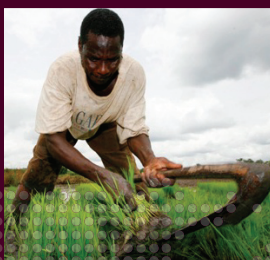


## Impact investing in West Africa



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### Advisory Team

---

Margot Brandenburg, The Rockefeller Foundation, New York

Giselle Leung, The Global Impact Investing Network, New York

Justina Lai, The Rockefeller Foundation, New York

Jacob Samuelson, The Global Impact Investing Network, New York

Wiebe Boer, The Tony Elumelu Foundation, Lagos

Laurie Rud, The Global Impact Investing Network, New York

Amit Bouri, The Global Impact Investing Network, New York

Stephen Nairne, Lundin for Africa, Vancouver

Sapna Shah, The Global Impact Investing Network, New York

### Dalberg Editorial Team

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Afua Sarkodie-Kupka, Dakar

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Liesbet Peeters, London

Abdourahmane Diop, Dakar

Susanne Normark Christensen, Copenhagen

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# List of acronyms

ADEPME	l'Agence de Développement et d'Encadrement des Petites et Moyennes Entreprises	GIIN	Global Impact Investing Network
AfDB	African Development Bank	GIIRS	Global Impact Investing Rating System
AFIG	Advanced Finance and Investment Group	GVEP	Global Village Energy Partnership
AGRA	Alliance for a Green Revolution in Africa	IFC	International Finance Corporation
ANDE	Aspen Network of Development Entrepreneurs	IFU	Industrial Fund for Developing Countries (Denmark)
BCEAO	Central Bank of West Africa States	ILO	International Labour Organisation
BIO	Belgian Government's Development Finance Institution	IPO	Initial Public Offering
BOAD	West African Development Bank	IRIS	Impact Reporting and Investment Standards
CAADP	Comprehensive African Agriculture Development Programme	LFA	Lundin for Africa
CADF	China Africa Development Fund	MFI	Microfinance Institution
CDC	United Kingdom Government's Development Finance Institution	NGO	Non-Governmental Organisation
CEO	Chief Executive Officer	NIRSAL	Nigerian Incentive-Based Risk Sharing System for Agricultural Lending
CFA	West African Franc	PE/VC	Private Equity/Venture Capital
CTF	Clean Technology Fund	ROE	Return on Equity
DEG	German Government's Development Finance Institution	S&L	Savings and Loans
DFI	Development Finance Institution	SIFEM	Swiss Investment Fund for Emerging Markets
DOTS	Development Outcome Tracking System	SME	Small and Medium Enterprise
ECOWAS	Economic Community of West African States	SSA	Sub-Saharan Africa
ESG	Economic, Social and Governance	SSNIT	Social Security and National Insurance Trust
FAST	Finance Alliance for Sustainable Trade	Swedfund	Swedish Government's Development Finance Institution
FCPL	Fidelity Capital Partners Limited	TIPA	Techno-Agriculture Poverty Alleviation
FinnFund	Finnish Government's Development Finance Institution	UBA	United Bank for Africa
FMO	Entrepreneurial Development Bank of the Netherlands	UNFCCC	United Nations Framework Convention on Climate Change
GDP	Gross Domestic Product	VCTF	Venture Capital Trust Fund (Ghana)
		WAEMU	West African Economic and Monetary Union
		WHO	World Health Organisation

# Executive summary

---

Impact investing can help solve major social and environmental problems in West Africa<sup>1</sup>, leveraging new sources of capital in places that lack sufficient government resources and development aid to address development challenges. A recent report by the Rockefeller Foundation and JP Morgan (2010) suggests that impact investments are emerging as an alternative asset class that could grow to represent a global market of US\$ 500 billion<sup>a</sup> in five to ten years. The implications for West Africa are exciting. Now is the time to deepen our understanding, increase awareness, and foster dialogue on impact investing in the region.

Impact investing—making investments to generate positive impact beyond financial return—is not new to West Africa. However, few investors in the region identify themselves as impact investors or are familiar with the concept in those terms. This lack of awareness, coupled with other substantive challenges, could slow the development of the impact investment industry in the region. This report is the first comprehensive analysis ever conducted on the impact investing industry in West Africa. It aims to: (1) map the landscape of impact investing supply and demand in West Africa; (2) identify the substantive challenges that hamper the growth of the industry and recommend solutions for overcoming them; and (3) serve as a starting point for regional dialogue and local network development activities among impact investors.

## The need and opportunity: demand side

The scope of the analysis included investment into any enterprise designed with intent to generate positive social, economic, or environmental impact, without harming society or the environment. While most enterprises in the region could conceivably be included in this scope, some sectors were seen as more likely to have significant impact.

At a minimum, companies create jobs, create social impact by improving employees' livelihoods, and create economic impact through increased tax revenues and the multiplier effect from increased consumption by the employee. Enterprises in some sectors also generate social impact through the goods and services they produce, such as healthcare, education, and agriculture. Enterprises in other sectors, such as renewable energy and energy efficiency, produce a positive environmental impact in addition to an economic one. As a proxy for total demand for impact investments in the region, it is instructive to estimate the demand for investments in sectors likely to have significant impact. This shows a need for US\$ 65 billion of invested capital over the next five years<sup>2</sup>.

The needs of individual enterprises in West Africa vary significantly depending on their business model, size and maturity stage, human resource capacity, and other factors. While larger enterprises may require finance of US\$ 2 million and above, small to medium-size enterprises tend to have needs in the US\$ 25,000 to \$2 million range, and micro-enterprises require less than US\$ 25,000. However, the needs go beyond accessing finance; many enterprises also need business development services to develop their ideas and create well-managed, financially sustainable operations.

## Impact investing in West Africa: supply side

Impact investments in West Africa are primarily made by private equity and venture capital funds, Development Finance Institutions (DFIs), foundations, institutional investors, and microfinance institutions (MFIs). In the course of the research, 207 impact investors were identified with combined annual investments / commitments of at least US\$ 3.2 billion<sup>3</sup>.

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<sup>1</sup> West Africa refers to the fifteen ECOWAS member states: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo

<sup>2</sup> Excluding the mining industry and public administration sectors, the combined GDP was US\$ 227 billion in 2010 and is expected to grow by 4.7% per year, i.e., the combined output shall increase by approximately US\$ 90 billion over the next 5 years. Investor benchmarks of average enterprise profit margins of 15% of revenues and expected return on investments of 20% over 5 years are applied to reach the US\$ 65 billion need.

<sup>3</sup> In comparison, total official development assistance (ODA) received by West African countries in 2009 was US\$ 12.0 billion ([www.oecd.org](http://www.oecd.org))

These estimates of available supply and potential demand cannot be directly compared, but it appears that current supply is far outstripped by the demand that exists at an aggregate level. Anecdotally, however, it seems that a number of investors are deal-flow constrained; this suggests that there is a large gap between the macro opportunity and the near-term investable opportunity. This is due to structural challenges such as a mismatch in the type, pricing, and risk-return expectations of available funding, which seem to limit the industry's growth at its current stage.

## Challenges facing the industry

For impact investment to thrive there must be a match between the capital needs of enterprises (demand) and the investment targets and thresholds for investors (supply), as well as a supporting investment infrastructure. The growth of the impact investing industry in West Africa faces several challenges in each of these areas, some of which reflect the broader challenges facing the industry globally. A summary of the challenges identified are outlined below, along with recommendations to address them.

### MATCH OF SUPPLY AND DEMAND:

#### Skills gap among entrepreneurs

Entrepreneurs often lack the education, skills, and access to information required to turn their entrepreneurial spirit into bankable project ideas.

#### Business owners' resistance to giving up equity

Owners of small and medium-sized businesses are wary of accepting equity investments as they fear losing control. Many enterprises in West Africa are small sole proprietorships or family operations, and their lack of awareness of the actual implications of engaging equity investors prevents many business owners from accepting this type of capital, leaving them with a limited range of debt options.

#### Lack of incentives to convert from informal to formal business structures

It is difficult for impact investors to do business with the informal sector, which currently makes up a large share of businesses in West Africa. In many countries, the cost of formalising—paying licences, taxes, and other operating costs—is prohibitively high and prevents businesses from moving from the informal to the formal sector.

#### Need for a broader range of flexible products to address the gap for enterprises with smaller financing needs

The main products available to businesses are debt, equity and quasi-equity. Beyond MFIs, impact investors in the region tend to shy away from smaller deals due to high transaction costs. As a result, entrepreneurs in the region find it hard to obtain financing in the US\$ 1,000 to US\$ 100,000 range. This issue is particularly prevalent for new ventures where the entrepreneurs' funding needs are too small for traditional debt or equity financing. In these cases, other preliminary financing instruments are needed, e.g., angel financing or royalty-based debt with manageable levels of interest and supporting business development services.

#### Need for investors to adapt their investment practices to the local climate

In order to invest successfully in the region, investors need to modify their investment practices to adapt to the local climate. In practice, however, investors are often unwilling or unable to change their investment criteria. This lack of flexibility prevents investors from accessing a large number of potentially profitable deals, and deprives entrepreneurs from much needed capital.

#### Regulation of institutional investors

A common form of impact investing in the region is through private equity investments. Some countries place significant restrictions on domestic institutional investors, e.g., insurance companies are not allowed to invest in private equity funds, and pension funds are not permitted to make private equity investments. Such restrictions limit the growth of the impact investing industry.



## INVESTMENT INFRASTRUCTURE:

### Lack of self-identification as an industry

Two challenges were articulated in the interviews that relate directly to the identification of impact investing as a distinct industry. Firstly, impact investing was an unfamiliar term to many investors and enterprises in the region. Secondly, some of the interviewees highlighted the potential conflict between institutions' financial and social interests, and expressed scepticism towards the notion of 'venture philanthropy'<sup>4</sup>. The research also suggests that institutional investors and high net worth individuals in the region have a negative perception of social investment funds and are discouraged from investing in funds if fund managers focus too much on social impact.

### Lack of credible and consistent reporting on impact

When impact is measured in West Africa, it is done using a wide range of tools, often on a case-by-case basis. The lack of consistent measurement makes it difficult for investors to compare social, economic, and environmental returns of different investments, which would enable them to manage their portfolios for higher impact and to more effectively communicate positive results to key stakeholders.

### Lack of intermediaries

Intermediaries are needed to facilitate investments between investors and beneficiaries. Syndicators, clearinghouses, and other necessary market intermediaries have a limited presence in the region, which makes finding and conducting deals more complex for investors.

### Lack of data on financial and non-financial performance

Though there is an abundance of entrepreneurs looking for finance, finding opportunities and screening them for "bad deals" are both fraught with difficulties. Investors and fund managers rely on their personal networks to identify deals, just as entrepreneurs and fund managers rely on their networks to identify investors. It is often not possible to gather sufficient information to conduct due diligence prior to making a deal, and the lack of credit bureaus in the region presents a challenge to investors and lenders, as there is no source of comprehensive information on credit histories.

### Lack of options for exit

Exiting investments is one of the major challenges in private equity investing in developing markets. The nascence of the capital markets in the region limits the initial public offering (IPO) options available to investors, and most use alternative exit strategies such as sale to sponsors, self-liquidating structures, and trade sales. Information on successful exits is limited; this may discourage potential new entrants in the market.

## Recommended actions to develop West Africa's impact investing industry

To develop the industry further, impact investment must be understood as more than simply investing in enterprises or investment funds in developing countries. Impact investors have clear motivations that are more than monetary, and this distinction must be recognised. The way in which the impact investing approach can be harnessed to address West Africa's development challenges is still evolving. Bigger questions about what West African impact investment means, and which direction it should go, must be resolved before West Africa can develop impact investing as its own industry.

There is potential for impact investing to carve out a niche market for itself in West Africa and work alongside other traditional investment classes. While not all impact investments are concessionary, there are "impact-first" investors<sup>5</sup> that are typically willing to provide longer-term capital—at more concessionary terms—combined with business development services. Such investors could use impact investing as a lever

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<sup>4</sup> Taking concepts and techniques from venture capital finance and applying them to achieving philanthropic goals

<sup>5</sup> There are two kinds of impact investors: those classified as "impact first" and those classified as "finance first". "Impact first" investors seek to optimise social or environmental returns and are prepared to give up some financial returns if they have to. "Finance first" investors are those who seek out subsectors that offer "market-rate" returns while achieving some social or environmental good.

to encourage informal enterprises to join the formal sector and already formal enterprises to further professionalise and formalise. Impact investing could support them to grow and prepare them for larger private equity and traditional commercial bank investments.

The higher levels of activity in countries such as Ghana and Nigeria suggest that impact investors and policymakers there may be ready to address these questions at a country level in the short term, but for other countries in the region, the timescale might be longer. Any approach to developing the impact investing industry must be well thought out, staggered, and relevant to each country. The six recommended actions are:

### Build networks and awareness

These networks would span not only impact investors, but also business support organisations, government actors, and development partners (including bilateral donors, non-governmental organisations (NGOs) and other grant-making organisations). Local networks could undertake the following activities:

- Increase awareness on existing definitions of impact investing
- Encourage angel investors to invest for impact
- Focus outreach efforts towards high net worth individuals and highly-educated West Africans in the Diaspora
- Increase understanding of equity investments among business owners
- Increase awareness of the benefits of venture philanthropy among grant-making organisations
- Share a deeper knowledge of country and sector specifics (e.g., contacts, business registration processes, and other useful information)
- Collaborate with business schools to add impact investing to MBA curricula.

### Link with the global network

Initiatives to build the impact investing industry are underway globally, but are yet to make their presence felt in West Africa. Impact investors in West Africa could be part of these global networks and benefit from the discussions, debates, and tools developed. Such networks also provide access to other impact investors internationally and gateways to new markets, buyers, and suppliers. West African impact investors can use these networks to identify partnerships and collaborative ways to engage with the wider global impact investing industry.

### Reduce risk and transaction costs

To address the finance gap in the range of US\$ 1,000 to US\$ 100,000 and increase the number of investments, both the high risk of investing and the high transaction costs need to be reduced. Specific actions that can be taken by impact investors, in partnership with development partners and other actors include: Developing new financial products suited to the needs of smaller enterprises, leveraging support from DFIs and other development partners, increasing technical assistance; and standardising equity investments and reducing due diligence costs.

### Demonstrate results

In order to demonstrate its potential and to increase the volume of capital for impact investments, investors will have to move away from individual case studies and anecdotes about social impact. Instead, investors must track successful exits, identifying the social, economic, and environmental benefits achieved. Impact investors need to adopt consistent and comprehensive measurement systems that allow investments to be easily compared on both financial and social returns. The comprehensive use of such systems will allow investors to demonstrate results and provide other investors with sufficient information to compare different investment opportunities.

### Cultivate talented entrepreneurs

To receive impact investment, strong operational and financial management capacities are required. These capacities can be difficult to find in West African enterprises; therefore most investments involve working with the enterprise to develop required capacities, pre- and post-investment. Governments and development partners can support this capacity development by supporting service providers and by seeding technical assistance facilities to bring down the direct cost of business development services.

### Work with policy makers to strengthen the impact investing industry

Policy initiatives that nurture the growth of impact investing in West Africa can also be considered. These initiatives should focus on expanding the sector and impact investing capital. This could be done by allowing pension funds to make impact investments and by offering incentives, such as tax credits, to impact investors that establish in-country.



# Chapter 1 – Introduction

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Investing in businesses that generate non-financial impact is not a new concept in Africa; loans and investments to family and friends are as common on the continent as they are around the world, if not more so. West Africans at home and around the world have a long and proud history of supporting each other financially through community and family channels. These investments have both social and financial impact, building communities at the same time as building businesses. Beyond these informal investment channels, DFIs and other international investors have been pursuing a similar combination of philanthropy and investment for years. Recently, as more foundations, private investors, and institutional investors expand their investment strategies, many investors have developed investment strategies that would fall under the definition of “impact investing”. Despite this development, many “impact investors” in West Africa are still unfamiliar with the term.

As the field of impact investing grows, key institutions in the space have recognised the need for basic data and analysis on the status and nuances of impact investing in specific regions, and in West Africa in particular. This report is a new contribution to the impact investment space and serves to supplement the existing literature with detailed information on the West Africa region.

## 1.1 Objectives of the report

Given that the industry is new in West Africa and there is little data available, this report seeks to understand and describe the impact investment ecosystem and what it means for the region. The process of developing the report has also created the beginnings of a broad and collaborative network of investors and investees in the region. While this consequence of the research is welcome and positive, the primary objectives of this report are:

- 1) to describe the landscape of impact investing supply and demand in West Africa;
- 2) to identify the constraints to impact investing in the region and recommend solutions for overcoming them; and
- 3) to serve as a starting point for regional dialogue and local network development activities among impact investors.

Detailed information about the impact investors identified in the study has been collected in a database, which is available, in summary, in Appendix A.

## 1.2 The heterogeneity of West Africa

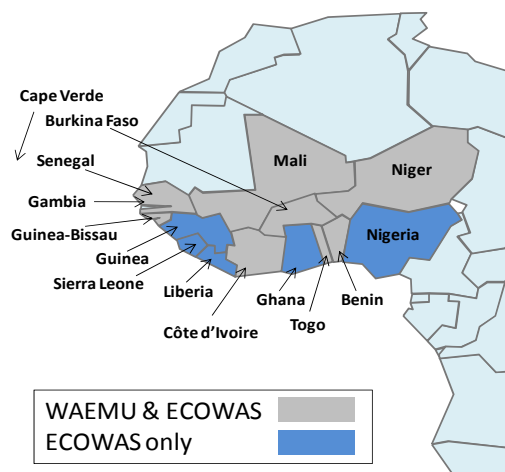
The report covers all fifteen West African countries, which have a combined population of roughly 300 million people and a gross domestic product of slightly above US\$ 300 billion<sup>6</sup>. For a map, see Figure 1.1.

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<sup>6</sup> International Monetary Fund (IMF) (2010) ‘World Economic Outlook’



Figure 1.1: Geographical scope of the research



West Africa comprises a heterogeneous group of countries. Among the fifteen economies in the region are continental powerhouse Nigeria; countries benefiting from increased growth and stability such as Senegal, Ghana, Cape Verde, and Burkina Faso; post-conflict nations such as Liberia and Sierra Leone; countries emerging from recent political violence, including Guinea-Bissau and Guinea; and countries currently undergoing political unrest, such as Niger and Côte d'Ivoire.

Differences in language, judicial systems, and business culture are partly due to the countries' different colonial histories. There are eight former French colonies where French is spoken<sup>7</sup>, five English-speaking countries of which four are former British colonies<sup>8</sup>, and two Portuguese-speaking countries that were colonised by the Portuguese<sup>9</sup>.

Nigeria is by far the largest economy, making up 68% of the region's GDP and hosting more than half the region's population. Côte d'Ivoire, Ghana, and Senegal are the second, third, and fourth largest economies, though significantly smaller (4 to 6% of the region's GDP). On a per capita basis, the richest countries in the region are Cape Verde with a GDP per capita of approximately US\$ 3,000, and Nigeria, Côte d'Ivoire, and Senegal with GDP per capita of US\$ 964 to 1,324. Eight of the countries make up the West African Economic and Monetary Union (WAEMU - also known as UEMOA from its name in French *union économique et monétaire ouest-africaine*)<sup>10</sup>. Although WAEMU members are part of a harmonised legal and regulatory environment, there are still many differences between countries that make them more or less conducive to impact investment.

Key statistics regarding countries in the region are outlined in Table 1.1.

<sup>7</sup> Senegal, Benin, Togo, Burkina Faso, Cote d'Ivoire, Niger, Guinea, and Mali

<sup>8</sup> Ghana, Nigeria, Liberia, Sierra Leone, and Gambia. Liberia was colonised by freed America slaves

<sup>9</sup> Cape Verde and Guinea-Bissau

<sup>10</sup> The WAEMU is a customs union and currency union between the following members of ECOWAS: Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, Togo and Guinea-Bissau. It is worth noting that Guinea is the only francophone ECOWAS member that is not part of the WAEMU.

**Table 1.1: Overview of key macroeconomic indicators in West African countries**

Country	GDP (US\$ billions)	% of total region	Population (million)	% of total region	GDP/Capita (US\$)	WAEMU
Nigeria	206.664	68%	156.05	52%	1,324	NO
Côte d'Ivoire	22.384	7%	22.03	7%	1,016	YES
Ghana	18.058	6%	23.7	8%	762	NO
Senegal	12.657	4%	13.13	4%	964	YES
Mali	9.077	3%	13.98	5%	649	YES
Burkina Faso	8.672	3%	14.7	5%	590	YES
Benin	6.494	2%	9.64	3%	673	YES
Niger	5.603	2%	14.63	5%	383	YES
Guinea	4.344	1%	10.33	3%	421	NO
Togo	3.074	1%	6.96	2%	441	YES
Sierra Leone	1.901	1%	5.85	2%	325	NO
Cape Verde	1.573	1%	0.52	0%	3,007	NO
Gambia	1.04	0%	1.72	1%	606	NO
Liberia	0.977	0%	4.31	1%	227	NO
Guinea-Bissau	0.825	0%	1.66	1%	498	YES

Source: IMF (2010) 'World Economic Outlook'; Dalberg analysis

The implications of the different economies, political situations, regional groupings, language, and histories reflect the current spread of impact investing activity in the region. Simply from a language and cultural perspective, it is easier for impact investors from the USA and the UK to begin their activities in the Anglophone West African countries, and for impact investors from France or Belgium to begin activities in the Francophone countries<sup>11</sup>.

