activity in Uganda and is formulated and implemented by the Ugandan Investment Authority. The Uganda Investment Authority (UIA) is the prime public sector incubator and investment promotion agency mandated to initiate and support measures that enhance investment in Uganda. It also advises the government on appropriate policies conducive for investment promotion and growth.
- The Directorate of MSMEs is a new Directorate under the Ministry of Trade, Industry and Cooperatives (MTIC) and is also tasked with coordinating, supporting, developing and promoting the implementation of the MSMEs Development Policy Strategic Framework for 2015-2025[211]. Aside from this they are also tasked with the formulation of the MSME policy for sustainable wealth creation and socio-economic transformation, promoting industrial research, product development and innovation, value addition and appropriate technologies including ICT, promote product and service standards for quality assurance etc.
- The Microfinance Support Centre (MSC) which is under the direct supervision of the Ministry of Finance in Uganda facilitates access to affordable financial services and strengthens management capabilities of MFIs and SMEs.
- Some of the other support institution and affiliated departments include Investment and Private Sector Development in the Ministry of Finance, Planning and Economic Development (MFPED), Makerere University Entrepreneurship Centre etc.

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

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

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

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

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

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

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

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

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

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

211 Uganda MSME Policy, June 2015. Available here.

The current policy and regulatory environment in Uganda creates significant barriers to entry for new businesses and does not provide an entrepreneur with adequate incentives to register their businesses.
In 2016, Uganda ranked 122 out of 189 countries with a score of 66.64 in the World's Ease of doing business ranking. Starting a business in Uganda requires 15 different procedures, takes 27 days on average and 39.7% of income per capita[212]. Corruption and high tax rates were found to be the biggest factors that make it harder to do business in Uganda[213].

Corruption is believed to be one of the main inhibiting factors for business in Uganda. According to the Corruption Perceptions Index of 2017 published by Transparency International, Uganda ranked 151th out of 180. Uganda's perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean) was 26 according to this study[214].

Another challenge facing enterprises in Uganda is the unsupportive government policies, in terms of the bureaucracy and taxes[215]. Inspite of a number of existing tax incentives that exist, it is estimated that paying takes 209 hours a year and the total tax rate for enterprises is about 36.5% of profit[216] which acts as a major disincentives for a variety of stakeholders to enter this space. It is estimated that around 5% of GDP is lost annually in Uganda due to tax leakages since tax avoidance is also a major problem with only one third of Ugandan enterprises paying taxes. Interactions with public authorities are typically long and bureaucratic and thus enterprises tend to make a choice to avoid this altogether. A comprehensive MSME policy cannot be formulated without bringing all MSMEs into the tax fold so they are all accounted and planned for. Having said that Uganda provides a some incentives for foreign and local investors to place capital in the Country including offers free access to industrial parks to investors in priority sectors, VAT exceptions on solar water heaters and cookers, certain health services, water related purchases etc.[217].

INTERMEDIARIES OF CAPITAL

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

- Microfinance Institutions: Most MFIs lend up to 13-26 million Ugandan shillings[218], but typical size of the loan is 2.6 million shillings or less (~ $700 USD)[219]. For example, DFCU bank offer investment club accounts through which less than 100 people can pool in their money to invest in ventures they deem profitable. The Investment Club Association of Uganda (ICAU) is another such club where there is no minimum cap on investment and SMEs can get as low as $10,000 for their business[220].
- Public Sector Intermediaries: On the public sector side, Microfinance support center (MSC) is the manager of Government of Uganda's micro credit funds and facilitates access to affordable financial services and helps strengthen managerial capacities of microfinance institutions and SMEs. Most recently, the Small and Medium agribusiness fund was commission by the EU and the Ugandan government specifically targeting agribusiness SMEs. This is because agriculture is a high impact business in Uganda where 80% of the population is dependent on it.
- Organizations supporting Intermediaries: Some other organizations which are engaged with the intermediation of impact capital include *BiD Network* (consisting of institutional and angel investors) which conduct investor trips and help mobilize capital for SMEs in Uganda, *Financial Access* which specialized in financial services, agribusiness and renewable energy supporting all phases in the financing process, including deal assessment and investment readiness and *Angels Initiatives* which typically offers a combination of tailored financing and management support etc.

ECOSYSTEM SUPPORT PROVIDERS

Uganda has vibrant ecosystem support provider sector. The main incubators and accelerators providing space, training and mentorship to enterprises in Uganda are Enterprise Uganda, FinAfrica, GrowthAfrica, Hive Colab, Inclusive Business Accelerator, Outbox Hub, SEED, SPRING Accelerator, Tech 4 Development, tony Elumelu Foundation, Unreasonable Institute East Africa, Venture Labs East Africa, Village Enterprise and Yunus Social Business Foundation Uganda[221]. Other private institutions include Private Sector Foundation Uganda (PSFU) and Enterprise Uganda (EUG); these continue to design and implement the necessary policies and programs that support the development of the MSME sector[222].

Overall, in spite of a relatively large number of ecosystem players, social enterprises in Uganda are still not prepare enough to be investment ready. There is a need for greater investment preparedness, human resources and financial sophistication facilities for entrepreneurs to make them investment and credit ready. According to the GIIN study of 2013, entrepreneurs struggle to find to identify high quality service providers and ecosystem players struggle to adequately explain their services to entrepreneurs.

KEY CHALLENGES IN UGANDA

High Mortality Rate among MSMEs leading to fewer instances of Enterprises achieving scale: The mortality rate for Ugandan MSMEs is over 40% per annum[223]. This implies that for every new business being established, another is closed within a year of its operation. This is primarily because of capital contraints faced by the MSMEs that prevent them from being able to

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

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

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

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

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

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

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

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

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

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

222 Uganda MSME Policy, June 2015. Available here.

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

scale. Studies show that only about 8% of all Ugandan MSMES have been around for 15 years or more[224]. According to the Global Entrepreneurship Monitoring Study of 2014, only 2% Ugandan entrepreneurs expect to employ 20 people or more in the next 5 years.

- High level Tax Leakage and Tax Avoidance: The biggest challenge facing the impact investing space in Uganda is the unsupportive government policies, in terms of the bureaucracy and taxes[225]. It is estimated that around 5% of GDP is lost annually in Uganda due to tax leakages. Tax avoidance is also a major problem with only one third of Ugandan enterprises paying taxes. Interactions with public authorities are typically long and bureaucratic and thus enterprises tend to make a choice to avoid this altogether.
- Lack of Investment Ready Opportunities in the country: Since most Ugandan businesses are concentrated at the early stages, they usually lack a comprehensive strategy to scale their operation, have poor financial management and accounting structures in place etc. This means that in most cases, they are not investor ready.
- Lack of Access to Finance: According to a survey done by MicroSave, 70% of Ugandan entrepreneurs surveyed had unfulfilled credit needs. Loan sharks exist who can provide a significant amount of money quickly with limited due diligence but they tend to charge very high rates of interest which make it hard for them to become a long term financing option.
- Lack of skilled personnel to be employed by Social Enterprises: Despite the recent positive trends in the impact investment landscape in Uganda, acquiring talent particularly middle management employees, remains extremely difficult[226]. Many social enterprises face challenges in recruiting lower level staff due to competition with donors and NGOs. Further, fresh graduates lack the necessary skills to be hired. Social enterprises find it hard to fill positions since they tend to look for a multi-faceted skill set in addition to the employee being business savvy[227].
- Corruption: This is believed to be one of the main inhibiting factors for business in Uganda. According to the Corruption Perceptions Index of 2017 published by Transparency International, Uganda ranked 151th out of 180. Uganda's perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean) was 26 according to this study[228].