### 1.3 Data gathering and stakeholder outreach

The findings of the report are based on comprehensive, cross-regional desk research across West Africa and in-depth field research in Ghana, Nigeria, and Senegal. Ghana was selected for deeper research because it is where most of the region's existing impact investments take place. Nigeria was selected because of the size of its economy—the second largest in Africa—and the scale of the private equity and investment fund activity there<sup>12</sup>. In-depth research in Senegal, the commercial and financial hub of Francophone West Africa (alongside Côte d'Ivoire<sup>13</sup>), allowed the report to explore impact investment in the WAEMU context. The findings apply to the region as a whole, and where possible, specific country examples and explanations are provided.

The approach to seeking information was threefold:

- First, an extensive review of the literature on impact investment and the investment climate and activity more broadly in the region was undertaken.
- Second, over 60 stakeholders in each of the three target countries were interviewed, as well as international stakeholders with activities or interest in the region. The stakeholders included senior staff members from foundations, DFIs, government institutions, venture capital firms, private

<sup>11</sup> For example, US based impact investors such as Grassroots Business Fund have begun West Africa operations in Ghana, and French based impact investor Phitrust Active Investors started their West Africa activities in Senegal.

<sup>12</sup> South Africa leads the African private equity market, receiving 52% of private equity investments in 2007, and Nigeria follows in second place with 19% (Proparco (May 2009) 'SME financing in sub-Saharan Africa')

<sup>13</sup> The study intended to undertake field visits to Côte d'Ivoire, but this was suspended in late 2010 due to political events.

equity firms, microfinance providers, and small and growing businesses that had received, or were seeking, investments. Appendix B provides a list of people interviewed.

- Third, a standardised questionnaire was administered to each investor by email to obtain detailed information for the West Africa Impact Investor Database.

## 1.4 Defining impact investing

A range of views exists on what characterises an enterprise as an impact investment or an investor as an impact investor. JP Morgan and the Rockefeller Foundation (2010)<sup>b</sup> define impact investing as “*an investment designed with intent to generate positive social and/or environmental impact*”. The definition also specifies that “*the business into which the investment is made should be designed with intent to make a positive impact*”, and goes on to summarise some of the ways in which businesses can deliver positive outcomes specifically to the base of the pyramid<sup>14</sup>: through their *methods of production*, such as by providing quality jobs, facilitating local asset accumulation, purchasing inputs from local or smallholder providers or promoting energy efficiency; and through the *goods or services they make available to low-income consumers*, such as affordable health care, clean water, education or access to energy.

Although it does not use the term “impact investing”, the International Finance Corporation (IFC) shares the perspective of aspiring to achieve financial, social and environmental impact through investments but specifically adds economic performance and private sector development as key criteria of success for its investments<sup>15</sup>.

### Defining the concept used in this report: the demand side perspective

When mapping the demand side<sup>16</sup> of the West African impact investing landscape, the report builds on the IFC, JP Morgan and Rockefeller Foundation perspectives, broadening the intent dimension to include economic impact, in addition to social and/or environmental impact. In the context of this report, “economic impact” refers to economic improvements to the nation as a whole, such as significant job creation, increased tax revenues, decreased dependence on imports, and enhanced infrastructure. Simply generating a profit for the business owner is insufficient. “Social impact” refers to improvements in people’s welfare through improved access to affordable healthcare, education, housing, and clean water for example. Lastly, “environmental impact” refers to activities that reduce or reverse harm to the environment.

This report therefore defines impact investing in West Africa as **investment in any enterprise designed with intent to generate positive social, economic, and/or environmental impact, without harming society or the environment**. While impact investing is distinct from Socially Responsible Investing (SRI), it is notable that this definition includes a negative screen that disqualifies any enterprise that has a harmful social or environmental impact. For this reason, enterprises such as weapons manufacturers and tobacco companies are excluded, even though they may create economic benefits.

The definition of impact investing is broad and difficult to externally enforce. As a result, this report relies on certain proxies. In order to gauge whether or not an enterprise has intent to create economic, environmental, and social benefits, the sectors or areas of activity in which they operate is used as a proxy. Chapter 2 analyses different sectors to understand which ones have the potential to create significant social, economic, or environmental impact.

“We chose to focus on sectors which have the most impact in the region. These include agro-industry and infrastructure.”

Foundation in Côte d’Ivoire

<sup>14</sup> Defined by the World Resources Institute as people earning less than US\$ 3,000 a year

<sup>15</sup> [www.ifc.org/DOTS](http://www.ifc.org/DOTS)

<sup>16</sup> This report understands demand to be at the level of the enterprise or entrepreneur and rather than include microfinance investment vehicles (MIVs), microfinance institutions (MFIs) and investment funds as part of demand it includes them alongside investors in the discussion on the supply side.



## Defining the concepts used in this report: the supply side perspective

There are two kinds of impact investors: those classified as “impact first” and those classified as “finance first”<sup>17</sup>. “Impact first” investors seek to optimise social or environmental returns and are prepared to give up some financial returns if they have to. “Finance first” investors are those who seek out subsectors that offer “market-rate” returns while achieving some social or environmental good. This analysis is complicated by the absence of single or objective benchmarks for risk-adjusted financial return; in practice, fund performance varies significantly by vintage year, and investor expectations vary based on instrument, perceived country risk and other factors. Fund managers in the interviews talked about risk-adjusted market-rate returns of 20 to 30% on venture capital/private equity style investments. When this report refers to “below market-rate returns”, it means returns of less than 20% for these investments. The fact that impact investments are not confined to equity-style investments further complicates the identification of a single or objective benchmark.

The working definition of impact investing used in this report is based on existing conceptual definitions used in the space, with adaptations made to set the boundaries of the research in practice. This was necessary to draw a line that excludes the majority of traditional investment capital that is placed without expectation of non-financial returns. The framework used in this report is presented in Figure 1.2, where the rows of the framework present the different types of investors. The columns summarise the criteria used to identify which investors in each investor group can be classified as impact investors.

**Figure 1.2: Framework used to identify impact investors in West Africa and set research boundaries**

Investors	① Formal structures	② Physical presence / existing portfolio in WA	③ Expectation of financial return	④ Stated intent	⑤ Impact investing partner
Venture Capital & Private Equity Funds*	✓	✓	✓	✓	✗
Development Finance Institutions	✓	✓	✓	✓	✗
Foundations & Private Individuals	✓	✓	✓	✓	✗
Institutional Investors**	✓	✓	✓	✓	✓
Microfinance Institutions	✓	✓	✓	✓	✗

\* Includes all investment funds and other non profit investment vehicles

\*\* Includes commercial banks, insurance companies and pension funds

The following criteria were applied to the groups of traditional investors in West Africa:

- 1) **Investments are made through formal structures.** This excludes all investors who provide money to entrepreneurs or enterprises through informal channels, such as remittances. Although informal investments can also generate positive social or environmental impact, these were excluded for the purposes of this report, as investors making informal impact investments—such as shopkeepers

<sup>17</sup> Further information on this distinction can be found in the Monitor Institute Report (2009) ‘Investing for Social and Environmental Impact to a Design for Catalysing an Emerging Industry’

providing informal micro-loans, angel investors providing remittances, and friends and family supporting family-owned businesses—are typically fragmented, private, informal in nature with weak or inexistent governance structures, and therefore difficult to track. Further, the amounts are relatively small in the big scheme of impact investing.

- 2) **Investors have a physical presence or an existing portfolio in West Africa.** In order to focus the scope of the report on the region, this criterion excludes investors who are based outside the region and have not yet made investments in the region. Where there is knowledge of investors that are based outside the region but currently fund-raising for the region or exploring investment opportunities in West Africa they are included.
- 3) **Investors expect a positive financial return.** All impact investors must expect an above zero financial return. This criterion excludes all grant-making institutions and individuals in the region.
- 4) **Investors have a stated intent for social, economic, or environmental impact.** That is, an investor’s vision, mission, or investment objectives include bringing about social, economic, or environmental benefits, or addressing development challenges in the region<sup>18</sup>.
- 5) **Institutional investors should have an impact investing partner.** For commercial banks and institutional investors, the explicit intent was harder to identify, so an additional criterion of “investing alongside another impact investor” (such as a DFI) was included.

## 1.5 Structure of the report

The report is structured in five main chapters. The first three chapters provide an introduction to the topic and the countries in the region, an understanding of the demand for impact investing, and a map of the landscape of impact investors currently present in the region. Chapters 2 and 3 include extensive analyses of individual sectors and investors and provide an overview of demand and supply in sections 2.1 and 3.1 respectively. In these chapters, the busy reader could focus on these two sections only for a high-level overview and then move on to the remaining chapters. The last two chapters of the report highlights the challenges and barriers for industry growth and the opportunities thus created for different stakeholders to contribute.

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<sup>18</sup> As one method for verifying the stated intent, this report examined whether investors use targets or measuring systems to track their social, economic, and environmental impact





## Chapter 2 – The need and opportunity: demand side

Impact investors, by definition, seek impact beyond financial return. Thus, impact investors typically look for investment opportunities that are likely to produce substantial social, economic, or environmental impact. To identify such investment opportunities, the report explores specific business sectors and the enterprises operating in each sector.

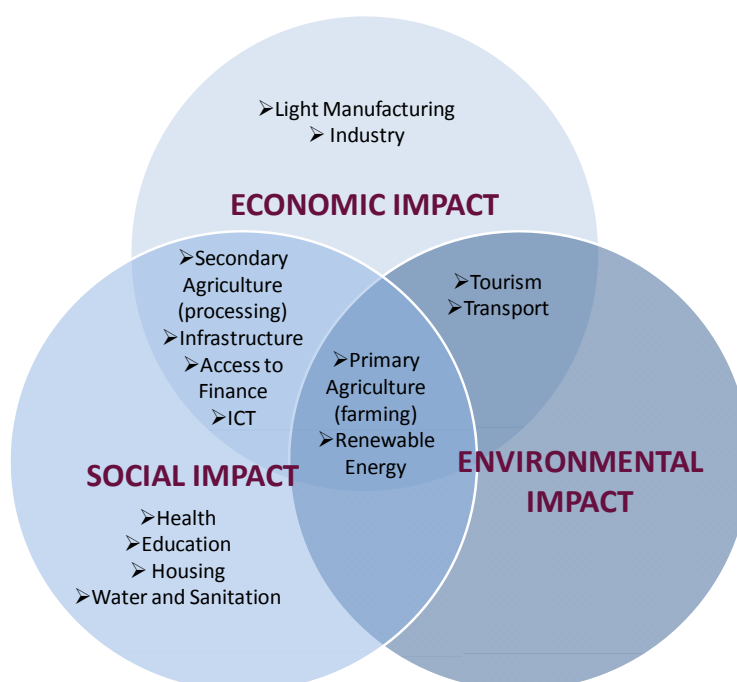
This exploration begins with an analysis of different sectors to understand in which sectors West African enterprises can have a significant social, economic, or environmental impact. Using specific sector examples, an overview of the different types of enterprise in each sector and their types of financing needs are presented. This is illustrated with case study examples of enterprises operating in these sectors.

### 2.1 Characteristics and needs of impact investing sectors

Most enterprises in the region will generate varying levels and combinations of social, economic, and environmental benefits to differing extents through their operations. At a minimum, for example, companies create jobs, which have the potential to produce social impact by improving employees' livelihoods as well as economic impact through increased tax revenues and the multiplier effect from increased consumption by employees. Enterprises in some sectors also generate social impact through the goods and services they produce, such as health care, education, and agriculture. Enterprises in other sectors, such as renewable energy and energy efficiency, produce a positive environmental impact in addition to an economic one.

The definition presented in Chapter 1 of an impact investee includes a requirement that the enterprise be designed with intent to generate positive social, economic, and/or environmental impact. Rather than try to assess the intent of every enterprise, this report uses the sector in which they operate as a proxy to understand which enterprises are designed with the desired intent. While it is acknowledged that at a minimum all enterprises will generate some form of basic social and economic impact, Figure 2.1 presents an overview of how different sectors lend themselves to one or more types of impact.

**Figure 2.1: Sectors that lend themselves to economic, social, and environmental impact**





Simply generating a profit or creating a job for the business owner is insufficient to qualify as “economic” or “social” impact. The intentionality to create wider economic, social and/or environmental benefits is the key factor.

### **Characteristics of West African enterprises**

Impact investors looking to make investments in West Africa should be cognisant of some specific factors that characterise enterprises and entrepreneurs in the region. The main characteristics that investors in West Africa should be familiar with are the large informal sector, lack of standardised practices and a strong affiliation with the local communities of the enterprise.

The majority of enterprises and entrepreneurs operate in the informal sector. Also, given the informality of most West African enterprises, there is a blurred line between the entrepreneur and the business. Furthermore, there is often no clear distinction between the entrepreneur and the investor. Individuals invest in themselves and start their own businesses. There is therefore a strong cultural shift that needs to happen for entrepreneurs to grasp the concept and potential roles of an investor.

Many businesses in the region tend not to use standardised systems and practices, e.g. maintaining financial accounts and other monitoring systems, and lack the corporate governance structures and decision making systems that are typically found in more developed countries. This sometimes emanates from capacity and business training needs, but most often, there is little incentive or justification to do so. It becomes important for impact investors, at least during initial stages of engaging with certain entrepreneurs, to consider adapting their assessment and due-diligence tools to fit the business practices that are most common in the region.

More positively, West African entrepreneurs have an understanding and awareness of the need to involve the wider community in which they operate in any successful business. Although, the intent and purpose is often not clearly stated, there is recognition among entrepreneurs that any benefits brought to the community will increase the sustainability of the business. As such, the concept of impact investing might not be as difficult to justify to entrepreneurs.

The informal sector, by its nature, does not typically meet the lending criteria of traditional lenders or investors such as commercial banks. Informal sector entrepreneurs will not have the required company registration documents, collateral, and financial statements that these lenders require, and are generally viewed as too high risk. In contrast to traditional commercial investors, impact investors who prioritise social impact over a financial return may be more willing to examine the investment potential in these informal West African entrepreneurs. Impact investors can use incentives—such as the provision of patient capital and advisory support—to encourage informal sector entrepreneurs to formalise in order that they can receive investments to grow their businesses.

### **The needs of the enterprises**

It was beyond the scope of this research to identify the specific subset of investment opportunity that is characterised with an explicit intent to generate impact beyond financial return. As a proxy, it is instructive to look at a rough estimate of the total demand for investments across sectors in West Africa (excluding the mining industry and public administration sectors). Below is an attempt to use a top-down, sector-based approach and the estimate represents the need of the enterprises that can be covered by any type of investor, not limited to impact investors.

Excluding the mining industry and public administration sectors, which make up 25% of the countries’ combined GDP, the sectors that lend themselves to economic, social, and environmental impact contributed US\$ 227 billion to the combined GDP in 2010. With an average expected growth of 4.7% per year<sup>19</sup> the combined output will increase by approximately US\$ 90 billion over the next 5 years<sup>c</sup>. A high

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<sup>19</sup> Weighted average for 2011

level estimate of the financing needs of enterprises in these sectors, based on the growth expectations, shows that roughly US\$ 65 billion will be needed over the next five years. A little more than half is expected to be needed by the agriculture sector alone, due to its vast size in the region contributing to approximately 54% of the total GDP<sup>20</sup>. These numbers are derived from investor benchmarks of average enterprise profit margins of 15% of revenues and expected return on investments of 20% over 5 years<sup>21</sup>.

The needs of individual enterprises in West Africa vary significantly depending on the sector they operate in, their business model, size and maturity stage, human resource capacity and other factors. While larger enterprises may require finance of US\$ 2 million and above, small to medium-size enterprises tend to have needs in the US\$ 25,000 to US\$ 2 million range and micro-enterprises require less than US\$ 25,000. However, the needs go beyond accessing finance as many enterprises need support to develop their ideas and create well-managed, financially sustainable operations. In West Africa, there is a critical shortage of skilled professionals to manage and grow small and medium enterprises (SMEs) - a problem faced across the continent<sup>22</sup>. A consistent message repeated in the interviews was the lack of managerial and financial capacity in SMEs in West Africa, and an investment package combining both capital and business development services is needed. The options for enterprises to access such investment packages (of capital and business advisory) are explored in Chapter 3 of this report.

To better understand how an enterprise or entrepreneur can create economic, social, and environmental impact, the following sub-sections provide sectoral examples to illustrate the impact that enterprises operating in those sectors can have. The report recognises that different types of impact overlap, and provides examples of this. For each type of impact an analysis is undertaken to identify the sectors in West Africa that can generate significant benefits. Then, for each sector identified, an overview of the types of enterprises operating in that sector is provided, as well as the financing needs those enterprises represent.

## 2.2 Sectors with economic impact: the example of agriculture

A sector's contribution to West Africa's employment is a good indicator of how enterprises can have a significant economic impact. Agriculture, in addition to being the single sector contributing the most to GDP, is one of the main sources of employment in West Africa. In Sierra Leone, for example, 66% of the population is employed in agriculture, and the percentages for Nigeria, Senegal, and Mali are 47%, 30%, and 40% respectively<sup>d</sup>. More importantly, relative labour-intensity and accessibility of jobs to marginalised populations (also contributing to social impact) tends to be high in this sector<sup>e</sup>. Given the importance of agriculture to West African economies, the growth of enterprises in this sector will generate not only economic but also social benefits, such as increased food security, and even environmental benefits if the resources are sustainably managed. Agriculture therefore deserves further examination as a sector with rich opportunities for impact investors.

### Impact investments in the agriculture sector

West Africa imports large amounts of grains and processed foods for its domestic consumption<sup>f</sup>. Developing local agro-industry and improving value addition along the production chain are expected to boost employment, generate income, stabilise food provision, and facilitate economic growth<sup>g</sup>. Land reserves, climatic and soil conditions, and levels of manufacturing and processing capabilities differ from country to country, but as the signing of the CAADP compact shows, all governments in the region see agriculture as a critical sector for growth and a priority sector for investment<sup>23</sup>.

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<sup>20</sup> Further sector breakdowns were not possible within the scope of the study

<sup>21</sup> To estimate the total amount of investments required, the GDP growth expectations were multiplied by the average enterprise profit margin (15%) and divided by the average return on investment expectation (20% over 5 years). These benchmarks link the investment required to the GDP through enterprise profits and revenues.

<sup>22</sup> The UNECA (2010) 'Economic Report on Africa' explains that gross enrolment ratios in secondary and tertiary education (in sub-Saharan Africa) are very low compared with those of other regions of the world, and graduates are less trained in appropriate skills.

<sup>23</sup> West Africa's political commitment to agriculture is demonstrated by the fact that every ECOWAS member state has signed a compact with the Comprehensive African Agriculture Development Programme (CAADP), indicating their intention to allocate at least 10% of national budgets to the development of this industry.

West Africa has enormous potential to grow more crops and generate more revenue and expand related business activities. A recent study indicates that Africa has the potential to increase the value of its annual agricultural output by US\$ 200 billion in ten years<sup>h</sup>. A large proportion of this growth could occur in West Africa. This would increase demand for upstream products such as fertilisers, seeds, pesticides, and machinery, while spurring the growth of downstream activities such as bio-fuel production, grain refining, and other types of food processing.

In addition to the economic benefits, there is also potential for additional social and environmental impact. For example, since women in West Africa are predominantly engaged in agricultural activities, the growth of the sector could empower them economically. Further, domestic production of staple foods and improved distribution chains would improve food security in the region. Investment in improved sustainable farming practices would not only help increase yields but could also address over-grazing, which causes desertification and other environmental problems.

### Business models for impact in the agriculture sector

In the agriculture sector, a range of enterprise models exist, including large-scale commercial farms, contract farming (pre-agreed supply agreements between farmers and buyers), cooperatives (formally incorporated business structures for farmers to pool their assets to gain access to finance or limit the liability of individual members), as well as individual smallholder farmers.

Cooperatives are a key group that can be supported in the investment pool for impact investments. Cooperatives allow investors to reach a large number of smallholder farmers at the base of the pyramid and disseminate capital to beneficiaries at a reduced transaction cost. Since an investor cannot take direct equity ownership in a cooperative, more creative financing mechanisms need to be used. Investment structures such as harvest pre-financing allow impact investors to supply much-needed capital where traditional commercial investors may not. Table 2.1 presents the types of enterprises that are more common in West Africa’s agriculture sector and provides an overview of their typical financing needs.

**Table 2.1: Overview of enterprise finance needs in the agriculture sector**

Types of enterprise	What they need finance for	Range of investment typically needed (US\$)	Current finance options
<b>Large-scale commercial farming</b>	Start up, operations, maintenance, infrastructure	LARGE (>2 million)	Private equity/venture capital (PE/VC), commercial banks
<b>Contract farming</b>	Start up, working capital	MEDIUM (e.g. 25,000 to 2 million)	PE/VC
<b>Cooperatives</b>	Pre-harvest finance, inputs	MEDIUM (e.g. 25,000 to 2 million)	Rural banks
<b>Smallholder farmers</b>	Pre-harvest finance, inputs	LOW (e.g. <25,000)	Microfinance

Finance is not the only need of these enterprises. The agriculture sector has potential for growth and impact, but small to medium-size operators are often constrained by market failures and inefficiencies. These include access to markets (i.e. knowledge and information required to establish linkages with suppliers and customers) and training and mentoring to develop business leadership. To illustrate the type of enterprises operating in this sector, case studies on two enterprises operating in the agriculture sector—GADCO and Terral—are presented in Appendix C.

GADCO Coöperatief U.A. is an enterprise that is operating across the entire agro-product value chain, and recently secured equity funding to expand its operations in Ghana’s agro-industry sector. Terral is an enterprise sourcing locally produced rice from smallholder farmers in Senegal to distribute and sell on the domestic market. Each case study demonstrates the potential the agriculture sector holds in West Africa for investors who want to make a significant economic impact and receive a commercial return. To illustrate economic impact the report gives examples of the agriculture sector only, but the potential for

economic impact and financial gains is present in other sectors as well, such as light manufacturing, industry, and infrastructure.

## 2.3 Sectors with social impact: the example of water supply and sanitation

“Social impact” can be pursued in a wide range of sectors through the creation and targeting of employment opportunities for marginalised workers, whether directly (i.e. as employees) or indirectly (i.e. through procurement). As such, there is no clear line between social and economic impact. Enterprises in the health, education, ICT, affordable housing, and water supply and sanitation sectors are among those with the greatest potential for social impact as presented in section 2.1—i.e. directly enhancing people’s welfare, and addressing the needs of the base of the pyramid. Such enterprises form part of the optimal investment pool for impact investors to target.

There are concerns by some quarters about private sector involvement in providing certain social services. For example, the IFC study, “The Business of Health in Africa”, suggests that the public health community may oppose private sector roles in health care<sup>i</sup>. For such reasons, the private sector in Africa has often steered clear of developing businesses in health and other ‘social’ sectors. This does not mean that commercial opportunities do not exist. For example, the IFC estimates that over the next decade, US\$ 25 to US\$ 30 billion in new investment will be needed in health care assets for sub-Saharan Africa to meet its growing health care demands, of which US\$ 11 to US\$ 20 billion will likely come from the private sector<sup>j</sup>. Aureos Capital’s recent investment in the Nairobi Women’s Hospital for US\$ 2.7 million is an example of how private investors can play an increasing role in the health space<sup>k</sup>.

Opportunities in these sectors can deliver lucrative financial returns and have an enormous potential social impact. By way of illustration, the report focuses on one of the region’s most pressing social issues—the lack of access to clean water and improved sanitation.

### Impact investments in the water supply and sanitation sector

People lack access to clean water and improved sanitation facilities<sup>24</sup> not only in West Africa, but across sub-Saharan Africa. As illustrated in Figure 2.2 below, less than 50% of the population use improved sanitation facilities in most countries on the continent. In West Africa, 25% of the population use improved sanitation facilities—36% in urban areas and 19% in rural areas. In East and Southern Africa, 34% use improved sanitation facilities, including 48% in urban areas and 28%<sup>l</sup> in rural areas. Data on improved drinking water sources<sup>25</sup> (Figure 2.3) is less extreme but also paints a bleak picture. Most affected in West Africa are the poor, especially women and children in rural areas and in the growing informal settlements in cities. Governments in the region are addressing these challenges, but innovative private sector led business solutions also offer the potential to solve these problems alongside governments, whose resources are limited.

Figure 2.2: Use of improved sanitation facilities

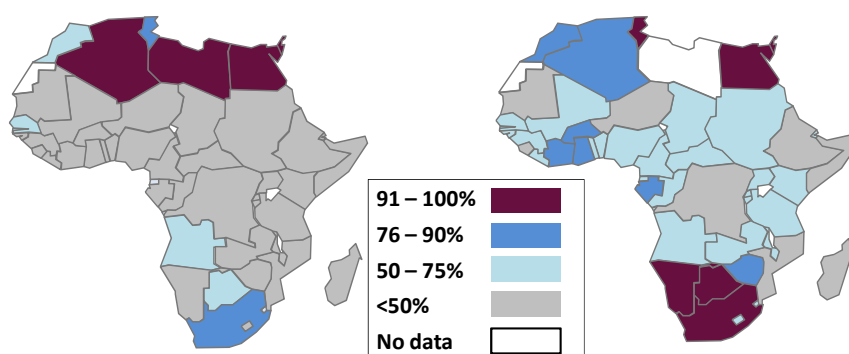


Figure 2.3: Use of improved drinking water sources

Source: WHO & UNICEF (2010) Progress on Sanitation and Drinking Water—2010 Update; Dalberg analysis

<sup>24</sup> An improved sanitation facility is defined by UNICEF and the WHO as one that hygienically separates human excreta from human contact.

<sup>25</sup> An improved drinking-water source is defined by UNICEF and the WHO as one that, by nature of its construction or through active intervention, is protected from outside contamination, in particular from contamination with faecal matter.



Addressing the water supply and sanitation challenges in the region could make a huge social impact, not only for humanitarian reasons but also because it is proven to reduce health costs enormously. The World Health Organisation (WHO) reports that the health-care costs of diarrhoeal disease on children is greater than the combined costs of HIV/AIDS, tuberculosis, and malaria<sup>m</sup>. It also reports that providing improved sanitation and drinking water could reduce diarrhoeal diseases by nearly 90%<sup>n</sup>. Huge savings in health-care costs and gains in productive days can therefore be realised by improving access to safe water and basic sanitation. Over and above the social impact, investing in sanitation and drinking-water brings very large economic returns—estimated to average approximately 2% of GDP, rising to over 7% in some specific country contexts<sup>o</sup>.

### Business models for impact in the water supply and sanitation sector

In the water and sanitation sector, the most common types of enterprise in West Africa are (a) partnerships between the private sector and either a municipality or government to provide water supply and sanitation services through the network, and (b) informal private providers that sell water from sources they have developed or found such as boreholes, wells, or rivers. There are also private providers and community-based providers that meet the population’s water supply and sanitation needs. Table 2.2 presents an overview of the typical financing needs of such enterprises.

**Table 2.2: Overview of enterprise finance needs in the water supply and sanitation sector**

Types of enterprise	What they need finance for	Range of investment typically needed (US\$)	Current finance options
Large public/private utilities	Operations, maintenance, infrastructure	LARGE (>2 million)	DFIs, PE/VC, commercial banks
Private small service providers (particularly for water and sanitation services in peri-urban areas)	Start up, capital investments	LOW (e.g. <25,000) to MEDIUM (e.g. 25,000 to 2 million)	Microfinance, commercial banks, PE/VC
Community-based small service providers (particularly for water schemes in rural areas)	Maintenance and repairs	LOW (e.g. <25,000)	Government / Donor support, NGOs, community contributions, microfinance

“We need the finance to build more facilities. We tried to get a bank loan but they needed the equivalent of the investment amount in collateral, and their interest rates were over 25%.”

**Business owner in Nigeria**

Like other sectors, small and medium enterprises in the water supply and sanitation sector have additional capacity development needs over and above finance. There is typically a need for complementary business development services and technical assistance to support business owners in managing and growing their operations. An example of a formal private small service provider that is looking for finance to expand its operations, MN Environmental Services Ltd, is presented in Appendix C. MN Environmental Services Limited, a hygiene services management company, was established in 2008 in Lagos, Nigeria. The company manages public toilets and showers in highly-populated urban areas such as busy motor parks, markets, commuter points, and poor community settlements that lack access to safe water and sanitary facilities. Users pay a small charge to use

the facilities. Hygiene assistants clean the facilities and teach users about health. This also creates jobs for the poor and disadvantaged. Staff are trained and provided with proper cleaning equipment, and fees collected pay staff salaries, maintenance costs, and other development initiatives needed in or near the location site.

## 2.4 Sectors with environmental impact: the example of renewable energy

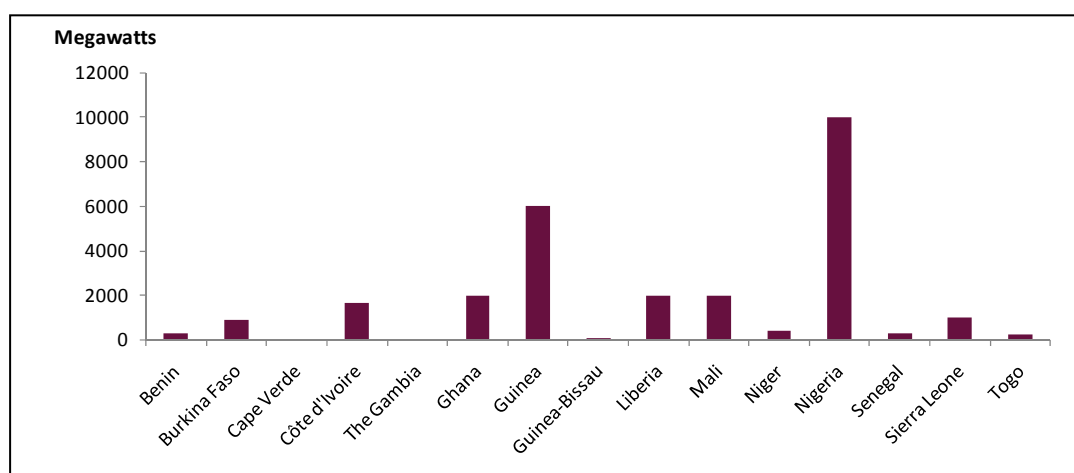
Climate change is a global phenomenon affecting all countries, but none more than the countries of Africa which have limited responsibility for causing the changes<sup>p</sup>. Opportunities for environmental impact exist in all sectors, as enterprises can always be more energy efficient. However, there are also investment opportunities in areas such as clean technology which seek much larger environmental returns. Once a niche interest of philanthropists, the clean technology sector globally has grown tremendously, with US\$ 148.4 billion of new investments in clean technology in 2007<sup>q</sup>. Clean technology investments are the destination for more than 10% of venture capital funding, although it should be noted that much of this funding is pure profit-seeking and not motivated by non-financial impact<sup>r</sup>. To demonstrate the potential for investors to have an environmental impact while earning a financial return in West Africa, the report uses the example of the renewable energy sector.

### Impact investments in the renewable energy sector

There are two broad and distinct ‘theories of change’ for renewable energy in West Africa: improving access to energy services to improve people’s lives and livelihoods, and climate change mitigation. Investments in improving access to renewable energy will primarily have a social impact with secondary environmental benefits, whereas investments in climate change mitigation will primarily generate an environmental impact with additional social benefits.

ECOWAS has embarked on an ambitious regional policy to increase access to modern energy services in the region<sup>s</sup>. Currently, West Africa suffers from a huge demand/supply gap in modern energy services. On average, ECOWAS countries consume 88 kWh of electricity per capita each year, compared to 350 kWh in East Asia<sup>t</sup>. About 65% of the total energy supply is provided by thermal power plants, 30% is generated by hydro power, and a remaining 5% comes from imports and other energy resources such as renewable energies<sup>u</sup>. This profile can be compared to the one in East Africa<sup>26</sup>, where 28% is from thermal power plants and 65% is generated by hydro power<sup>v</sup>. Because the rural population in West Africa has such limited access to electricity and modern energy services, many rely on traditional biomass to meet their energy requirements, which can be harmful to the ecosystem. But the region possesses significant renewable energy potential. It enjoys abundant sunshine, hydro-electric potential which is still under-exploited and, in some places, wind patterns that make it possible to harness wind for both pumping and electricity generation<sup>w</sup>. Figure 2.4 below illustrates the hydro-electric potential in West Africa.

**Figure 2.4: Available hydro-potential (MW) in West Africa (2006)**



Source: ECOWAS (2006) ‘White Paper for a Regional Policy geared towards increasing access to energy services for rural and per-urban populations in order to achieve the Millennium Development Goals’; Dalberg Analysis

As the chart demonstrates, Nigeria has the hydro-potential to produce 10,000 MW of power. This is very significant in comparison to the capacity of grid electricity in the country, which is only 6,000 MW<sup>x</sup>.

<sup>26</sup> Kenya, Tanzania, Uganda, Rwanda, Burundi

Solar power also offers a great deal of potential as demonstrated by the data on levels of solar insolation (in KWh/m<sup>2</sup>/day) in the following countries: Burkina Faso = 5.5; Côte d'Ivoire = 4.5; Mali = 6; Niger = 6; Senegal = 5.4; and Togo = 4.5<sup>7</sup>. As a reference point, Germany has much lower levels of solar insolation (approximately 2 to 3 KWh/m<sup>2</sup>/day), yet has more photovoltaic installations than any other country<sup>7</sup>.

Energy poverty and a reliance on fossil fuels have severe impacts on the social, economic and environmental development in the region. It affects not only the direct carbon footprint but also the ability of public institutions such as clinics and universities to deliver their services, the ability of private enterprises to undertake their operations, and the ability of individuals who lack access to light to study, for example. Investments in renewable energies will not only have a direct impact on the environment but also an indirect social and economic impact by addressing some of these problems. For these reasons, the African Development Bank, for example, is channelling US\$ 625 million from the Clean Technology Fund (CTF) into Africa<sup>27</sup>. This fund was designed to stimulate investment opportunities in clean energy solutions by reducing market risks and uncertainty. Every dollar of CTF funding is expected to attract US\$ 8 from other sources<sup>28</sup>.

### Business models for impact in the renewable energy sector

Within this sector, there are those enterprises that provide renewable energy products and services as well as those that use renewable energy as a method of production. Table 2.3 presents an overview of the typical financing needs of enterprises operating in the renewable energy sector in West Africa.

**Table 2.3: Overview of enterprise finance needs in the renewable energy sector**

Types of enterprise	What they need finance for	Range of investment typically needed (US\$)	Current finance options
Providing renewable energy products			
<b>Small to medium-sized distributors</b>	Start up, working capital, trade finance	MEDIUM (e.g. 25,000 to 2 million)	PE/VC, commercial banks
<b>Small retailers and micro-entrepreneurs</b>	Working capital	LOW (e.g. <25,000)	NGOs, microfinance
Using renewable energy as a method of production			
<b>Large wind/hydro/solar generation (typically PPP)</b>	Start up, operations, maintenance, infrastructure	LARGE (> 2 million)	DFIs, PE/VC, commercial banks
<b>Small to medium-sized private enterprises (e.g. using solar generation)</b>	Equipment costs, maintenance	MEDIUM (e.g. 25,000 to 2 million)	PE/VC, commercial banks
<b>Micro-entrepreneurs (e.g. using solar generation)</b>	Equipment costs, maintenance	LOW (e.g. <25,000)	NGOs, microfinance

The small to medium-size enterprises in this sector generally require additional technical assistance services to complement financial investment. These enterprises need such services to enhance their competitiveness and equip them with tools and skills to become better suppliers or distributors. As impact investing has grown, attention has increasingly been focused on renewable energies.

Beer-Shéba is a rural community development project in Senegal that is looking for debt financing to support its transition to a solar energy based drip irrigation system (see Appendix C for a detailed case study). Currently, Beer-Shéba has no access to the energy required for the irrigation system. To address this problem, Beer-Shéba is pioneering the idea of using a photovoltaic pumping system. This technique involves using solar technology to produce energy for pumping water for irrigation without the need for a battery. Beer-Shéba hopes to use the irrigation system to develop community gardens that will enable local farmers to grow their own vegetables and sell them to markets. This will allow the farmers to earn a living as well as ensure the sustainability of the initiative.

<sup>27</sup> Part of the international Climate Investment Funds

The greening of the economy in West Africa presents a major opportunity to start new businesses, develop new markets, and lower energy costs. It can strengthen an investor's image, generating positive attitudes towards the activities and investments of the firm among customers and local community alike<sup>28</sup>. The example of Beer-Shéba shows that impact investment is not limited to businesses. Non-governmental organisations (NGOs), community organisations, and farmers' cooperatives can also benefit from investment to address their financial resource challenges and provide a financial return to the organisation and to investors.

Other investment opportunities may also exist that relate to climate change adaptation rather than mitigation. In January 2011, the World Bank provided training in agricultural risk management to insurance companies in Ghana to equip them to identify opportunities and develop complementary products that help mitigate farmers' risks. These types of programmes help institutions identify opportunities they can tap into by developing financial products that help limit the impact of bad weather on farmers' productivity and profit. As these initiatives take hold, new opportunities will arise for investors to support institutions in providing such services.

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<sup>28</sup> UNECA (2010) 'Economic Outlook for Africa'





## Chapter 3 – Impact investing in West Africa: supply side

Impact investors include for-profit funds, non-profit organisations, government sponsored funds, commercial banks, pension funds, technology funds, financial managers of individuals, foundations, and private family office wealth. The practice of investing for impact is not new to West Africa, and institutions have been making both formal and informal investments into enterprises to generate benefits that are more than purely financial for decades. For example, the Aga Khan Fund for Economic Development has been making “impact investments” in the region since 1965, as have several other DFIs and private individuals. The term impact investing, however, is not broadly understood in the region. Few domestic players use the term impact investor to identify themselves, and stakeholders in West Africa are yet to agree upon a framework to classify impact investors. To better understand the impact investor ecosystem in West Africa, a broad sweep of all investors in the region was undertaken and the impact investor definition outlined in Chapter 1 was then applied to this group which resulted in a list of actual impact investors.

As explained in Chapter 2, the range of enterprises that can be invested in through impact investment approaches is broad, and their financing needs differ. This section looks deeper at the supply of finance available from those investors who explicitly want to generate returns that are more than financial. It seeks to identify the impact investors in West Africa and their characteristics.

### 3.1 The impact investor ecosystem in West Africa

At the time of writing this report, only a handful of investors in West Africa were familiar with the term “impact investing”. There were, however, significant investment activities that addressed social, economic, and/or environmental challenges while earning financial return, and thus adhered to a working definition of impact investment. The rise of impact investment in the USA, and to a lesser extent in Europe, has spurred a proliferation of foundations, institutional investors, and impact investment funds looking to earn “impact return” in West Africa. Alongside these international players, local investors continue to invest, though not necessarily identifying with the moniker of “impact investor”.

“This is the first time that I have heard the term ‘impact investing’, but now that you have explained it, I think we could be classed as impact investors.”

**Venture capital fund manager in West Africa**

To illustrate the ecosystem of impact investors and investment vehicles in West Africa, the institutions researched and interviewed are divided into five categories:

- **Private equity and venture capital (PE/VC) funds** (including other social investment vehicles<sup>29</sup>)
- **Development Finance Institutions (DFIs)**
- **Foundations** (including high net worth individuals and private family offices)
- **Institutional investors** (including commercial banks, pension funds, and insurance companies)
- **Microfinance institutions (MFIs)**

Due to the fragmented, private, and informal nature of their activities, investors making informal impact investments, e.g. shopkeepers providing informal micro-loans, angel investors providing remittances, and friends and family supporting family-owned businesses, did not meet the criteria and were therefore not researched.

In the course of the research, 207 impact investors in West Africa were identified, of which 86 are microfinance institutions<sup>30</sup>, 68 are PE/VC funds, 18 are DFIs, 12 are foundations or private family offices, 23 are institutional investors<sup>31</sup>.

<sup>29</sup> Some investment funds identify themselves as ‘social investment funds’ and are non profit – e.g. Root Capital

An assessment of the combined annual investment size of this group of impact investors shows that at least US\$ 3.2 billion is invested or committed to be invested in the region each year<sup>32</sup>. DFIs are the most significant contributor with US\$ 2.1 billion, MFIs with US\$ 1.0 billion, PE/VC funds with US\$ 0.4 billion, while the institutional investors and foundations combined contribute US\$ 0.1 billion. These numbers add up to US\$ 3.6 billion and need to be adjusted down by US\$ 0.4 billion due to estimated overlaps among some of the impact investors. A large share of investments from DFIs, foundations and institutional investors goes into PE/VC funds. To present a more realistic total and avoid double counting, 90% of the estimate of PE/VC funds is not included in the total estimate of the US\$ 3.2 billion (see Table 3.1). Also there are a number of PE/VC funds (specifically known as microfinance investment vehicles (MIVs)) that invest in MFIs. Also to avoid double counting these are not included in the PE/VC in Table 3.1<sup>33</sup>. Further, some of the PE/VC funds are not solely focused on West Africa, and some funds focused on West Africa did not wish to share this information. Therefore, the estimate is based on data from 24 funds and extrapolated out for the other estimated 44 funds investing in the region. The information is presented in Table 3.1 below. A complete list of impact investors can be found in Appendix A.