RECOMMENDATIONS

The following recommendations surface from impact investment landscape analysis of Uganda

Demand Side

- Customized financial products*:* There is an urgent need to cater to this demand for MSME credit using customized financial products that are best suited to the MSME profile in order to combat the high mortality rate reported among MSMEs and help them scale.
- Incentivize Registration for Enterprises: Research suggests that two thirds of Ugandan entrepreneurs do not pay taxes. The majority of micro and small businesses are not registered as the registration process remains cumbersome and simultaneously high taxation implications mean that entrepreneurs are not incentivized to officially register their businesses. Giving entrepreneurs incentives to complete business registration by simplifying the process as well as easing the tax burden on MSMEs will go a long way in higher rates of registration for these businesses.

Government

- Explore more innovative ways to bridge the existing large credit gap: The lack of banking infrastructure makes it difficult for banks alone to cater to this need. Hence, to enable operational efficiency and cost minimization, the government should look towards electronic and mobile banking as well as using non tradition delivery channels and distribution arrangements such as agents[229]. Furthermore, there should be a deliberate effort to promote subcontracting, supply credits, prepayments and resource transfers, financial guarantees, as well as export credit guarantees[230].
- Forging Key Partnerships: Forming and maintaining good relationships between local and foreign investors needs to be deliberate. Limited partnerships have negatively impacted the performance of FDI in key sectors of the economy i.e. infrastructure (roads, energy, ICT) and Tourism[231].
- Increased investment in infrastructure: The inadequate supply of infrastructure is the 4th biggest reason that affects Uganda's Ease of Doing Business ranking[232]. The government can help mitigating this by increasingly investing in infrastructure both inside and outside of Kampala.

Supply Side

- Lower Financing Thresholds: more than 60% of the individual deals made in Uganda are under USD $1 million. Impact funds that provide lower financing thresholds (<=$100K) should be encouraged and promoted to help bring more SMEs into the impact investing pipeline, from hwre they can grow and graduate towards higher thresholds and become more successful. This will help bridge the access to credit gap that currently exists especially for small ticket sizes.
- Leveraging TA facilities to increase the level of Investment Readiness of Businesses: This is usually funded by DFIs and can help to make small businesses ready for an investment both in terms of people and processes.

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

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

226 GIIN Impact Investment Landscape Study Report, Uganda.

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

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

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

230 Promoting Alternative Finance for SMEs in Uganda. August 2013. Available here.

231 Investment Partnerships for Embedding Foreign Domestic Investments in Uganda, Feb 2014. Available here

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

ZAMBIA

Country Context

Zambia has a population of more than 17 million people[233] and a total labor force of more than 7 million people[234]. As at the end of 2017, Zambia had a Gross Domestic Product (GDP) of USD 25.8 Billion[235]. This GDP is expected to grow [236] at an annual rate of 4%[237]. In 2017, Foreign Direct Investments (FDIs) inflows into Zambia stood at USD 1,091 Million, signifying a 39% rise from the year 2016[238], investments that were largely driven by participation from China in the Zambian economy. Zambia ranks at number 85 in the World Bank's Ease of doing business index[239] partly due to reforms made by the government to enhance access to credit[240] boost cross-border trade[241].

TABLE 1:
FACT CHART FOR INVESTORS

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

The Impact Investment Landscape in Zambia

SUPPLY OF CAPITAL

The majority of Zambia's impact capital has been coming from development finance institutions (DFIs).
DFIs have been taking the lead in investing in Zambia due to their financial might and deploy huge chunks of capital. DFIs have been making investments into large scale energy, financial services and mining sectors[242]. On the other hand private impact investors have been focusing on agriculture, financial services and housing sectors[243]. Average DFI deal sizes in Zambia have been of an upside of USD 16 million. In 2016, Zambia stood as the second-highest recipient of DFI capital in Southern Africa, with over USD 1.7 billion in DFI capital disbursed through more than 100 deals[244], a number which has since grown. Private impact investors are generally committing less than USD 1 million per deal. There has been general rise in number of impact investors who are looking to invest in Zambia[245]. However, only a handful of investors have local offices[246] in Zambia, with the larger majority operating on fly-in-fly-out model[247]

Investment funds looking at smaller ticket sizes are adopting a 'build, not buy' strategy.
Investors in Zambia are unable to find a steady pipeline of investable enterprises[248]. To mitigate this, they are increasingly involved investing in companies at an earlier stage of development and are having a more intensive 'hands-on' approach to their growth. Such efforts have been manifested through investors (e.g. Grofin, Business Partners and Kukula Capital) rolling out technical assistance support programs, by active involvement in management and by presence of in-country teams to support portfolio companies.

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

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

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

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

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

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

239 World Bank: Ease of Doing Business 2018

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

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

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

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

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

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

246 These include Kukula Capital, Grofin and AgDevco

247 Ibid

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

DEMAND FOR CAPITAL

The majority of social enterprises in Zambia are at the early stages of business, with fewer in the growth and mature stages[249].

The majority of social enterprises in Zambia have been in the early stages of business, with fewer being in the growth and mature stages[250]. A majority of businesses in Zambia do not survive their first few years[251] due to hard hitting challenges such as the lack of capital and an enabling business environment. On the other hand, most impact investors in Zambia have been targeting growth and mature enterprises[252] and typically invest for between four and 10 years[253]. This leaves a very few number of growth enterprises that are ready and able to absorb impact capital and scale their impact.

REGULATORY ENVIRONMENT

The government is increasingly involved to catalyze impact investment through policies and legislation.

The government established the Zambia Development Agency in 2006 to foster economic growth and development in the country, by promoting trade and investment through an efficient, effective and coordinated private sector led economic development strategy. The Zambia Development Agency (ZDA) takes center stage in regulating and overseeing most if not all of the investment activities[254] in Zambia. The agency was formed after an amalgamation and privatization of agencies[255] that served a development purpose. The existence of the ZDA itself is an enabling factor to investments due to privileges accorded to investors. For example, investors who are issued with licenses by the ZDA are eligible to own land in Zambia. Further, the ZDA assists investors to obtain a self-employment permits and residential permits in the event that such investors have invested a minimum of USD 250,000) or the equivalent in convertible currency and employ a minimum of 200 people in managerial and technical positions. The ZDA will also assist such investors to obtain work permits for up to five (5) expatriates.

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

INTERMEDIARIES OF CAPITAL

The MFI sector is growing, and is becoming a formidable intermediary of impact capital in Zambia.

Zambia currently has 33 registered microfinance institutions. This growth has been propelled by the government's policy to drive financial inclusion in Zambia, precisely through the National Financial Inclusion Policy and the National Development Plan. The two main mechanisms for the delivery of financial services to microfinance clients are: relationship-based banking for individual entrepreneurs and small businesses; and group-based models, where several entrepreneurs come together to apply for loans and other services as a group[256]. MFIs complement commercial banks and insurance companies by providing services and products to underserved rural households, MSMEs and agro-enterprises in Zambia[257].

Zambia has seen an influx of shylocks[258] and unscrupulous lenders who charge high interest rates (sometimes more than the banks) thereby defeating the purpose of financial inclusion. The upsurge in shylocks, unscrupulous lenders is attributable to a notable vacuum in legislation governing credit. For instance, the Money Lenders Act (Zambia's flagship legislation on matters credit and lending) is silent on individual lenders. It follows that impact enterprises who are seeking fast and easy credit run at a risk of falling into the trap of these "illegal lenders". These illegal lenders also are a crude competition for intermediaries of impact capital for example MFIs thereby locking them out of business.

ECOSYSTEM SUPPORT PROVIDERS

Entrepreneurship ecosystem support sector is still at early stages in Zambia

There are few ecosystem support players in Zambia[259]. Further, all of the incubators and accelerators aforementioned (with the exception of Timbali Technology Incubator) are based in Lusaka. Entrepreneurs based outside Lusaka do not have sufficient support system to rely on. This is also a disadvantage to foreign investors (who are the majority of investors in Zambia) who want to source for high quality pipeline outside Lusaka. However, the concentration is gradually increasing[260] and entrepreneurs nonetheless are able to access various types of services, a privilege that was not available 5 years before.