**Table 3.1: Type, number and size of impact investors in West Africa**

	Number of institutions identified in West Africa	Fund/portfolio size (US\$ billions)	Estimate of total funding invested/committed in West Africa annually (US\$ billions)
Private equity and venture capital funds	68	3.3 <sup>a</sup>	0.4 <sup>a</sup>
DFIs	18	7.8 <sup>b</sup>	2.1 <sup>b</sup>
Foundations	12	n/a	0.03 <sup>c</sup>
Institutional investors	23	n/a	0.07 <sup>d</sup>
MFIs	86	n/a	1.0 <sup>e</sup>
<i>Adjustment</i>	n/a	n/a	(0.4) <sup>f</sup>
<b>Total</b>	<b>207</b>	<b>n/a</b>	<b>3.2</b>

a) Assumes an average fund size of US\$ 49 million and an investment timeframe of 8 years out of an average lifetime of 10 years<sup>bb</sup>

b) Based on 2009 portfolios for the following DFIs: CDC, DEG, AfDB, BIO, Cofides, FinnFund, FMO, IFU, Norfund, Oeb, Proparco, SIFEM, SIMEST, SWEDFUND, IFC, CADF, BOAD (OPIC was excluded) and assuming that new investments/commitments per year makes up ~30% of the size of the portfolio (average of European DFIs and IFC in 2010 and 2009, respectively). The average portfolio allocation to West Africa of four DFIs (DEG, CDC, AfDB & IFC) of 37% of the Sub Saharan region is used as a proxy for all DFIs.

c) Assumes an average annual portfolio investment of US\$ 2.7 million based on data for three foundations and extrapolated for the other nine.

d) Assumes an annual average impact investment of US\$ 3.7 million based on data for two banks and extrapolated for the other 14 banks. The total of 16 only refers to those banks that were identified that met the definition criteria. This number is not exhaustive<sup>34</sup>. Five insurance companies and two pension funds were identified that met the investment criteria. This number is by no means exhaustive. Figure assumes an annual average impact investment size of US\$ 0.9 million. Data is based on figures for insurance companies only, as there was insufficient data for pension funds<sup>35</sup>.

e) The total of 86 MFIs is based on those that report data to the Microfinance Information Exchange for each country in West Africa. It is estimated that there are over 2,500 formal and informal MFIs in the region so this figure is expected to be on the low side.

f) A large share of investments from DFIs, foundations and institutional investors goes into PE/VC funds. This proportion is estimated at 90%. It is recognised that some traditional commercial investors have invested in the PE/VC funds counted here without any explicit intent for social and/or environmental returns. This proportion is estimated at 10%. To present a more realistic total and avoid double counting, 90% of the estimate of PE/VC is deducted from the total estimate.

<sup>30</sup> This figure is based on the MFIs in West Africa that report data to the Microfinance Information Exchange (MIX). It is recognised that there are more than 2,500 MFIs in West Africa

<sup>31</sup> 43 of the investors were interviewed and a questionnaire was sent to the remaining investors with requests for information on their activities in the region. Finally, information was sourced from institutions' web sites.

<sup>32</sup> In comparison, total official development assistance (ODA) received by West African countries in 2009 was US\$ 12.0 billion ([www.oecd.org](http://www.oecd.org))

<sup>33</sup> A list of these MIVs is presented in Appendix A

<sup>34</sup> There are currently no commercial banks in West Africa that can strictly be defined as impact investors. The total of 16 commercial banks refers to the banks identified in the course of the research that met the definition criteria of investing alongside another impact investor (generally this was a DFI). Some may debate whether or not these banks should be classed as impact investors, and that other banks with SME portfolios, for example, could have been included.

<sup>35</sup> Only five insurance companies and two pension funds were identified in the region that met the definition criteria. The search was not exhaustive and it is recognised that this figure is on the low side.

As outlined in Chapter 2, to meet the growth projections of the region’s impact investing sectors<sup>36</sup>, an estimated US\$ 65 billion of invested capital is needed over the next five years. Estimates of available supply and potential demand cannot be directly compared but it appears that current supply is far outstripped by the demand that exists at an aggregate level. Anecdotally, it seems that a number of investors are deal flow constrained; this suggests that there is a large gap between the macro opportunity and the near-term investable opportunity. This is due to structural challenges such as a mismatch in the type, pricing and risk-return expectations of available funding, which seem to limit the industry’s growth at its current stage.

### The differences and similarities of the impact investors

The impact investor categories differ with respect to the products they offer, the vehicles they use, the sectors they focus on, their source of capital, and their return expectations. Table 3.2 below provides a high-level summary of these differences, which will be discussed below and elaborated with concrete examples in the following sections.

**Table 3.2: High-level summary of the differences between impact investor types**

	PE/VC funds	DFIs	Foundations	Institutional investors	MFIs
<b>Average investment size (US\$) (range)</b>	US\$ 20,000 to US\$ 75 million (only 24% of funds had an average deal size of over US\$ 2 million)	US\$ 50,000 to US\$ 250 million	US\$ 100,000 to US\$ 400 million	US\$ 200,000 to US\$ 9,700,000 (in partnership with other impact investors)	US\$ 57 to US\$ 1,300
<b>Instruments used</b>	Equity, debt, quasi-equity, trade finance	Equity, debt, quasi-equity, guarantees, and trade finance	Equity, debt, quasi-equity	Commercial banks—debt; Insurance companies and pension funds—debt and equity	Debt and other microfinance products, e.g. insurance
<b>Additional services provided</b>	Most funds provide some form of business development services	Technical assistance / managerial advisory services	Business development services / intellectual capital	Minimal	Minimal
<b>Sector focus</b>	Multiple	Multiple	Multiple	Multiple	Multiple
<b>Focus of investment (SMEs etc.)</b>	SMEs by VC firms and the larger PE funds focusing on mid to large size firms.	Range (fund managers, start-ups, SMEs, large firms)	Range (fund managers, start-ups, NGOs, large firms)	Commercial banks— large firms (with some lending targeted at SMEs); insurance companies and pension funds— fund managers, MFIs	Micro-enterprises and individuals
<b>Sources of capital</b>	DFIs, foundations, institutional investors, and private individuals	Generally governments and private sector	Private wealth	Depositors and clients	DFIs, NGOs, donors, foundations, private funders, and depositors
<b>Financial return expectation</b>	Mostly market-rate returns ( $\geq 20\%$ ), with some non-profit funds accepting below market-rate returns ( $< 20\%$ )	Mostly market-rate returns	Mix of below market-rate returns and in line with market-rate returns	Market-rate returns	Mix of market-rate returns and below market-rate returns

<sup>36</sup> This is a rough estimate of the total demand for investments across sectors in West Africa excluding the mining industry and public administration sectors. Rather than assess the intent of each individual enterprise, this calculation is used as a proxy.



## Products, vehicles, and investor focus

Investors use a classic combination of debt and equity lending instruments; the research indicated that this mix was not always the best fit for investees in the region. Some impact investors operating in West Africa are seeking to supply more tailored financial products—e.g. Root Capital is supplying procurement credit to agro-businesses to allow them to pay farmers in advance, and Lundin for Africa is providing seed funding to a venture capital fund manager—but to do this they generally need to take an “impact first” rather than a “finance first” approach and be willing to accept non risk-adjusted financial returns.

Investors appear to operate in a way that is sector agnostic and most (excluding institutional investors and MFIs) provide comprehensive business advisory services alongside their capital investments. DFIs are the biggest impact investors in West Africa; they along with foundations make direct investments and utilise indirect channels such as PE/VC funds and the MFIs in the region.

## Deal size and risk

In most of the world’s developing regions, the SME segment has limited access to capital—referred to as the “missing middle”<sup>37</sup>. Access to finance in the classic sense exists for most larger businesses (from private equity firms and commercial banks) and for many micro enterprises (from microfinance providers)<sup>cc</sup>. The research illustrates that the need for financing in West Africa is being partially met by different types of impact investors. Overall, two types of gaps were identified in the offerings that impact investors are currently providing. Firstly, there is a lack of financial products in the lower investment range (US\$ 1,000 to US\$ 100,000), and secondly there is a limited range of product types for SME financing in general. These gaps are explored in this section.

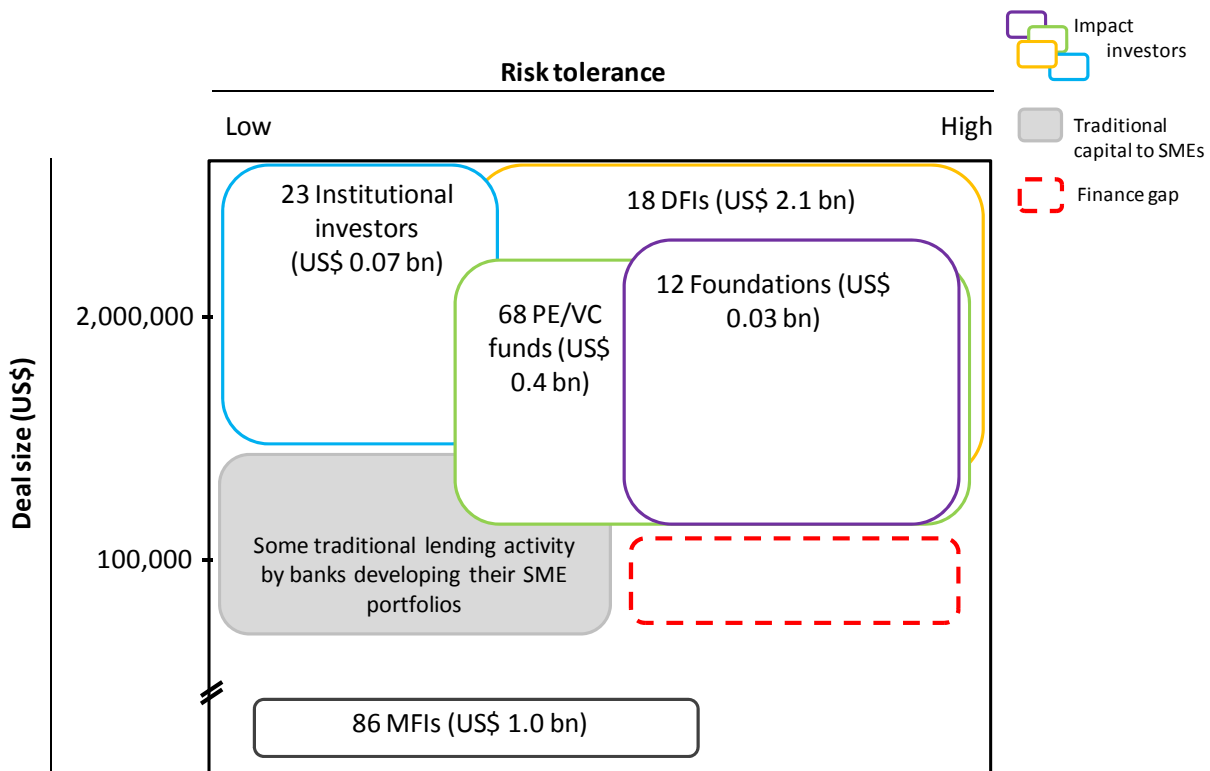
“There is more than enough supply of senior debt in the region, but huge room for early stage venture capital. There are not enough players at the moment.”

**DFI in Nigeria**

Current impact investors in West Africa demonstrate a wide variation in their appetite for risk, return expectations, need for liquidity, and expectations for deal size, which to some extent reflect the investors’ sources of capital that include the public and private sector as well as NGOs. Compared to traditional markets, the risk-return relationship for impact investing cannot be expected to have as straightforward a correlation. Since impact investors expect more than financial returns, they also target enterprises that might provide low financial returns but high social and environmental returns. As a result, the impact investors are mapped by risk tolerance, not return expectation, and deal size range in Figure 3.1 in order to identify gaps in the West African market.

<sup>37</sup> Referred to in the literature as the ‘missing middle’ and ranges from US\$ 25,000 to US\$ 2 million

Figure 3.1: Mapping of impact investors based on risk tolerance and deal size



The focus of activity in the top and on the right side of the matrix shows that impact investors in West Africa in general are willing to accept high levels of risk and offer deals in the range above US\$ 100,000. The riskier part of the market is the small and growing business sector which is largely underserved by impact investors. This leaves a gap in the medium to high risk segment for deals below US\$ 100,000.

“There is a need to foster early stage investments and bridge the gap between ‘friends and family’ finance and institutional venture capital funds.”

**High net worth individual in West Africa**

MFIs and commercial banks are normally risk-averse and target the micro and large segments of enterprises, respectively. Other institutional investors, i.e. insurance companies and pension funds, invest for impact but tend not to invest directly, preferring intermediary vehicles such as private equity or microfinance funds. These investors also tend to be more risk-averse given the fiduciary responsibility they have to their clients. Each country has its own regulatory framework providing boundaries for which investments institutional investors can and cannot make. These factors greatly influence the ability and desire of institutional investors to make impact investments.

It is clear that a large focus is on providing finance to SMEs in the range of US\$ 100,000 to US\$ 2 million by many investors, including DFIs, venture capital, and private equity funds and foundations. Larger deals above US\$ 2 million are offered by DFIs, institutional investors, and private equity firms, while the small deals up to approximately US\$ 1,000 are done by microfinance institutions.

Investors tend to avoid small investments, since they have high transaction costs due to the significant time required to source deals, conduct due diligence, and complete transactions. Some impact investors seek to minimise the risk by combining capital investments with appropriate business development services and advisory support.

## Summary

Impact investors are supplying capital and technical assistance that addresses the financial and managerial needs of enterprises to a greater extent than the traditional financial providers in the region. The depth and breadth of the DFI activities in providing capital across the region make West Africa unique in that very few investment activities take place without some form of DFI involvement. This is a solid starting point for the industry. The less encouraging findings from the research are that there is a need for capital in the range of US\$ 1,000 to US\$ 100,000 and the financing instruments available do not meet the needs of all the potential impact investees.

The remaining sub-sections present some examples of the different institutions in each investor group and discuss the group's investment characteristics.

### 3.2 Private equity and venture capital

Impact investments through funds are a more recent addition to the region, with several funds beginning their operations in the last ten to fifteen years. Private equity and venture capital—a subset of private equity providing seed capital and focusing on high-growth businesses in early stages of development—is on the rise in West Africa. In Ghana, for example, five domestic venture capital funds have been created under the Ghana Venture Capital Trust Fund<sup>dd</sup> since 2004. Table 3.3 presents some examples of private equity and venture capital funds making impact investments in the region, with a high level summary of their characteristics.

**Table 3.3: Examples of funds investing for impact in West Africa**

Fund	Fund Manager	Established	Sources of capital	Geographical focus	Sector focus	Average deal size / range (US\$)
<b>Venture capital funds</b>						
West Africa Agricultural Investment Fund	Injaro Investments	2010	Foundations	Ghana, Nigeria, Niger, Mali, Burkina Faso	Agriculture - seed production companies	250,000
Sierra Investment Fund	Manocap	2006	Individuals, DFIs	Sierra Leone, Liberia	Everything except mining	2,000,000
No name	Doreo Partners	2010	Institutional investors, DFIs, individuals, foundations	Nigeria, Ghana	Agriculture	1,000,000 to 3,000,000
Ebankese Venture Fund	Oasis Capital	2010	Venture Capital Trust Fund, institutional investors, individuals	Ghana, Nigeria, Benin, Senegal, Liberia, Sierra Leone and Côte d'Ivoire	Basic needs— education, health, sanitation, food service sector, affordable housing	600,000
West Africa Venture Fund	Unique Venture Capital	2010	DFIs	Liberia, Sierra Leone, Nigeria	Agribusiness, manufacturing, services, merchandising	100,000 to 500,000
Phitrust Active Investors	Phitrust Active Investors	2005	Institutional investors, individuals	France, Germany, Belgium, Italy, Cameroun, Senegal	Multiple	300,000
<b>Private equity funds</b>						
Pan-African Investment Partners II	Kingdom Zephyr	2008	DFIs, institutional investors, sovereign wealth funds, individuals	Pan-African	Mid to large size businesses with regional expansion potential	20,000,000 to 75,000,000
Cauris Croissance	Cauris Management	2006	DFIs, institutional investors	WAEMU	Multiple	2,600,000 to 6,500,000
<b>Non-profit investment funds</b>						
Root Capital	Root Capital	1999	DFIs, foundations, private investors, corporations, religious groups	Africa, South America	Rural agriculture	370,000
E+Co	E+Co	1994	DFIs, private investors, foundations, government agencies, religious groups	Africa, Asia, Latin America	Clean energy	25,000 to 750,000

With the exception of one or two funds, all the funds researched had at least one DFI as a limited partner. Additional sources of capital came from private individuals, foundations, pension funds, insurance companies, commercial banks, and, in some cases, private companies. For example, Starbucks Coffee Company invests in Root Capital and also in Conservation International's Verde Ventures fund with investments in Ghana.

The funds generally use a mix of debt and equity instruments as well as trade finance (or procurement credit) to make their investments. Non-profit funds such as Root Capital use short-term debt secured against purchase agreements, and long-term debt secured against fixed assets. Their trade finance loans are at much more concessional rates than those offered by commercial institutions. Most of the other funds used debt, quasi-equity, and equity instruments, with institutions such as GroFin focusing on debt and self-liquidating instruments.

#### Box A: Examples of investment approaches - GroFin and E+Co

##### GroFin

GroFin recognises that every business is different, and does not use a standard interest rate to lend to entrepreneurs. Instead, it takes into consideration the development stage of the business, the projected cash flow and profitability, the risk involved, the entrepreneurs' capital contribution and any collateral they provide. It then works with the entrepreneur to develop their business and managerial skills.

##### E+Co

E+Co mainly uses lending instruments for its West African investments. Before it makes an investment, it determines the entrepreneur's business development needs and begins to work with him or her to create and strengthen their business plan. E+Co continues to provide support services after the investment is made and as the entrepreneur implements their business plan.

Source: [www.grofin.com](http://www.grofin.com) and [www.eandco.net](http://www.eandco.net)

In addition to investment capital, all funds researched provided some form of business development services as well. This was either provided directly by the fund managers themselves or outsourced to specialised business development service providers in the country, and, in some cases, funded by grants from NGOs or other development partners. Those fund managers that take a seat on the enterprise board are also actively involved in overseeing the day-to-day operations of the company and providing managerial support and advice as needed.

The individual fund size ranged from US\$ 4 million all the way to US\$ 500 million by those fund managers who have a much broader emerging market focus. Based on the data collected, the average fund size was US\$ 49 million<sup>38</sup>. The range of deal sizes went from US\$ 20,000 all the way up to deals of US\$ 75 million by the larger private equity funds in the region. Using the data on average deal size for the different PE/VC funds obtained, it was evident that only a few funds finance deals of less than US\$ 100,000. Of the funds identified, 76% had an average deal size of US\$ 2 million or less. Amongst this group, the average deal size overall was US\$ 800,000<sup>39</sup>. This relatively high average of US\$ 800,000 highlights that the smaller finance needs of businesses are not being addressed by PE/VC funds in the region. The gap is estimated to be between US\$ 1,000 to US\$ 100,000.

"We chose Ghana as an entry point to start making investments in the region as it is relatively easy to do business there."

**Venture capital fund manager in Europe**

<sup>38</sup> This average is based on the calculation used in Table 3.1, and excludes a portion of the funds that have a broader emerging focus.

<sup>39</sup> Based on information for 33 PE/VC funds investing in the region for which data on deal size was available.

Every country in West Africa was included in the geographical scope of at least one fund<sup>40</sup>. The data for the 37 PE/VC funds that specified countries in their geographic focus illustrated how some countries have more impact investment activity than others. Out of 88 specific country references, Ghana is mentioned 23 times (equal to 25%), compared with Guinea or Gambia that are not mentioned as target investment countries at all. Table 3.4 presents these results.

**Table 3.4: PE/VC fund country focus in West Africa**

Country	Ghana	Nigeria	Côte d'Ivoire	Senegal	Mali	Niger	Benin	Burkina Faso	Liberia	Sierra Leone	Togo	Guinea-Bissau	Cape Verde	Gambia	Guinea
Number of references as a country of focus	23	14	7	7	6	6	5	5	5	4	4	2	0	0	0

Most of the funds researched had a broad sector focus, but of those that are sector specific, agriculture was the most common area of focus. For example, Doreo Partners in Nigeria is an African agriculture focused venture capital firm, raising a US\$ 40 million fund to invest in early stage ventures in the agricultural value chain. The founder recognises youth employment as one of Nigeria's greatest development challenges and sees investments in the agriculture sector as one way of addressing both unemployment and rural to urban migration while increasing the profitability of the sector and making a market-rate financial return. The only fund identified with a specific focus on the environment was E+Co<sup>41</sup>.

“We have a passion for entrepreneurship overall, so we don’t make sector preferences. SMEs are critical for developing a middle class in the region.”

**Venture capital fund manager in Ghana**

There was a wide distribution amongst fund managers in terms of their expectation around the time horizon for financial returns. The range was from three years to twelve years with an average of six years. This time horizon of six years illustrates that impact investors are generally willing to invest for longer than traditional venture capitalists who might hope to exit an investment after three or four years<sup>42</sup>.

In making impact investments, all the funds researched had an expectation of earning both a financial return as well as generating economic, social, and/or environmental benefits. But between them, the emphasis placed on the commercial and social return differed quite significantly. The average expected IRR ranged from 3% to 30% (with an average of 20%). Injaro Investments, for example, through its SME growth fund, will seek market level returns while catalysing job creation, wage growth, increased local procurement, and the contribution to a local tax base. It expects below risk adjusted market-rate returns but a much higher impact from its West Africa Agricultural Investment Fund. This fund intends to contribute to the alleviation of rural poverty and attainment of food security in the region by investing in the creation of local seed production industries that provide affordable seeds to smallholder farmers.