There are overlaps within different providers in the ecosystem support scene.

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

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

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

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

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

253 Ibid

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

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

256 https://thebestofzambia.com/categories/personal-services/finances/micro-finance/

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

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

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

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

KEY CHALLENGES IN ZAMBIA

- Access to capital is the primary challenge facing businesses in Zambia[261]. Commercial banks are often unwilling to lend to the private sector and frequently have high collateral requirements.
- Lack of adequate infrastructure presents a significant hurdle to enterprises thus incurring high distribution costs. Further, the national electrical grid has limited reach, with 78 percent of Zambians lacking electricity[262]. This however presents an opportunity for the creation of infrastructure-independent innovations and enterprises such as e-commerce sites and mobile apps.
- High interest rates also pose a challenge to enterprises seeking capital from lenders. Most lenders charge rates close to the interest rate cap of 24 percent with Microfinance institutions offering higher interest rates that are capped at 42 percent. This locks away SMEs who look to raise long term capital as this may be toxic in the long run.
- Policy inconsistency: The government of Zambia recently enacted several sharp and notable shifts in national policy. For example, in October 2014, the government announced that it was replacing all profit taxes on copper mining operations with increased mineral royalties (to 20 percent for open-cast mines, up from six percent). This change went into effect in January 2015; then, in July 2015, the policy was reversed, returning to a 30 percent corporate tax on profits while reducing the mineral royalty to nine percent, still higher than under the previous policy.
- Zambia does not recognize freehold ownership. Instead, land may be held as customary land or as leasehold, with leases up to 99 years. Customary land, in general, cannot be leased or held by international parties. To be leased, it must be converted into leasehold land. The process of converting customary into leasehold land in Zambia is expensive and can take as long as three years. In order for foreign nationals to hold leasehold land, they must meet at least one of the following conditions: (a) be a permanent resident of Zambia, (b) meet the Zambian Development Authority's (ZDA's) definition of an investor, (c) be a company registered under the Companies Act with at least 75 percent local shareholding.

RECOMMENDATIONS

The following recommendations surface from impact investment landscape analysis of Zambia

- **Supply of capital**
  - Blended Finance: There is need for collaboration between Foundations/DFIs and local fund managers to create catalytic funds so as to channel early stage friendly impact capital[263]. This presents a win-win situation not only for the foreign investors who are benefiting from the local presence and on ground experience of local fund managers but also to entrepreneurs as they will have sources of capital from very early stages in the growth cycle.
  - DFIs and fund of fund managers need to partner with local MFIs and channel on-lending capital facilities to that have clear terms and conditions on interest charged and loan requirements. Such terms might include affordable maximum caps of interest rates to be offered to SMEs. This in-turn ensures that such sources of capital stay affordable and favorable to small and medium enterprises.
- **Ecosystem support providers**
  - There is need for the establishment of more early stage support programmes such as enterprise challenge programmes, business plan competitions and grant financing facilities. Enterprise challenge programmes work well for young and growing entrepreneurial ecosystems as they provide less demanding forms of supporting very early stage enterprises either through monetary rewards, technical support and/or the much needed mentoring support.
  - There is an apparent need for pipeline and lead generation platforms/systems for investments: Zambia has a limited number of supply side players with a local presence[264]. It follows that deserving entrepreneurs are underprivileged as they are unable to gain exposure to the vast network of foreign investors who lack local presence but are eager to channel capital. A connect between local impact enterprises and foreign impact investors is needed. Such a platform will also be of great benefit to foreign impact investors who are actively looking to invest in Zambia..