Efforts by funds to capture and measure any social, economic, and/or environmental impact ranged from counting the jobs created on an ad hoc basis to consistently using more sophisticated impact measurement systems. For example, Root Capital use the Pulse data management system for collecting and reporting social and environmental performance metrics based on the Impact Reporting and Investment Standards (IRIS) (see Box B). E+Co has a detailed methodology to determine and evidence its impact. To calculate the return on investment, it measures its enterprises across 34 social, environmental and financial

<sup>40</sup> Several funds have a broad focus on ‘Africa’ or ‘ECOWAS’, but some funds only target specific countries in the region

<sup>41</sup> The Global Environment Fund also has a specific focus on the environment but at the time of writing this report was yet to make any investments in West Africa

<sup>42</sup> Novogratz and Kennedy (2010), ‘Innovation for the BoP: the Patient Capital perspective’

indicators. Root Capital, the Grassroots Business Fund, and E+Co, all of whom invest in West Africa, are also pioneer fund managers for the Global Impact Investing Ratings System (GIIRS). GIIRS is an assessment system that produces a comparable social performance rating for companies and funds. GIIRS Pioneer Funds will participate in a test version of the Impact Ratings System and will be the first funds to receive a GIIRS Impact Rating.

#### Box B: Impact investing tools

##### Impact Reporting and Investment Standards (IRIS)

IRIS was developed to provide a common reporting language for impact-related terms and metrics. By standardising the way organisations communicate and report their social and environmental performance, IRIS aims to increase the value of non-financial data by enabling performance comparisons and benchmarking, while also streamlining and simplifying reporting requirements for companies and their investors. IRIS also manages a repository of IRIS compatible data used for benchmarking and other industry analyses. [www.iris.thegiin.org](http://www.iris.thegiin.org)

##### Pulse

Pulse is a web-based portfolio data management system for collecting and reporting social and environmental performance metrics. It helps organisations track and benchmark financial, operational, environmental and social data to better demonstrate impact. Pulse is built on the Salesforce.com platform and comes pre-configured with the IRIS indicators. <http://www1.app-x.com/pulse>

##### Global Impact Investment Rating System (GIIRS)

GIIRS is a rating agency that provides social and environmental performance ratings of companies and funds using an approach analogous to Morningstar credit risk ratings. The GIIRS approach assigns weights to different performance indicators in order to allow for comparisons. GIIRS has incorporated IRIS into the core of its rating system. GIIRS also provides anonymous data from its users to the IRIS data repository. [www.giirs.org](http://www.giirs.org)

Funds that mobilise large amounts of capital from DFIs measure and report on their economic, social, environmental and governance impact in line with the individual DFI requirements. This group includes regional funds such as those managed by Aureos Capital, Actis Capital, and Kingdom Zephyr. Other funds were yet to adopt standardised impact measurement systems, instead measuring impact using different parameters on a project-by-project basis.

There are a number of activities taking place in the PE/VC space in the region that bode well for accelerating impact investing among fund managers. One is the Ghana Venture Capital Trust Fund (VCTF or Trust Fund)—an institution established by the Government of Ghana to provide financial resources to SMEs through venture capital financing companies. Over and above providing support to venture capital firms, the Trust Fund also makes direct investments itself into commodity chain value addition activities. The Ghana VCTF demonstrates how investing for economic and social benefit as well as a financial return is driving the venture capital industry in Ghana and addressing the challenges of SME financing. A case study on the Trust Fund is provided in Appendix C.

### 3.3 Development Finance Institutions

DFIs have been instrumental in developing private sector activity in West Africa, not only through direct investments made into enterprises, but also by investing in private equity, venture capital, and microfinance investment vehicles, providing technical assistance and advisory services and providing lines of credit and guarantee services for commercial banks to encourage local lending and investment. Table 3.5 presents some examples of five major DFIs with activities in the region.

“One of our key objectives is to mobilise other sources of private finance, so we try to encourage other domestic institutional investors to invest alongside us.”

DFI in Senegal



**Table 3.5: Examples of DFI activities in the region**

DFI	Established	Total portfolio size (US\$ billions)	% Equity	% Loans	% Other	% age of portfolio in West Africa	Average deal size / range (US\$)
African Development Bank (AfDB)	1964	5.2	2%	82%	16%	16.5%	US\$ 66 million <sup>a</sup>
IFC (World Bank Group)	1956	39.7	66%	26%	7%	8.4%	US\$ 9.8 million <sup>b</sup>
DEG (Germany)	1962	6.3	42%	57%	2%	10.4%	6 million
CDC (UK)	1948	4.5	96%	4%	0%	15%	25 million
FMO (Netherlands)	1970	6.2	45%	51%	3%	45% <sup>c</sup>	10 million
Proparco (France)	1977	2.97	14%	84%	2%	40% <sup>c</sup>	5 to 100 million

a) Private sector loans to West Africa only

b) Average to West Africa only

c) In sub-Saharan Africa

Source: DFI Web sites and annual reports; Dalberg analysis and Dalberg (2010) "The growing role of European DFIs in international development policy"

On average, the DFIs tend to focus on larger deal sizes and investments in funds, infrastructure, industry or providing guarantees, but there are some (e.g. Belgian BIO) who make smaller investments (of around US\$ 1 million) directly into businesses. The portfolio size of the DFIs makes them major players in the impact investing industry, and also allows DFIs to provide larger deal sizes to meet the finance needs of larger enterprises. The AfDB's portfolio of approved projects and programmes in 2009 illustrated a range of loans to the private sector in West Africa of US\$ 5 million to 105 million, and an average loan size of US\$ 65.7 million<sup>ee</sup>. The IFC's average loan size based on their loans and quasi-loan commitments in West Africa in 2010 was US\$ 6.4 million. Its average equity and quasi-equity commitment was US\$ 650,000. Its average trade finance guarantee commitment was US\$ 13.4 million, and its average equity commitment into regional and pan-African funds was US\$ 18.9 million<sup>ff</sup>.

DFIs focus their investment strategies according to their areas of expertise, with varying degrees of sector and geographic diversification. Latin America and the Caribbean and Europe and Central Asia receive the largest share of the IFC portfolio, whereas CDC makes the majority of its investments in Africa<sup>gg</sup>. Some DFIs, such as IFU (the Danish government's development finance institution) are required to have a national partner co-invest with them in order to promote national interests and leverage the expertise of the Danish private sector.

The sheer size of the DFIs' portfolios makes them one of the key investor groups making impact investments in West Africa. DFIs are backed by capital endowments and guarantees from governments to provide higher risk loans, equity positions, and risk guarantee instruments in support of private sector development in developing countries. Most have a mix of financing from government and private institutional investors.

DFIs provide a broad range of financial services in West Africa, and the skills and experience that DFIs are able to offer can often help to structure investment projects in a way that also encourages local private investors to participate where they may not otherwise have done so. DFIs use a wide range of investment instruments including: equity, loans, guarantees, mezzanine financing, and trade finance, and make a combination of direct investments and investments into intermediary vehicles.

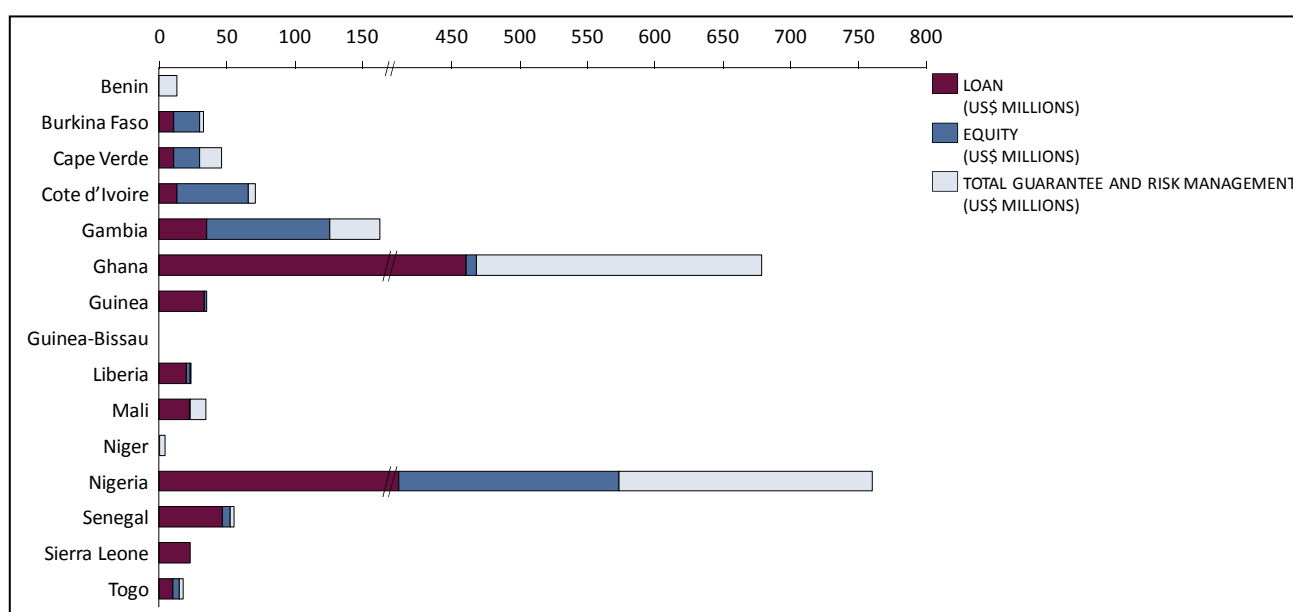
The ability of DFIs to generate a strong financial return on their investments demonstrates to other potential investors that it is worth the higher perceived risk of investing in West African markets. Attracting



other investors to the region is one of the key reasons why DFIs need to maximise the financial returns from their investments. The DFIs interviewed explained that to avoid distorting the market, they would only accept below-market returns for particular strategic reasons.

As illustrated in Table 3.5, the preference for different instrument types is varied amongst the different DFIs. CDC on one hand serves as a fund of funds and makes all its investments in West Africa through private equity and venture capital funds. For example, it invests in Actis and Cordiant Capital, which both have a presence in West Africa as well as in African Capital Alliance in Nigeria<sup>43</sup>, and Cauris Management in Togo and Côte d'Ivoire. Proparco, on the other hand, uses loans for 84% of its portfolio. It recently provided the BICIS (Bank in Senegal) with a CFA 6.7 billion (about US\$ 13 million) line of credit to provide long-term resources to allow BICIS to strengthen its balance sheet and develop a range of loans with longer maturities<sup>44</sup>. The AfDB also makes the majority of its investment funding through loans. Examples include providing trade finance to Cocobod (Ghana Cocoa Board) to increase Ghana's cocoa exports and support the growth of the agribusiness sector, and a loan to the Liberia Bank for Development and Investments to increase available credit for on-lending to SMEs. Figure 3.2 illustrates how IFC's gross committed investment portfolio was shared within West Africa by instrument type.

**Figure 3.2: IFC cumulative gross commitments for West Africa as of the end of FY2010 (US\$ millions)**



Source: IFC 2010 annual report

A large share of IFC investments in the region are made using lending and guarantee instruments, with equity instruments used to a lesser extent. As shown in the chart, Ghana and Nigeria make up the largest share of IFC investments in the region. In Ghana, the investments are distributed quite evenly among industries, but in Nigeria, the majority of investments are made in the finance and insurance sector. This category includes loans and trade finance guarantees to commercial banks to cover payment risk on banks for trade-related transactions. For example, in 2008, IFC provided Access Bank Nigeria with a US\$ 30 million credit line for on-lending to women entrepreneurs, along with advisory services to support a successful roll-out of its women's programme. Over and above the country-specific investments presented above, the IFC has currently committed over US\$ 400 million to 24 collective investment vehicles whose portfolios include West Africa. For example, the IFC has a US\$ 60 million investment commitment in Helios Investors II LP, and investment commitments of US\$ 40 million and US\$ 30 million in the GroFin Africa Fund, and the Aureos Africa Fund LLC respectively<sup>hh</sup>.

<sup>43</sup> At the end of 2008, Nigeria made up 12% of CDC's portfolio with investments in 44 companies valued at GBP 111 million.

<sup>44</sup> Information sourced from interview and Proparco website [www.proparco.fr](http://www.proparco.fr)

DFI lending in the region has often been in the form of US dollar- or Euro-denominated loans. The general lack of long-term local currency financing means that some businesses are either unable to obtain financing, or receive foreign currency loans at their own risk of currency fluctuations. IFC, for example, does provide local currency loans to protect businesses against currency fluctuations and foreign exchange risk and recently disbursed a local currency loan to a microfinance institution supporting small businesses in Ghana. The issue of local versus hard currency is not applicable to the WAEMU countries where the CFA is pegged to the Euro.

### 3.4 Foundations, high net worth individuals and private family offices

The impact investors in this sub-section include “foundations and private family offices” and “high net worth individuals and angel investors”.

#### Foundations and private family offices

Although a culture of giving and mutual support has deep roots in Africa, formal philanthropic institutions are new and relatively undeveloped<sup>ii</sup>. The last decade has seen a rise in African philanthropic institutions and philanthropic activities founded by high net worth individuals such as ex-presidents, musicians, athletes, and successful businessmen. These new African foundations are rising up next to the more established international foundations working to address some of Africa’s social and environmental problems through their grant-making activities.

“We provide smaller amounts of money than a bank and take more risks.”

**Foundation in Nigeria**

Foundations, high net worth individuals, and private family offices typically have greater flexibility in their investment mandates. When investing on their programme side (rather than their endowment side), these institutions can typically make investments without the same level of fiduciary duty as many other types of investors, and look to maximise their social impact<sup>jj</sup>. When investing on their endowment side, foundations have a fiduciary duty to invest their endowment prudently and in this sense are bound in the type of investments they can make. In the USA, a foundation is required to give away at least 5%

of its worth to charitable causes to retain its status. In West Africa, foundations are not specifically regulated as such. Under Nigerian law, for example, there is no specific percentage that must be donated. A foundation with non-profit status can legally make for profit investments and maintain its charity status so long as the profits from those investments are ploughed back in to investments or used for grants and other charitable purposes. A foundation cannot however use the profits to enrich the individuals involved with the non-profit organisation.

Table 3.6 presents some foundations and private family offices with activities in the region.

**Table 3.6: Foundations and private family offices with investment activities in West Africa**

Name	Approach	Established	Based	Geographical focus	Sector focus	Average deal size / range
Aga Khan Foundation – IPS West Africa	Make equity investments into enterprises. Re-invest profits	1965	Abidjan	West Africa	Packaging, agro-industry, energy, infrastructure, distribution	5,000,000 to 400,000,000
LGT Venture Philanthropy <sup>45</sup>	Only direct investments into for-profit and non-profit social enterprises	2007	Zurich	Latin America, sub Saharan Africa, India, Southeast Asia, and China	Water, health, nutrition (including agriculture), renewable energy, infrastructure for social investments, education, resource management	500,000
Lundin for Africa	Equity investments into funds and direct debt and equity investments into enterprises	2006	Canada	West and Central Africa	Agriculture, financial services for the poor, SME venture capital	100,000 to 1,000,000
The Tony Elumelu Foundation	Equity investments into funds and direct debt and equity investments into enterprises	2010	Nigeria	Africa	All segments of the African business growth cycle	500,000
Shell Foundation	Support fund managers (Grofin), SME's, and NGOs	2000	UK	Ghana, Nigeria	SME, Energy	100,000 to 15,000,000

These players generally invest in intermediary vehicles (such as social business, venture capital, or microfinance funds) but also make direct investments into enterprises. For example, the Aga Khan Fund for Economic Development - Industrial Promotional Services Agency (Aga Khan IPS) has a holding company in Côte d'Ivoire that makes equity investments in enterprises. All dividends received are then reinvested. In Côte d'Ivoire, this company also has the IFC, BNP Paribas, DEG, and the Government of Côte d'Ivoire as shareholders.

Lundin for Africa (LFA), the philanthropic arm of the Lundin Group of Companies, also makes direct investments (loans, quasi-equity, and equity) in businesses and funds, as well as providing technical assistance grants to SMEs across Africa. LFA's current investment portfolio includes Injaro Investments West Africa SME Growth Fund and West Africa Agriculture Investment Fund.

The private nature of many foundations and family offices made data on their endowment sizes difficult to find, but as an indication, one foundation researched has an endowment size of US\$ 400 million and another currently has a US\$ 23 million portfolio in the region. Deal sizes ranged from US\$ 100,000 to US\$

<sup>45</sup> Although LGT Venture Philanthropy is yet to invest in the region, it is planning to do so in the short to medium term.

400 million. Given the philanthropic motivations of foundations and private family offices, the investments are generally made from an “impact-first” perspective with a willingness to accept below-market returns. But some foundations, such as the Aga Khan IPS, seek market-rate returns from their investments.

There has also been an increase in the number of multi-national corporation foundations, such as Danone.communities, making equity investments in the region to achieve their philanthropic goals. Private businesses as well have shown an interest in investing to generate social and economic returns not only through their philanthropic arms, but as part of their business model.

### High net worth individuals and angel investors

Since formal philanthropic institutions are new to Africa, especially West Africa, most philanthropic activity takes the form of Africans investing in their own communities, or Africans living abroad sending money home. Though many of these individuals are investing their wealth to solve social challenges, since it is done informally, it is impossible to measure. This is particularly true of angel investors who prefer to keep their investments private. Information obtained in the research suggests that most of this activity takes place informally between communities and extended families.

“Angel investing is happening in Ghana but you would never hear about it publicly.”

**SME support organisation in Ghana**

This trend may be changing somewhat. Alitheia Capital in Nigeria, with some funding support from the Aspen Network for Development Entrepreneurs (ANDE), is developing a network of angel investors in Nigeria—the Entrepreneurs’ Ecosystem. This Web-based platform is a network of business owners, investors, and corporate partners designed to bolster economic growth by enabling the flow of ideas, services, and capital within the entrepreneur community in Nigeria<sup>kk</sup>. Public information portals such as this will address the current information gap on angel investors.

There are high net worth individuals in the region who use their wealth to create social, economic, and environmental benefits, but few are making impact investments. The TY Danjuma Foundation in Nigeria for example, or the Senegalese musician Akon’s Konfidence Foundation, do not classify as impact investors as they achieve their philanthropic goals solely through grants, and invest elsewhere to receive financial returns. Tony Elumelu (the founder of UBA bank) is an example of a high net worth individual in the region making impact investments. Tony Elumelu has created The Tony Elumelu Foundation in Nigeria. The objective of the foundation is “to contribute to Africa’s economic transformation and prosperity by equipping the African private sector to lead the transformation”. The foundation’s vision is based on “catalytic philanthropy”—using multiple traditional and non-traditional approaches to enable transformative change. The Tony Elumelu Foundation “recognises the power of impact investing and seeks to foster the acceptance, growth, and deployment of significant impact capital towards addressing social problems in Africa”. This continent-wide approach taken by the foundation is different from traditional approaches to philanthropy in the region, where the focus is often on shorter-term grant-making and partnering with the social sector in a localised manner. A case study on The Tony Elumelu Foundation is presented in Appendix C.

### 3.5 Institutional investors

The category of institutional investors is broad and includes commercial banks, insurance companies, and pension funds. Institutional investors are not only significant in number (with over 230 commercial banks and 170 insurance companies in the region<sup>46</sup>), but, given their commercial nature, may not satisfy the threshold criteria for impact investors established in Chapter 1. For these reasons, the discussion takes a high-level approach and provides examples of their impact investment activities in the region. The

<sup>46</sup> This figure counts the numbers of banks and insurance companies registered in each country and is based on each country’s central bank website and additional web research

discussion on institutional investors is divided between banks and other institutional investors, such as pension funds and insurance companies. The report looks at each category in turn.

### Commercial banks

Commercial banks can play multiple investment roles. They can invest their proprietary capital in equity, make wholesale debt investments and offer retail financial services. In addition, some banks, such as Ecobank with the Ecobank Foundation, have also created philanthropic arms through which they can provide finance. These banks set aside a portion of their profits to support philanthropic activities in the region, but generally do this through grants, and keep their investment activities separate.

Several commercial banks are also investing in microfinance or have created a microfinance service as part of their existing activity portfolio. For example, ACCION International (a global microfinance group) has formed a partnership with the Ecobank Group, to expand microfinance in West and Central Africa. ACCION and Ecobank will develop a regional banking platform that will deliver financial service products to micro- and small entrepreneurs in African countries within the Ecobank network. These products may comprise loans as low as US\$ 100, savings and insurance products, and related financial services, all designed to lift people out of poverty<sup>47</sup>. Secondly, the Bank of Africa and SONAM, a Senegalese insurance company, will invest US\$ 200,000 and US\$ 850,000 respectively in MicroCred Senegal, a microfinance provider. This is alongside an IFC equity investment of US\$ 1.2 million. The investments will help the institution expand activities, initially in Dakar, and, at a later stage, to other underserved urban areas of Senegal<sup>48</sup>. Although West Africa has an abundance of commercial banks, most regard small business finance as an unattractive business due to the high perceived and real risk and high transaction costs. It should be recognised, however, that there is an increasing number of commercial banks in the region (e.g. Bank of Africa, Ecobank, and the Ghana Commercial Bank) that does offer a range of financial services tailored to small and medium-sized businesses.

### Insurance companies and pension funds

Each country has its own regulatory framework providing boundaries for which investments institutional investors can and cannot make. The impact of these regulatory frameworks is examined in more detail in Chapter 4, but as an example—in the WAEMU, the lack of regulation on private equity makes it very difficult for insurance companies, for example, to invest in private equity funds. These factors greatly influence the ability and desire of institutional investors to make impact investments.

“Institutional investors still tend to be very conservative in the region and stick to investing in treasury bills and real estate.”

DFI in Senegal

Pension funds and other institutional investors are normally bound by strong fiduciary duties, limiting their ability to make higher-risk impact investments. Institutional investors in West Africa have tended to re-invest profits for growth or place their capital in more secure investments, such as government bonds and property. PE/VC investments are viewed as higher risk, and as a result, institutional investors shy away from both investing in funds and making direct equity investments in businesses. It is only recently that large institutional investors in some West African countries have moved towards the microfinance and private equity markets—and this is generally only after DFIs have led the way.

In Ghana, several institutional investors have invested in venture capital funds. These include the Social Security and National Insurance Trust (SSNIT) investment in Fidelity Equity Fund II, the Ghana Union Assurance investment in Oasis Capital’s Ebankese Fund, and the Ghana Commercial Bank investment in the Activity Venture Finance Company. In Francophone West Africa, the following institutional investors are invested alongside DFIs in Cauris Management’s *Cauris Investissement* Fund: *Caisse Nationale de Sécurité Sociale Niger*, Bank of Africa, *Fonds Africain de Garantie et de Coopération Economique*, *Compagnie*

<sup>47</sup> [www.accion.org](http://www.accion.org)

<sup>48</sup> [www.microcapital.org](http://www.microcapital.org)

*Bancaire de l'Afrique de l'Ouest (CBAO), SONIBANK (Niger), Banque Atlantique Côte d'Ivoire, and Banque de Développement du Mali.*

The research has found that institutional investors are more conservative in their investment approach and tend to follow in the path of—or alongside—the international DFIs, when diversifying their investment portfolios away from treasury bonds and property. Institutional investors can play a role in developing the impact investing industry in the medium term. The support by institutional investors to microfinance providers and some impact investment funds in the region serves not only to encourage new impact investment vehicles into the market, but also to encourage West Africa's high net worth individuals and other international institutional investors to co-invest.

### **3.6 Microfinance institutions**

Microfinance is the provision of a broad range of financial services, such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises. This report defines microfinance institutions (MFIs) as formal institutions whose major business is the provision of microfinance services. MFIs are generally financed by bilateral and multilateral development agencies, DFIs, foundations, private individuals, and NGOs. These institutions are referred to as microfinance funders and invest (or grant) money either through Microfinance Investment Vehicles (MIVs) or directly to the MFIs. MFIs can be treated as part of the demand for impact investing (that is MIVs and other investors can invest in MFIs) as well as part of the supply (MFIs make investments into microenterprises and entrepreneurs). In this report they are treated as part of the supply.

The total gross loan portfolio for MFIs across West Africa in 2009 was US\$ 1 billion, with US\$ 1.7 billion in total assets<sup>l</sup>. West Africa makes up less than 2% of the global MFI gross loan portfolio<sup>mm</sup>, and 21% of the total MFI gross loan portfolio for sub-Saharan Africa. In 2009, Ghana, Nigeria, Mali, and Senegal were the leading countries in the region in terms of numbers of borrowers. On average, MFIs in Senegal held the largest gross loan portfolios (US\$ 36.5 million) and those in Sierra Leone had the smallest (US\$ 650,000). The average loan balance per borrower ranged from US\$ 57 in Liberia to US\$ 1,300 in Côte d'Ivoire<sup>nn</sup>. The average loan balance per borrower for the overall region was US\$ 498, very low compared to other regions in the world. For example, in Eastern Europe and Central Asia, the average reaches up to US\$ 2,000<sup>oo</sup>.

As presented in Table 3.7, microfinance funding by DFIs, foundations, and NGOs reaches far across the region. In addition to the funders listed in the table, there are also several institutional investors and private individuals supporting the industry in West Africa.

**Table 3.7: Active microfinance funders in West Africa**

Country	Public Funders											Private Funders								
	Number of Active Public Funders	Multilateral & UN agencies					DFIs					Number of Active Foundations and NGOs	Foundations and NGOs							
		AfDB	EC	IFAD	UNCDF	World Bank	AFD Proparco	EIB	FMO	ICDF	IFC		KfW	Citi Foundation	Cordaid	DOEN Foundation	Gates Foundation	Grameen Foundation	ICCO	Oxfam Novib
Benin	6	x	x	x		x	x	x				0								
Burkina Faso	4		x	x	x		x					3						x	x	x
Côte d'Ivoire	2			x			x					0								
Cape Verde	0											0								
Gambia	4	x	x	x						x		0								
Ghana	6	x	x	x			x				x	5	x	x	x			x		x
Guinea	4	x	x	x			x					1		x						
Liberia	4	x			x			x			x	1		x						
Mali	7	x	x	x		x	x				x	4		x				x	x	x
Niger	4		x	x	x	x						1							x	
Nigeria	8	x	x	x		x	x		x		x	4	x			x		x		x
Senegal	7		x	x	x		x	x			x	2						x	x	
Sierra Leone	4	x		x	x							2		x	x					
Togo	4		x		x	x	x					0								

Notes: No data available for Guinea-Bissau

Source: Adapted from CGAP 2010 Cross-Border funding survey. Donor institutions have been removed.

Despite the eager market and a history of community loan and saving schemes (e.g. *tontines* in Francophone West Africa and traditional *susu* collectors in Ghana and Nigeria), formalised microfinance and equity investments in MFIs have been relatively slow to take hold in West Africa in comparison with similar regions elsewhere in Africa, Latin America, and Asia<sup>dp</sup>. In part, this is because they are savings-driven but also because their regulation introduces challenges for investors. But this may soon change. A combination of recently found political stability, market potential, the entrance of international microfinance networks and increased experimentation in institutional products and services has attracted the interest of commercial investors<sup>qq</sup>.

The product range of many MFIs has also grown in recent years, including innovations in savings and insurance products. Goodwell, a Netherlands-based social investment company, has received DFI funding to invest in MIVs in Ghana and Nigeria. Goodwell West Africa’s strategy is to provide a combination of growth capital, ground support to local MFI management teams, and access to the expertise of a global network of experienced microfinance practitioners<sup>rr</sup>. Alitheia Capital is the fund manager in Nigeria, and JCS Investments will manage the fund in Ghana. In both Ghana and Nigeria, the funds will be the first MIVs in the country. Table 3.8 provides some details on the two investment vehicles.

**Table 3.8: Microfinance investment vehicles in Ghana and Nigeria**

Fund manager	Sources of capital	Established	Based	Type of investments	Average deal size/range (US\$)
JCS investments	Development finance institutions, institutional investors, funds-of-funds, high net worth individuals and family foundations	2009	Ghana	Micro-finance, SMEs	1,000,000 (MFI), 500,000 (SME)
Alitheia Capital	Development finance institutions, pension funds, high net worth individuals	2007	Nigeria	Start-ups, NGO-MFIs, microfinance banks	1,500,000



The acceptance and growth of the microfinance industry in West Africa provides a solid platform for the development of an impact investing industry. The principle of addressing social and economic challenges for a financial return is inherent in the region's traditional lending schemes as well as the more formalised MFI activities. Although microfinance does not directly address the needs of the "missing middle", there is potential for MFIs to increase their portfolios from micro-loans to larger debt investments. Some MFIs and non-bank financial institutions are moving their focus away from micro-loans to larger debt investments or even equity investments in SMEs. For example, local microfinance provider SEM Finance in Senegal has moved into renewable energy investments in partnership with an investor under the UNFCCC Clean Development Mechanism<sup>49</sup>. In partnership with a European private investor, SEM will supply cook stoves to the domestic market in Senegal. Another example is that of ProCredit Savings and Loans (S&L) in Ghana, who are taking specific actions to target the SME market. ProCredit S&L recently launched a campaign to publicise its increased focus on SME lending, and at the end of 2009, it opened two business centres in Ghana for the SME target group. The new offices provide services tailored to their needs and are staffed by specially trained personnel. It also introduced two new products aimed at SMEs and other clients who need short-term financing. A detailed case study of ProCredit S&L is presented in Appendix C.

### 3.7 Other impact investments

In the course of the research some other examples of impact investments were identified that do not directly fit into the categories that were expanded on in Chapter 3. These include the activities of local development banks in the region as well as corporations making investments that are not part of their foundation arms.

#### Development Banks

Among institutional investors, local development banks lend themselves more generally to the impact investment approach. Local development banks have a similar mandate to DFIs and use their investments to encourage private sector activity and to receive a financial return. The Bank of Industry in Nigeria has a vision to transform Nigeria's industrial sector and integrate it into the global economy. It does this by providing debt and equity financing and business support services to local industry. The *Banque régionale de solidarité* (BRS) is a regional institution headquartered in Niger, whose main aim is to grant access to finance for entrepreneurs excluded by the traditional banking system. A list of development banks identified during the research is presented in Appendix A.

#### Corporations

The Starbucks Coffee Company has invested a total of US\$ 9 million in Root Capital (a non-profit social investment fund) that has operations in Burkina Faso, Ghana, Mali, Liberia and Senegal<sup>50</sup>. This investment is part of Starbucks' commitment to strengthen and stabilise its supply chain and ultimately help improve farmer livelihoods. Other multi-national corporations have also decided to drive enterprise development and adopt inclusive business models in the region through buying from, selling to and distributing their products through local micro, small and medium enterprises, and through investing in their training and skills development. In Mali for example, Total and EDF have created local Rural Electricity Companies<sup>51</sup>, and Shell Nigeria has made concerted efforts to strengthen local procurement and capacity of local companies to participate in its sector as a means of ensuring that economic opportunities are distributed more widely through local communities and businesses. A partnership between Shell Nigeria and the United Kingdom Trade and Investment (UKTI) has involved actively matching the skills and expertise of UK supply chain companies with potential partners in Nigeria<sup>52</sup>.

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<sup>49</sup> The Clean Development Mechanism (CDM) was established under the Kyoto Protocol and designed to assist developed countries to comply with emission reduction commitments and to foster sustainable development in developing countries.

<sup>50</sup> [www.rootcapital.org](http://www.rootcapital.org)

<sup>51</sup> Business Action for Africa in association with Harvard Kennedy School (2010) 'Business Partnerships for Development in Africa'

<sup>52</sup> *Ibid.*



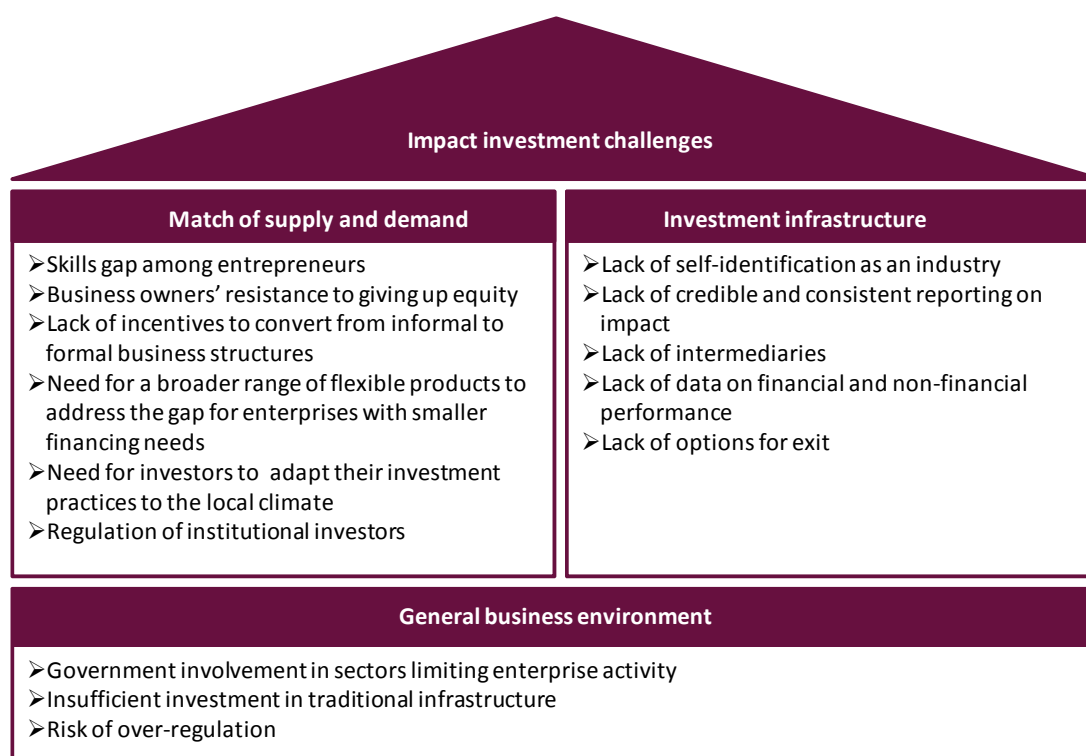
## Chapter 4 – Barriers to enabling more impact investments

While the report until this point has focused on mapping the landscape of impact investing in West Africa by describing the demand and supply markets, the remainder of the report will highlight the challenges that limit the growth and expansion of the industry and what can be done to address these challenges.

Some challenges are common to businesses and investors regardless of the sectors in which they operate, and others are specific to impact investing. This chapter will investigate challenges specific to impact investing, only briefly addressing general challenges, which, though they affect the domain, are already well known to most stakeholders in the region and beyond the scope of impact investing.

In order for impact investment to thrive, there must be (1) a match between the needs of enterprises and the supply by investors, (2) a supporting investment infrastructure, and (3) a business environment that is supportive of entrepreneurship and growth. Figure 4.1 outlines the main challenges in these three categories, which make up the impact investing challenges for West Africa. The following sections further explore the challenges in each category, and Chapter 5 outlines specific actions to address these challenges.

**Figure 4.1: Challenges for expansion and growth of the impact investing industry**



### 4.1 Match of supply and demand

When asked, impact investors state that sustaining a robust deal flow in the region is often a great challenge. This indicates that there are structural challenges that are hindering the market from operating efficiently. From the mapping of demand and supply, it is clear that the needs of large and micro enterprises are being met to a greater extent than those of small and medium enterprises. This section delves into the issues that are driving these discrepancies.

### Skills gap among entrepreneurs

Entrepreneurs often lack the education, skills, and access to information required to turn their entrepreneurial spirit into bankable project ideas. To address this, investors provide tailored business development services packages in addition to equity or debt. Some firms work with recognised expert institutions in key sectors, such as Technoserve in agriculture, while others, such as the Durabilis Foundation, take a much more hands-on role with their investments by placing managers in enterprises where they invest.

### Business owners' resistance to giving up equity

Owners of small and medium businesses are wary of accepting equity investments. They fear losing control and lack knowledge of financial and governance structures. Many enterprises in West Africa are small sole proprietorships or family operations. In these businesses, private equity investments stir fears of losing decision-making authority and ultimately losing control of the business.

“There is a new generation of entrepreneurs in the region that understands that if you want your business to grow you need to be open to taking on equity investors.”

**Impact investor based in Europe**

The lack of awareness of the actual implications of engaging equity investors prevents many business owners from accepting this type of capital, leaving them with a limited range of debt options. Business owners in West Africa would benefit from an increased understanding of a broader range of financing products beyond traditional lending instruments. On the other hand, investors looking to deploy equity in the region would equally benefit from taking the time to build a stronger trust relationship with potential investees to overcome their hesitations. This often requires a significant time commitment and flexibility in the terms and conditions of the financial instruments they use. There is some indication that attitudes may shift with the next generation of entrepreneurs and impact investment funds focusing on the region.

### Lack of incentives to convert from informal to formal business structures

The contribution by the SME sector to a country's total productivity is a good indicator of the business activity relevant to most impact investors. On average for low income countries, the formal SME sector makes up the majority of enterprises, but contributes to less than 20% of employment, which is low compared to close to 60% in high income countries<sup>53</sup>. This number is expected to be even lower for many West African countries; the share in Nigeria is only 11%. One of the reasons the number is low is the large size of the informal sector in many low-income countries—approximately 30%. It is difficult for impact investors to do business with the informal sector, and investment is limited as a result.

Governments, driven by a desire to generate tax revenues, do encourage informal enterprises to formalise. Informal enterprises, however, need motivation to formalise. In many countries, the cost of formalising—paying licences, taxes, and other operating costs—is prohibitively high. Interviewees noted that high taxes prevent businesses from moving from the informal to the formal sector in the region.

### Need for a broader range of flexible products to address the gap for enterprises with smaller financing needs

As outlined in Chapter 3, the main products available to businesses are debt, equity, and quasi-equity. The limited range of financial products prevents many businesses from getting the capital they need to invest in the growth of their companies. This issue is particularly prevalent for new ventures in the region where the entrepreneurs' funding needs are too small for traditional debt or equity financing. Other preliminary financing instruments are needed—such as angel financing or royalty-based debt with

“We can't borrow from banks for working capital – we are a young company, no assets, no collateral. We need an investor who is willing to take a risk.”

**Business owner in Ghana**

<sup>53</sup> Dalberg (2008) 'ANDE SGB Background Analysis'



manageable levels of interest and supporting business development services—to grow the enterprise to a stage where they can take on equity investors. Pre-harvest finance and other procurement credit products would improve the flow and absorption of capital in the region, but are currently only offered by a handful of institutions.

Aside from MFIs, all impact investors in the region shy away from smaller deals due to the high transaction costs. As a result, entrepreneurs in the region find it hard to obtain financing in the US\$ 1,000 to US\$ 100,000 range as described in Chapter 3. Entrepreneurs that need this low level of finance are typically start-ups, which are viewed by impact investors as much riskier investments.

### **Need for investors to adapt their investment practices to the local climate**

Chapter 2 highlighted some of the specific characteristics of enterprises in West Africa. In order to invest successfully in the region investors will need to modify their investment practices to adapt to the local climate. Investors in the region, however, are largely either unwilling or unable to change their investment criteria. This lack of flexibility prevents investors from accessing a large number of potentially profitable deals and deprives entrepreneurs from much-needed capital.

A fund manager in the region underlined the need for investors to be more mindful of the local investment environment, noting that one of the greatest challenges is translating between international impact investors and local investees. It is not only local enterprises that need to be educated on private equity and business development. International investors also need to be educated around risk and expectation from their investments in the region. The two groups never interact directly, and it is the responsibility of the intermediary vehicle to respond to the needs of both sides.

### **Regulation of institutional investors**

Some countries in the region place significant restrictions on domestic institutional investors. In WAEMU, for example, the Insurance Regulatory Body (CIMA) does not allow its member insurance companies to invest in private equity funds. In Nigeria, pension funds are not permitted to make private equity investments. Such restrictions limit the growth of the impact investing industry as much-needed domestic capital is prevented from flowing into impact investing vehicles. The Government of Ghana has liberalised its pension fund sector and as a result, the Social Security and National Insurance Trust (SSNIT) invests 3% of its portfolio through private equity vehicles. The trust works with one local fund (Fidelity Equity Fund II Ltd, which is focused on SMEs) and three pan-African funds.

## **4.2 Investment infrastructure**

The nascence of the industry in West Africa is the reason the impact investing infrastructure is underdeveloped. This section details the main challenges to building an infrastructure that will allow the industry to grow. Some of these challenges will need to be addressed before the industry can take off, but several of the challenges are expected to be dealt with as the industry matures.

### **Lack of self-identification as an industry**

Impact investing was an unfamiliar term to many investors and enterprises in the region. Some of the interviewees also highlighted a potential conflict between institutions' financial and social interests and scepticism towards 'venture philanthropy' (taking concepts and techniques from venture capital finance and applying them to achieving philanthropic goals). This is manifest in a prevalent belief that foundations and other grant-making bodies should remain philanthropic. The distinction between business and philanthropy also impacts how impact investment funds market themselves to potential investors. When seeking a partnership with an international foundation, the marketing hook is the social or environmental impact, and when seeking institutional investors, the focus is on the financial return. The research suggests that institutional investors and high net worth individuals in the region have a negative perception of social investment funds, and are discouraged from investing in funds in which managers focus too much on social impact. Changing such perceptions is critical to cohere the industry.

### **Lack of credible and consistent reporting on impact**

One of the limitations to the growth of the impact investing industry worldwide is the lack of transparency and credibility in how funds define, track, and report on the social and environmental performance of their capital. In West Africa, when impact is measured, it is done using a wide range of tools and is often on a case-by-case basis. Approaches to measurement range from adopting reporting standards like IRIS<sup>54</sup>, to reporting on DFI economic, social, and governance indicators, to using home-grown systems that count metrics like the number of jobs created. The lack of consistent measurement makes it difficult for investors to compare the social, economic, and environmental returns of different investments and communicate positive results to key stakeholders. Furthermore, the lack of universally accepted vocabulary and market segmentation makes it difficult for investors and investees to communicate about opportunities and identify potential partners<sup>55</sup>.

Although many investors expressed the need to comprehensively measure and report impact, they were also concerned that a focus on standardised impact measurement could be too reductionist. Each business views itself as a special case; thus its metrics may vary. Implementing complex measurement systems was viewed as a time-consuming and costly exercise that some investors would be hesitant to invest in. Hence, there is more work to do to convince the core group of impact investors that tracking is worthwhile.

### **Lack of intermediaries**

Intermediaries are needed to facilitate investments between investors and beneficiaries. Syndicators, clearinghouses, and other necessary market intermediaries have a limited presence in the region, which makes finding and conducting deals more complex for investors. The lack of intermediaries also makes it difficult for grant-making organisations and NGOs, who are building the capacity and investment readiness of enterprises, to connect with angel investors or venture capitalists that can provide the much-needed capital.