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

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

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

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

Government

- There is need for advocacy to encourage the government to liberalize its regulations such as restrictions on foreigners owning land in Zambia: Policies that bar foreign investors from owning land are an impediment to impact investments. This is because the inflow of foreign impact capital (especially in debt investments) is sometimes met with requirements such as collateral including land. It follows that foreign investors will lack access to land that's has been presented as security thereby barring both the supply and demand sides from participation in impact creation.
- The government and policy makers should consider revising the corporate income tax rate downwards: The Corporate income tax (CIT) rate in Zambia is currently pegged at 35%[265]. This rate further shreds the already meagre returns for both demand and supply side players thereby being a barrier to doing business and impact investing in Zambia.
- Public | Private consultation framework and system: The government and key impact investing policy makers should establish a clear framework that encourages consultations between public bodies and ecosystem stakeholders. Such consultations and dialogue should take place before the enactment of policies and after such enactment for monitoring an evaluation of success and feasibility. Such an initiative will therefore result in stable policies that catalyze impact investments in Zambia.
- The government ought to set up a formal land documentation system: This system will go a long way in enabling the creation and perfection of securities against land and further providing a much clearer and transparent land dispute resolution mechanism that promotes the protection of investors and also improve access to SME finance.

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

CONCLUSION

Africa's Impact Investment sector has continued to advance and grow, but it still largely remains beset by key barriers and challenges that are hindering the broad-based maturation and expansion of the impact investment sector and practice, and in turn, realization of the potential of impact investment to deliver socio-economic and environmental returns at scale.

On the other hand these challenges also offer large opportunities to various impact investment ecosystem players which they can tap into to improve the impact investing sector as whole. Some of these opportunities are:

- **Use of Innovative financing instruments:** The nascent entrepreneurial culture in African countries means many entrepreneurs in the region prefer debt to other instruments. Across the region, entrepreneurs who are not comfortable with the concept of equity or dilution of ownership could be funded instead through innovative funding instruments such as tiered venture debt, matching grant guarantee to de-risk investments
- **Recognition of Social Enterprises:** In most African countries, social enterprises are not recognized as a separate entity. The government should put in place a favorable regulatory environment that recognizes social enterprises as separate entities. It should also create a favorable regulatory environment for these enterprises by coming up with incentives targeting them.
- **Unlocking domestic capital and promoting angel investments:** Angel investing is still a nascent concept in Africa. Promoting angel investments will go a long way in supporting early stage enterprises in the region and providing them access to local capital which they are currently lacking. Further, angel investors often come from a variety of backgrounds and are able to provide expertise about markets, customers and competitors, sales channels, and through their personal networks can facilitate potential partnerships for these enterprises.
- **Building a pipeline of investment-ready Local entrepreneurs:** Due to the dominance of foreign investors in impact investing, there is a run after a few 'usual suspects'. Impact investors seem to go for 'what is familiar', resulting in well-connected and well-articulated expat entrepreneurs receiving the bulk of the capital, while local entrepreneurs face challenges convincing the investors of their business model. There is need for more inclusion of local entrepreneurs in the pipeline.
- **Boosting pre-investment technical assistance providers:** In order to address enterprise related challenges, especially with regard to building up the pipeline of local entrepreneurs, there is a need for more pre-investment technical assistance that supports enterprises in the capital raising process and provides support with building ancillary skills such as management and leadership, human resource management, or financial reporting.
- **Strengthening capital facilitation and transactions:** 90% of start-ups do not survive the first year[266]. While a number of service providers exist, the ecosystem is fragmented and enterprises and investors find it difficult to navigate the ecosystem. The number of venture capital funds and Private Equity funds has been increasing, however, early stage enterprises find it difficult to raise capital as they are not always "investment ready". Bridging this gap requires structured facilitation and intermediation by ecosystem support providers.
- **Building robust capital markets:** Most investors look for exit options and with very few such examples, it is a challenge for investors to see growth potential from their investments. With such constrained liquidity in the market, investors are forced to deliberate exit options prior to the investment. Investors generally are most confident placing capital in environments in which economic and entrepreneurial activity are encouraged, and where their *rights* will be protected. This highlights the need for a robust and strong capital market in Africa to catalyze further investments.

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