### **Lack of data on financial and non-financial performance**

Though there is an abundance of entrepreneurs looking for finance, finding opportunities and screening them for “bad deals” are both fraught with difficulties. Investors and fund managers rely on their personal networks to identify deals, just as entrepreneurs and fund managers rely on their networks to identify investors. Personal referrals are critical for the success of an investor in the region, and the main constraint identified by fund managers for not undertaking cross-border investments is a lack of local networks. Although this challenge is not unique to West Africa, it does make it difficult for new impact investors who lack local partners to move into the region.

It is often not possible to gather sufficient information to conduct due diligence prior to making a deal. Irresponsible lending practices were reported by some, suggesting that financial institutions issue debt with only limited concern for clients’ repayment capacity. As a result, many borrowers have loans outstanding from several institutions at the same time. The lack of credit bureaus in the region presents a challenge to investors and lenders, as there is no source of comprehensive information on credit histories. These issues are prevalent throughout the region, with some development underway in Ghana and Nigeria, where private credit bureaus have been set up.

### **Lack of options for exit**

Exiting investments is one of the major challenges in private equity investing in developing markets. The nascence of the capital markets in the region limits the initial public offering (IPO) options available to investors. Although this may be seen as a major barrier to outside investors looking at the region, fund managers operating locally expressed less concern. Most use alternative exit strategies such as sale to sponsors, self-liquidating structures, and trade sales. Fund managers negotiate liquidity and exit options prior to investment as part of the investment due diligence. Despite the range of exit options available, information on successful exits is limited; this may discourage potential new entrants in the market.

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<sup>54</sup> <http://iris.thegiin.org>

<sup>55</sup> Monitor Institute (2009) ‘Investing for Social and Environmental Impact – A Design for Catalysing an Emerging Industry



### 4.3 General business environment

Each West African country brings with it a unique set of challenges and opportunities. There are huge differences in the business environment across the region, with Ghana ranking highest and Guinea lowest out of the ECOWAS countries on the World Bank's 'Ease of Doing Business' ranking<sup>56</sup>.

Based on the data for PE/VC funds' geographical focus of investments, the two countries in the region that rank lowest in West Africa on this ranking—Guinea-Bissau and Guinea—appeared the least often in impact investors' portfolios, along with The Gambia. Out of the three highest-ranking, Ghana and Nigeria featured repeatedly in most impact investor portfolios in the region, but Cape Verde did not. Côte d'Ivoire is an outlier in that although it fares poorly on these rankings, there is quite a high level of investment activity relative to other countries in the region that perform better on this index<sup>57</sup>. This illustrates that although the majority of impact investments are currently flowing to those parts of West Africa where it is easier to do business, not all are being deterred from other parts where the environment is much less conducive. The countries that do perform poorly on the World Bank's 'Ease of Doing Business' ranking are also those with higher political instability and poverty levels, and lower GDP per capita. Their need for impact investments is significant, yet their absorption capacity for large amounts of investment is limited.

Although there are several PE/VC firms operating in the region, high taxes and other fiscal controls mean that very few funds are actually based in West Africa. Instead, funds register in Mauritius, enjoying the advantages of an offshore financial centre not available in West Africa. The Ghanaian government has taken note; with the introduction of the Venture Capital Act of 2004, it created an incentive structure for venture capital investors that includes tax-exempt status for funds and returns to investors. Addressing the general businesses environment challenges goes beyond the scope of the actors of the impact investing industry and is therefore out of the scope of this particular report. Some specific business environment challenges mentioned in the interviews are outlined below.

#### Significant government involvement in sectors limiting enterprise activity

Investors emphasised the importance of minimising government involvement in certain sectors and opening them up to private capital. For example, in Ghana, government regulation in the cocoa sector is tight. The Ghana Cocoa Board, which sets prices and actively regulates sector growth, was seen as a barrier to impact investments in cocoa. In Nigeria, only recently have private investors been able to invest in the power sector following legislative reform and deregulation.

#### Insufficient investment in infrastructure

Poor transport infrastructure and limited access to energy were repeatedly mentioned in all countries as major challenges to doing business. These factors hamper entrepreneurship and add costs to investor and investee operations alike.

#### Risk of over-regulation

While some regulation is clearly required, enterprises and investors alike identified the risk that regulation can become a barrier to growth, since regulation translates to increased documentation requirements—a major drain on efficiency for smaller enterprises.

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<sup>56</sup>A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local enterprise. As a point of reference, in sub-Saharan Africa, Mauritius and South Africa rank first and second respectively. The index averages the country's percentile rankings on nine topics: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business, giving equal weight to each topic. Each topic is made up of a variety of indicators. The rankings for all economies are benchmarked to June 2010.

<sup>57</sup>With the current stand-off, however, this situation seems to be changing rapidly, with several banks having closed down over the last few weeks. Reuters (18 Feb 2011) 'Ecobank suspends Ivory Coast operations' (<http://www.reuters.com/article/2011/02/18/ivorycoast-banks-ecobank-idUSLDE71H17520110218>)

#### **4.4 Addressing the challenges**

Some of the challenges discussed above will have to be addressed for the industry to move forward. Others represent issues that are more general to the business environment, and where impact investors have little influence, governments and development institutions will need to take a driving role. The challenges that can be addressed proactively by impact investors are:

- Business owners' resistance to giving up equity
- Need for a broader range of flexible products to address the gap for enterprises with smaller financing needs
- Lack of credible and consistent reporting on impact
- Need for investors to adapt their investment practices to the local climate.

Chapter 5 looks at the specific actions required to support industry growth and the role of different actors in this process.





# Chapter 5 – Recommended actions to develop West Africa’s impact investing industry

Like all fledgling industries, impact investing will have to develop further before West African governments and a wider audience will be able to appreciate its potential and scope. Chapter 3 highlighted how impact investors address a neglected market for finance—the “missing middle”. There is potential for impact investing to carve out a niche market for itself in West Africa and work alongside other traditional investment classes.

“The unique and greatest opportunity lies in the gap below venture capital and above microfinance.”

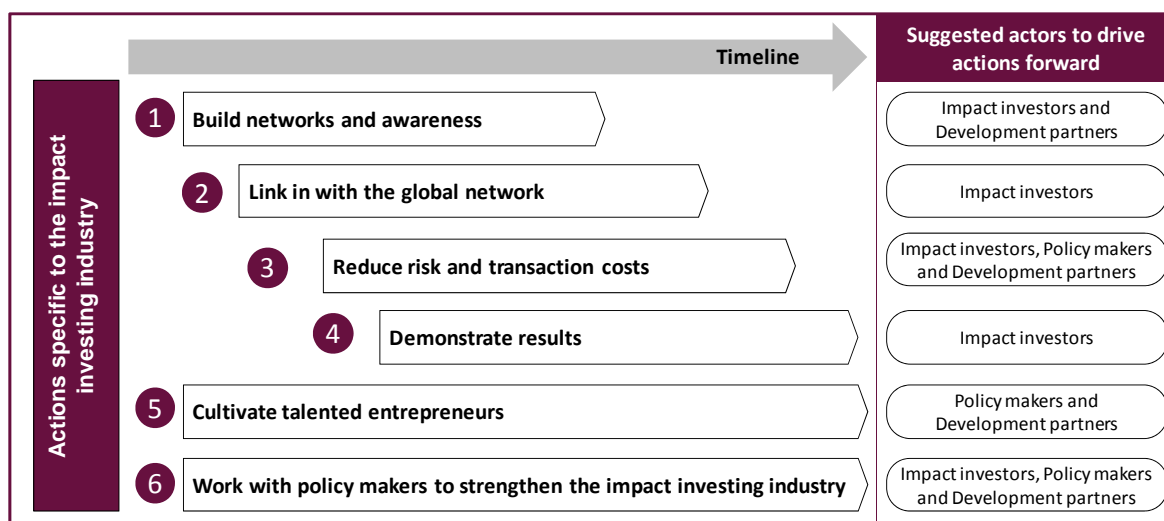
### Foundation investing in West Africa

This niche could use the impact investing approach as a lever to encourage informal enterprises to join the formal sector and already formal ones to professionalise and formalise further. Impact investing could support their growth, and prepare them for larger private equity and traditional commercial bank investments. Impact investors are often willing to provide longer-term capital—at more concessionary terms—combined with business development services. Such a package should serve as an incentive for businesses in the informal sector to formalise and receive impact investments.

The research also noted that there is still a finance gap at the lower end of the missing middle. That gap is for finance between what microfinance providers and venture capital funds typically provide. Impact investors could focus on that gap and provide financial investments in a space where few other players are currently operating. The mission-driven hand of impact investors can go a long way toward expanding the pool of deals for larger investors to then capitalise on.

This chapter concludes the report by outlining what impact investing could mean for West Africa going forward, articulating some specific steps that can be taken to drive its growth. Figure 5.1 presents an overview of the steps that can be taken by the different stakeholders of the impact investing industry, and suggests which actors are best positioned to drive each recommendation. The stakeholders of the impact investing industry include impact investors, enterprises, policy makers, and other development partners (such as bilateral and multi-lateral donors, enterprise support institutions, non-governmental organisations (NGOs) and other grant-making bodies). The timeframe involved for taking the steps presented in Figure 5.1 will differ for each country.

**Figure 5.1: Actions required to increase the scale of the impact investing industry in West Africa**



These are steps impact investors and other actors can take to lead people to take stock of whether West African impact investing can cohere as an industry. While some of the steps can happen simultaneously, building a network and increasing awareness is seen as the logical starting point from which the other actions can then unfold. Although individual groups are suggested in Figure 5.1 to drive the actions forward, domestic policy makers should be part of the dialogue to catalyse impact investing at each stage of the market building exercise.

Improving the overall business environment in the region is beyond the direct scope of impact investors, but directly affects their domain. In this sense, impact investors, along with the rest of the private sector and development partners, can engage with government to address these broader challenges. The following sub-sections look more closely at each of the steps presented in Figure 5.1.

## **5.1 Actions specific to the impact investing industry**

This report has identified certain steps today's impact investing stakeholders in West Africa can take (a) to discuss and debate the issues identified in this analysis and the wider research, and (b) to create awareness of impact investing and demonstrate its potential to a wider audience.

To develop the industry further, impact investment needs to be understood as more than simply investing in enterprises or investment funds in developing countries. Impact investors have motivations that are more than financial, and this distinction must be recognised. The way in which the impact investing approach can be harnessed to address West Africa's development challenges is still evolving. Bigger questions about what West African impact investment means, and the direction the region wants impact investing to go, must be resolved before West Africa can define impact investments as an alternative asset class or develop impact investing as its own industry.

The higher levels of impact investment in countries such as Ghana, and the vibrant enterprise development sector activity in Nigeria, suggest that impact investors and policymakers can discuss these questions at a country level in the short term, but for other countries in the region, the timescale might be longer. Any approach to developing the impact investing industry must be well thought out, staggered, and relevant to each country. The following section details the actions required by the impact investing stakeholders.

### **Build networks and awareness**

Today's impact investors can play a key role in building local networks and advocacy platforms to create awareness about what impact investing is and how the industry can be structured to meet the development needs of West Africa. These networks would span not only impact investors, but also business development support organisations, government actors, and development partners.

In some countries, where there is a higher concentration of impact investing stakeholders, such networks could be country-specific, whereas in countries where there are only a handful of actors, it may make more sense for these actors to join regional networks, such as a West Africa-wide network or one spanning the WAEMU region. International investors reported that a regional network would be most useful for them when looking to make impact investments in the region. Specific activities such a network could undertake are suggested as follows.

### **Increase awareness on existing definitions of impact investing**

Developing a West African-specific understanding of the characteristics of the impact investing industry can serve as a starting point for promoting the industry domestically. It can also protect the fledgling industry from becoming confused with other traditional investments in West Africa. To develop such an understanding, West African impact investors and policymakers will have to increase education and awareness of existing definitions of impact investing, and gain a deeper understanding of the impact they are hoping to create and how that impact can be measured.

Understanding the specific hallmarks of impact investing is important, since resistance was expressed to distinguishing impact investing from traditional investing in the region. Although impact investments are not limited to private equity, findings from the interviews indicated scepticism towards the idea of creating a separate impact investing industry distinct from the traditional private equity or venture capital funds in West Africa. Scarce resources may be diverted away from private equity firms in the region that do not identify themselves as impact investors. As the impact investing industry grows, private equity in developing countries may be viewed as a subset of impact investing, and large international institutional investors in the USA and Europe considering entering the region for strictly commercial returns will shy away.

“The term impact investment is partly redundant in Africa. All debt and equity investments in line with ESG [economic, social and governance] principles will have a social impact.”

**DFI in West Africa**

On the other hand, the credibility of impact investing as a force for addressing social and environmental problems will be diluted if all investments in developing countries are included. As recognised by the Rockefeller Foundation, defining impact investment too narrowly will limit viable deal flow and make it harder for all but the most socially-focused capital to be deployed. On the other hand, too wide a definition runs the risk of “greenwashing”<sup>58</sup>. Impact investors in West Africa need to discuss some of these issues to agree on how existing definitions of impact investing are relevant in the context of the region’s specific needs.

### Encourage angel investors to invest for impact

Impact investor network members could take a role in organising business angel groups in each country. Institutions such as the Ghana Venture Capital Trust Fund already have plans to launch an Angel Investor Fund in Ghana, aimed at attracting high net worth individuals as “Business Angels” to invest in SMEs. Organised business angel groups could be based on models used in countries like India or Brazil<sup>58</sup>. The Indian Angel Network brings together highly successful entrepreneurs and CEOs from India and around the world who are interested in investing in start-up and early-stage ventures. In addition to providing money, the network provides constant access to high-quality mentoring, vast networks, and inputs on strategy as well as execution (see Box C).

#### Box C: Indian Angel Network

##### The Indian Angel Network (IAN)

The IAN, founded in 2006, nurtures the entrepreneurial ecosystem by offering angel funding to budding entrepreneurs. IAN members are Indian entrepreneurs and CEOs from across multiple sectors. The IAN is India's largest and only national network of business angels investing in start-ups and early stage ventures, and has an incubator programme with an investor base of nearly 150 individuals and institutions.

As a part of IAN, investees gain access to the vast business network of IAN’s members. Besides looking at investment opportunities for wealth creation, IAN members are keen to mentor entrepreneurs and share their experience and wisdom on innovative, scalable, and differentiated ideas.

With investible funds of tens of millions of dollars, IAN members look to fund up to US\$ 1 million with an average of about US\$ 400,000 to US\$ 600,000, and expect to exit in three to five years. So far, the IAN has funded 23 ideas, including four outside India, and has made five successful exits, including a recent exit that yielded a five times return in 15 months.

For more details, visit [www.indianangelnetwork.com](http://www.indianangelnetwork.com).

<sup>58</sup> There are several business angel networks in Brazilian cities, such as Gavea Angels in Rio de Janeiro and Sao Paolo Angels in Sao Paolo.



“In Europe there are several West African Diaspora groups we meet with, that are looking to invest in the region.”

**Foundation based in Europe**

### Focus outreach efforts toward high net worth individuals and highly-educated West Africans in the Diaspora

Sierra Leoneans, Nigerians, and Ghanaians hold fora in London and the USA to discuss how they can invest in their countries; Senegalese, Burkinabe, and Ivoirians do the same in Paris. West African sport stars and entertainers on the global scene have shown a great tendency to give back to the countries from which they came<sup>59</sup>. There is potential for increased capital flows if domestic impact investing network members form linkages with these Diaspora networks and provide information and advice.

### Increase understanding of equity investments among business owners

Business owners' unfamiliarity with equity investments was raised repeatedly in the interviews. Impact investor network members could work with local business support organisations to teach business owners about venture capital and private equity and the pros and cons of equity investments so they are better informed when making financial decisions. One way of doing this is to disseminate and publicise success stories of equity investments among business associations and enterprise support networks such as the West Africa Trade Hub. Impact investors could also work with the national chambers of commerce and other private sector associations to give presentations to businesses about the impact investing industry and the benefits of taking on equity investors.

### Increase awareness of the benefits of venture philanthropy among grant-making organisations

To address some of the cultural scepticism towards venture philanthropy, a network of impact investors could serve as a platform to raise awareness among grant-making foundations and other philanthropic actors looking to use their capital to generate social and environmental benefits. Being able to measure the key social and environmental benefits would demonstrate that you can address societal challenges while earning a financial return.

### Share a deeper knowledge of country and sector specifics

Development partners could build a knowledge base on domestic markets, contacts, business registration processes, and other useful information for new investors looking to move into the region. They could advise impact investors on specific market requirements and share knowledge on potential risks and consequences of an investment in a given industry or sector. The network could also provide a platform for new entrants to the impact investing market to access information on deal flow.

### Collaborate with business schools: add impact investing to MBA curricula

Ensuring that tomorrow's entrepreneurs and investors are familiar with impact investing will solidify the industry in the long term. Impact investors and development partners can work with education ministries, universities, and higher education institutes to include impact investment in business school curricula in the region so that future entrepreneurs will be educated about social business models and the impact investing industry.

To be successful, a local network of impact investors would need to be facilitated by a secretariat or championed by an institution. Identifying the most suitable institution to undertake this role can be done at a country level, among the different impact investors, or at a wider regional level with a network spanning borders.

### Link with the global network

Initiatives to build the impact investing industry are underway globally, but are yet to make their presence felt in West Africa. The Global Impact Investing Network (GIIN) is a not-for-profit organisation dedicated to

<sup>59</sup> Premier league footballer Didier Drogba spent US\$ 3 million to build a hospital in Ivory Coast and his Chelsea team member Michael Essien created his own charity foundation in Ghana; Singer Youssou Ndour created the Birima Foundation in Senegal.

increasing the effectiveness of impact investing, and is tasked with developing the critical infrastructure, activities, education, and research that would increase the scale and effectiveness of impact investing (see Box D). Alongside the GIIN, there are other institutions looking to facilitate impact investments at the global level. These include the Aspen Network of Development Entrepreneurs (ANDE) (a global network of organisations that invest money and expertise to propel entrepreneurship in emerging markets), the Rockefeller Foundation (a foundation committed to expanding the impact investing industry globally), and the Finance Alliance for Sustainable Trade (a non-profit association that represents financial institutions and sustainable producers dedicated to trading sustainable products). Impact investors in West Africa could be part of these global networks and benefit from the discussions, debates, and tools developed. Such networks also provide access to other impact investors internationally and gateways to new markets, buyers, and suppliers. West African impact investors can use these networks to identify partnerships and collaborative ways to engage with the wider global impact investing industry.

#### **Box D: The Global Impact Investing Network (GIIN)**

##### **The Global Impact Investing Network**

In September 2009, J.P. Morgan, Rockefeller Foundation, and USAID launched the Global Impact Investing Network (the GIIN) to accelerate the development of an effective impact investing industry ([www.thegiin.org](http://www.thegiin.org)). The GIIN's work currently consists of four main efforts that mobilise hundreds of investors and other industry participants. Its investors' council provides leadership in the industry, facilitates shared learning and collaboration, serves as a platform for disseminating the latest research and best practices, and supports the creation and adoption of industry infrastructure, including impact metrics. The Impact Reporting and Investment Standards (IRIS) were developed by the GIIN and are a language and framework for measuring the social performance of impact investments (<http://iris.thegiin.org>). Its outreach initiative elevates the profile of impact investing by highlighting exemplary impact investments, industry progress, and best practices. The GIIN's most recent initiative is ImpactBase—a global database of impact investment funds, searchable via an online platform ([www.impactbase.org](http://www.impactbase.org)).

#### **Reduce risk and transaction costs**

Chapter 3 illustrated a gap in supply of financing in the US\$ 1,000 to US\$ 100,000 range. To address this gap, new financial products need to be developed, the high risk nature of investing in some enterprises needs to be reduced, and transaction costs need to be limited. Specific actions can be taken by impact investors, in partnership with development partners and other actors in this regard. These are discussed below.

#### **Develop new financial products**

Impact investors can identify innovative ways to provide financial products that are suited to the capital needs of smaller enterprises without incurring prohibitively high transaction costs. Such products could include angel financing, royalty-based debt, working capital loans, and trade financing where there is increased flexibility, collateral is not necessarily required, and financing costs are lower compared to conventional financial instruments.

Root Capital for example, provides agri-businesses with loans to allow them to pay farmers upfront for all their inputs prior to buying their produce. Root Capital's lending methodology uses fixed-price forward contracts as loan collateral, thereby shifting the traditional paradigm from one in which risk is borne solely by the most vulnerable producers to one in which risk is shared and minimised in direct trading relationships<sup>60</sup>. Other innovative funding comes from larger multinationals sourcing produce (e.g. fresh fruits, nuts, cotton, or cocoa) from West Africa and provide significant down payments upfront for contracts with local cooperatives in order to secure the agro-products they are looking to source. Over time, some of these corporations have become strategic investors in local businesses and established local processing units. Anecdotal evidence also suggests that remittances are being used more and more in the

<sup>60</sup> Root Capital 'Pioneering Finance for Rural Communities' (<http://www.changemakers.com/node/89834>)

region to finance SMEs as angel funding. Interviewees explained that in Mali and Senegal, the Diaspora has been investing in a significant number of cooperatives and businesses.

### Leverage support from DFIs and other development partners

Development partners (including DFIs) can support impact investors in reducing the overall risk level by developing innovative deal structures such as risk sharing, credit guarantees, or investing alongside private investors. An example of risk sharing is presented in Box E on the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL). Initiatives such as NIRSAL and the recent commitment by ECOWAS of US\$ 900 million to an Agricultural Development Fund for West Africa are examples of development partners and governments developing impact investment structures tailored to meet the region's specific needs.

#### Box E: Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)

##### NIRSAL

The Central Bank of Nigeria developed a mechanism in 2010 that will facilitate access to financing for smallholder farmers, agro-processors, agri-businesses, and input suppliers in the agricultural value chain. The mechanism—called NIRSAL—will be operated in collaboration with the Alliance for a Green Revolution in Africa (AGRA), United Nations Industrial Development Organisation (UNIDO), and other agricultural operators in the country. NIRSAL will work with commercial banks in Nigeria to develop an innovative financing mechanism aimed at providing farmers and SMEs with affordable financial products while reducing the risk of loans to farmers and SMEs under other financing programmes offered by the financial institutions. The initiative will build capacities of banks to expand lending to agriculture, deploy risk sharing instruments to lower risks of lending, and develop a bank rating scheme to rate banks based on their lending to the agricultural sector.

Sourced from [www.agra-alliance.org](http://www.agra-alliance.org)

Governments and development partners can also help manage risk and leverage financing by providing a “first-loss tranche facility” to investors<sup>61</sup>. Lundin for Africa has recently done this with Injaro Investments West Africa SME Growth Fund. It is too early to assess the results, but the US\$ 5 million first-loss tranche, representing 20% of the fund size, is intended to cushion downside risks. Development partners have proven they can be adept at facilitating the industry. USAID finances the West Africa Trade Hub, which houses the Grassroots Business Fund in Ghana and has also contributed to the marketing costs for Durabilis Foundation's Terral rice business in Senegal.

International impact investors can also partner with West African impact investment vehicles to increase their capacity. The innovative partnership between Jacana Venture Partnership and Fidelity Capital Partners Limited in Ghana is an example. Rather than investing in the fund as a limited partner, Jacana has invested in the General Partnership and provides technical assistance to the fund managers. Founded by European private equity experts, Jacana's approach is to partner with and develop local private equity fund managers. The combination of Jacana's capital and expertise will enable Fidelity Capital Partners Limited to grow their team, build their track record, and raise larger funds.

### Increase the use of technical assistance

Technical assistance and business development advisory services are one way of mitigating some of the challenges associated with investments with high enterprise risk. The number of institutions providing such services varies quite broadly between countries in the region. Nigeria, for example, has a number of well-established support institutions such as the Enterprise Development Centre (established in 2003) at the Pan-African University in Lagos. The Enterprise Development Centre provides capacity building

<sup>61</sup> The use of a first-loss tranche in private equity funds means that a pre-agreed percentage of investment losses are absorbed by a donor, for example. Private sector investors (not investing in the first loss tranche) therefore share in profits whilst enjoying a buffer in the event that the fund loses money.

programmes, a variety of advisory services, mentoring, network meetings, and access to markets and information for small and growing businesses<sup>62</sup>. Business support organisations such as the Enterprise Development Centre or *l'Agence de Développement et d'Encadrement des Petites et Moyennes Entreprises* (ADEPME) in Senegal can work with investors not only to develop skilled entrepreneurs but also to source deals and identify potential partnerships along the supply chain. Other more innovative ways of addressing risk could be tested by institutions operating in the region. Standard Bank in South Africa, for example, is piloting a 'test to identify entrepreneurs' to help screen its loan applicants<sup>63</sup>.

### Standardise equity investments and reduce due diligence costs

Incentivising impact investors with a high-risk tolerance to address the needs for lower deal sizes requires a reduction in transaction costs. The main drivers of high costs, i.e. deal identification, the due diligence process, and deal execution, can potentially be standardised to some extent to minimise the effort required to assess and conduct deals. Business Partners Limited has successfully applied this approach to standardise equity products and makes investments in SMEs of US\$ 50,000 possible.

### Demonstrate results

In order for impact investing to be recognised as a major tool for addressing development challenges and creating economic growth, impact investors need to demonstrate significant results. Investors need to concretely demonstrate their social, economic, or environmental impact. In order to showcase its potential to governments and a wider audience, and to increase the volume of capital for impact investments, investors will have to move away from individual case studies and anecdotes on social impact and instead report on impact investment deals that have been completed and successfully exited in the region and the social, economic, and environmental benefits created. "If one hopes to attract serious individual investors, pension funds, and university endowments, it is imperative to move beyond qualitative descriptions and into calculable results<sup>64</sup>". To do this, impact investors need to adopt consistent and comprehensive measurement systems that allow investments to be easily compared on both financial and social returns.

There are tools investors and fund managers can use in the impact investing industry that are analogous to the roles played by institutions in the traditional investing space. IRIS, Pulse and GIIRS are three distinct but complementary tools that make it possible to report, benchmark, and measure the social and environmental impact of investments. These tools provide investors with impact reporting standards (IRIS), management systems (Pulse), data repositories (IRIS), and rating standards (GIIRS). The comprehensive use of such tools will allow investors to demonstrate results and provide other investors with sufficient information to compare different investment opportunities. Other industry services such as impact investment stock exchanges, online trading platforms, and advisory firms are also in early stages of development<sup>64</sup>.

### Cultivate talented entrepreneurs

Strong managerial teams and financial management capacity in enterprises are necessary for successful impact investing as well as for traditional investing. These are difficult to find among West African enterprises, and a large part of any investment involves working with the enterprise to develop management teams both pre- and post-investment. For some impact investors, especially non-profit social enterprise funds, this is a costly and time-consuming task, and investors not based in-country need to outsource the capacity building of their investees to other agencies. This can be a cumbersome activity.

Government ministries and development partners have a key role to play in developing and financing education systems generally in the region, but more specifically, they can support entrepreneurship development using a more targeted approach. Government ministries and development partners can support public and private business development service providers to work with enterprises to make them

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<sup>62</sup> [www.eds.com.ng](http://www.eds.com.ng)

<sup>63</sup> Entrepreneurial Finance Lab (EFL), a branch of Harvard Kennedy School's Center for International Development, has devised a psychometric test to help banks in emerging markets easily screen loan applicants. The goal is to spur lending to small and midsize companies.

<sup>64</sup> For example the Nexus for Impact Investing ([www.nexii.com](http://www.nexii.com)) in South Africa.

ready for investment. They can also finance technical assistance facilities that assist impact investors with the cost of business development services.

### **Work with policy makers to develop the impact investing industry**

In the short- to medium-term, groups of impact investors, with support from development partners, can take the above steps to cohere and grow the industry. Some policy initiatives can also be considered in this period. These initiatives should focus on facilitating the expansion of the sector and of impact investing capital. This could be done through allowing pension funds to make impact investments, offering incentives such as tax credits to impact investors that establish in-country, and contributing to business development services targeted at beneficiaries of impact investments. It will also be important to engage with sector ministries and agencies to identify opportunities to finance sector programmes through impact investing, and which may require specific sector policies.

Public policies have been implemented elsewhere in the world that could serve as a guide for policy actions in West Africa. In India, for example, the Central Bank has required all public and private banks to direct a fixed percentage of lending to “priority sectors”, which it defines as underserved or priority areas for economic growth. Today, state-owned and private banks in India must make 40% of all loans to priority sectors, while foreign banks have a minimum requirement of 32%<sup>65</sup>. The priority sectors include agriculture, small enterprise, retail trade, education, and housing finance.

Another example of public policy actions that support impact investing can be found in Ghana. The Ghanaian government has implemented policies to actively nurture and support its venture capital industry. The Venture Capital Trust Fund Act of 2004 established the Ghana Venture Capital Trust Fund to provide financial resources for the development and promotion of venture capital financing for SMEs in Ghana. Venture capital funds registered in Ghana benefit from tax-exempt status of funds, tax exemption on returns of fund investments, and technical assistance for fund managers as well as their portfolio companies. Other governments in the region can adapt such examples to reflect their specific country needs.

National policies could be more flexible in their regulation of institutional investors, allowing them to diversify their portfolios and support the domestic venture capital and private equity industry for social and environmental impact and financial returns. Recognising that pension funds and insurance companies typically place a large amount of their capital in low-risk investments and maintain a certain level of liquidity, governments can regulate wisely so that only a smaller capped percentage of their capital can be guided towards higher-risk impact investments. In Peru, for example, the “Multi Fondos” scheme provides greater flexibility for domestic pension funds to invest in SMEs through private markets (see Box F).

#### **Box F: Peru’s Multi-Fondos scheme**

##### **Multi-fondos (Peru)**

Multi-fondos, or “multiple funds,” are investment options within Peruvian pension funds, created in 2005 for the purpose of providing individuals in the country’s mandatory retirement savings system with a choice of portfolio risk and return profiles. Peru’s multi-fondos system introduced three portfolio diversification options and, as an ancillary benefit—and the focus of this policy case—opened the door to larger volumes of institutional investment in private equity, potentially providing a much-needed supply of capital to the smaller businesses.

Sourced from InSight at Pacific Community Ventures and the Initiative for Responsible Investment at Harvard University (2011), ‘Impact investing – A framework for policy design and analysis’

<sup>65</sup> InSight at Pacific Community Ventures and the Initiative for Responsible Investment at Harvard University (2011), ‘Impact investing – A framework for policy design and analysis’

## 5.2 Conclusion

This report has sought to present a comprehensive assessment of impact investing in West Africa. Delivering social change on a large scale requires more capital than philanthropy and public resources can provide<sup>uu</sup>. With global wealth increasingly concentrated in the hands of people attracted to private-sector solutions to social problems, capital is becoming more available. At the same time, entrepreneurs across the region are launching viable businesses that address social challenges and create economic growth. This presents a unique opportunity to harness the potential of impact investing and use it as a tool to address West Africa's social, economic, and environmental challenges.

This section has laid out a series of steps that can be taken to facilitate the growth of impact investing in the region. The first step to realising the potential of impact investing in West Africa is to bring investors, business development support organisations, government actors, and entrepreneurs together in forums that represent a unified industry. Through their interactions, these stakeholders will lay the groundwork for enhancing the size and efficiency of the industry while ensuring that it stays true to its purpose.

The private sector, including both for-profit and social enterprises, has a pivotal role to play in developing the economies and improving the standard of living of the people of West Africa. Development partners, governments, and the investment community each face a unique set of opportunities to develop a responsible, sustainable, and vibrant private sector in the region. Ultimately, however, the growth of the private sector and the resulting social, economic, and environmental impact will come down to the creativity and integrity of West Africa's entrepreneurs.





## Appendix A – List of impact investors in West Africa<sup>66</sup>

**Table A: Private equity and venture capital funds**

	Name of Fund	Fund manager	Website	Fund size (US\$)	Geographical focus	Sector Focus (list)
1	Actis Africa Agribusiness Fund	Actis	www.act.is	92,000,000	Africa, Asia and Latin America	Agri-business
2	Acumen Fund	Acumen Fund	www.acumenfund.org	nav	Africa and Asia	Health, Housing, Energy, Water, Agriculture
3	Adlevo Capital	Adlevo Capital Africa	www.adlevocapital.com	35,000,000	Sub Saharan Africa	Technology-enabled opportunities
4	Atlantic Coast Regional Fund	AFIG	www.afigfunds.com	72,000,000	ECOWAS, Central Africa	Multiple
5	Capital Alliance Private Equity III	African Capital Alliance	www.aca-web.com	269,000,000	Nigeria, Ghana, Cote d'Ivoire, Gabon, Cameroon, Equatorial Guinea, Togo, Benin, Sao Tome and Principe, and Angola	Telecommunications, financial services, oil & gas, electric power, business services and logistics
6	Capital Alliance Property Investment Company, LP	Capital Alliance Real Estate Manager (CAREM)	www.aca-web.com	164,500,000	Nigeria, Ghana	Real Estate
7	African Lion Fund 2 (AFL3)	African Lion Limited	www.afl.co.za	79,000,000	Africa (Investments in Ghana, Senegal, Burkina Faso)	Natural resources
8	AfricInvest I	AfricInvest Capital Partners (Sarona / Tuninvest)	www.tuninvest.com	51,000,000	Africa	Multiple
9	AfricInvest Financial Sector	AfricInvest Capital Partners (Sarona / Tuninvest)	www.tuninvest.com	41,000,000	Sub Saharan Africa	Focus on post-conflict and less-developed countries.
10	Africa Infrastructure Investment Fund II	Africa Infrastructure Investment Managers	www.macquarie.com	320,000,000	Sub-Saharan Africa	Infrastructure
11	Goodwell West Africa Microfinance Development Company	Alitheia Capital	www.thealitheia.com	55,000,000	Nigeria	Microfinance
12	Amalgamated Capital Fund Ltd	Amalgamated Capital Fund Ltd	nav	200,000,000 Naira	Nigeria	Multiple
13	Aureos West Africa Fund	Aureos	www.aureos.com	50,000,000	Nigeria, Ghana	Multiple
14	Health in Africa Fund	Aureos	www.aureos.com	100,000,000	Africa	Health

<sup>66</sup> The institutions listed in Appendix A are those that were identified in the course of the research that meet the definition criteria for impact investors as presented in Chapter One of the report. This list is not exhaustive. nav = data not available

	Name of Fund	Fund manager	Website	Fund size (US\$)	Geographical focus	Sector Focus (list)
15	Aventura Rural Enterprise Fund	Aurora Ventura (Aventura)	www.auroraventura.com	nav	West Africa	Food System Value Chain, Rural Financial Services, Rural Health & Education Services
16	Bedrock Venture Capital Finance Limited	SIC-FSL Ltd	www.sic-fsl.com	10,000,000	Ghana	Multiple
17	Activity Venture Finance Company	Black Star Advisors	www.blackstaradvisors.com	4,000,000	Ghana	Multiple
18	Gold Venture Capital Limited	Boulders Advisors Ltd	www.bouldersadvisor.com	10,000,000	Ghana	Multiple
19	Cauris Croissance	Cauris	www.caurismanagement.com	18,000,000	Bénin, Burkina-Faso, Côte d'Ivoire, Guinée-Bissau, Mali, Niger, Sénégal, Togo	Multiple
20	Cauris Investissements	Cauris	www.caurismanagement.com	nav	Bénin, Burkina-Faso, Côte d'Ivoire, Guinée-Bissau, Mali, Niger, Sénégal, Togo	Multiple
21	Verde Ventures	Conservation International	www.conservation.org/xp/verdeventures	7,000,000	Africa, Asia, Latin America	Multiple
22	Cordiant Emerging Loan Fund III	Cordiant Capital	www.cordiantcap.com	460 million	Emerging Markets	Multiple
23	ICF – Debt Pool	Cordiant Capital	www.cordiantcap.com	500 million	Emerging Markets	Infrastructure
24	Cordiant Capital Canada Investment Fund for Africa	Cordiant Capital	www.cordiantcap.com	212,000,000	pan-Africa	Open to a broad range of sectors in order to create diversification in the portfolio
25	The Entrepreneur's Empowerment Fund	Databank Private Equity Limited	www.databankgroup.com	3,776,000	Ghana	Multiple
26	Universities Entrepreneurial Fund	Databank Private Equity Limited	www.databankgroup.com	nav	Ghana	Multiple
27	African Development Partners I, LLC	Developing Partners International	www.dpi-llp.com	nav	Africa	Multiple
28	n/a	Developing World Markets	www.dwmarkets.com	nav	Emerging Markets	Multiple
29	Développement international Desjardins	Développement international Desjardins (DID)	www.did.qc.ca	nav	Emerging Markets	Access to Finance
30	n/a	Doreo Partners	www.doreopartners.com	40,000,000	Nigeria, Ghana	Agriculture
31	E+Co	E+CO	www.eandco.net	200,000,000	Africa, Asia, Latin America	Clean Energy
32	West Africa Growth Sicar	Emerging Capital Partners	www.ecpinvestments.com	28,000,000	West Africa	Telecoms, energy, agro-industry, financial services
33	Emerging Africa Infrastructure Fund	Emerging Africa Infrastructure Fund	www.emergingafricafund.com	nav	Africa	Infrastructure
34	eVentures Africa Fund	EVA Fund	www.eva-fund.com	nav	Africa	Information, Communication, Technology, Internet

	Name of Fund	Fund manager	Website	Fund size (US\$)	Geographical focus	Sector Focus (list)
35	Export Capital	Export Capital	www.exportcapital.co.za	37,106,080	Africa, Latin America	Building & engineering, ICT, Telecom & technology
36	Fidelity Equity Fund I	Fidelity Capital Partners Limited	www.fidelitycapitalpartners.com	8,500,000	Ghana	Multiple
37	Fidelity Equity Fund II	Fidelity Capital Partners Limited	www.fidelitycapitalpartners.com	23,200,000	Ghana, Sierra Leone, Liberia	Multiple
38	First Funds Limited	First Funds Limited	www.firstfunds.com.ng	nav	Nigeria	Multiple
39	Fonds Gari	Fonds Gari	www.fondsgari.org	nav	West Africa	Multiple
40	Grassroots Business Fund	Grassroots Business Fund	www.gbfund.org	9,000,000	Africa, Latin America, South Asia	Multiple
41	Gray Matters Capital	Gray Ghost	www.grayghostventures.com	10,000,000	Global	Multiple
42	Aspire Nigeria	GroFin	www.grofin.com	30,600,000	Nigeria	Multiple
43	GroFin Africa Fund	GroFin	www.grofin.com	125,000,000	Nigeria, Ghana, Rwanda, Kenya, Tanzania, Uganda, South Africa	Multiple
44	Heirs Holdings	Heirs Holdings	www.heirsholdings.com	nav	Africa	Multiple
45	Helios Investors II	Helios	www.heliosinvestment.com	nav	Nigeria, Ghana, Kenya, Angola, and South Africa, as well as Cote D'Ivoire, Tanzania, and Uganda	Multiple
46	InfraCo Africa	InfraCo Africa	www.infracoafrica.com	nav	Africa	Infrastructure
47	West Africa SME Growth Fund	Injaro Investments	www.injaroinvestments.com	25,000,000	Ghana, Cote d'Ivoire, Mali, Burkina Faso, Senegal	Multiple
48	West Africa Agricultural Investment Fund	Injaro Investments	www.injaroinvestments.com	7,500,000	Ghana, Nigeria, Niger, Mali, Burkina Faso	Agriculture - West African seed production companies
49	I&P Investment Company	Investisseur et Partenaire Gestion	www.ip-dev.com	25,000,000	Senegal, Benin, Cameroon, Mali, Niger, Ivory Coast, Madagascar, Uganda	Multiple
50	Investment Fund for Health in Africa	Investment Fund for Health in Africa	www.ifhafund.com	nav	Africa	Health

	Name of Fund	Fund manager	Website	Fund size (US\$)	Geographical focus	Sector Focus (list)
51	Goodwell West Africa Microfinance Development Company (GWAMDC)	JCS Investments	www.jcsinvestment.com	23,000,000	Ghana	Microfinance, SME
52	Pan-African Investment Partners II	Kingdom Zephyr	www.kingdomzephyr.com	492,000,000	Pan-African	Infrastructure, housing, consumer goods, telecommunications, banking and financial services, insurance
53	Labadens	Labadens private equity	www.labadens.fr	nav	West Africa	Multiple
54	Liberia Enterprise Development Fund	The Liberian Enterprise Development Finance Company (LEDFC)	www.ledfc.com	30,000,000	Liberia	Multiple
55	Makeda Fund	Makeda Fund	www.makedafund.com		Nigeria	Female Entrepreneurs
56	Sierra Investment Fund	ManoCap	www.manocap.com	22,500,000	Sierra Leone, Liberia	Everything except mining
57	ManoCap Soros Fund	ManoCap	www.manocap.com	5,000,000	Sierra Leone	Agriculture
58	Modern Africa Fund	Modern Africa Fund Managers LLC	www.maldimix.com	105,000,000	Africa	Telecom and IT (50%), agribusiness and engineering (30%), FS (20%)
59	Ebankese Venture Fund	Oasis Capital	www.oasiscapitalghana.com	25,000,000	Ghana, Nigeria, Benin, Senegal, Liberia, Sierra Leone and Cote d'Ivoire	Basic needs – education, health, sanitation, food service sector, affordable housing
60	Pamoja Capital	Pamoja Capital	www.pamojacapital.com	nav	Global	Multiple
61	PhiTrust Partenaires	Phi Trust Active Investors	www.phitrust.com	25,000,000	France, Germany, Belgium, Italy, Cameroun, Senegal	Development and housing, Environment, Health, Cleantech, Microfinance, Employment
62	West Africa Emerging Market Fund	Phoenix Capital Management	www.phoenix-africa.net	nav	West Africa	Multiple
63	Africa Plus	Prempeh Capital Partners	www.prempehcapital.com	nav	Angola, Ghana, Nigeria, Cameroon, Kenya and Tanzania	Multiple
64	Women and Minority Owned Business Fund	Prempeh Capital Partners	www.prempehcapital.com	nav	nav	Multiple
65	Root Capital	Root Capital	www.rootcapital.org	200,000,000	Africa, South America	agriculture, handcrafts, ecotourism and fisheries
66	SOVEC Fund	Sovec Management BV	www.sovec.nl	7,000,000	Ghana	Regional (Ghana)
67	AREED	UNEP AREED	www.areed.org	nav	Africa	Energy
68	West Africa Venture Fund	Unique Venture Capital	www.wavfonline.com	40,000,000	Liberia, Sierra Leone, Nigeria	Agribusiness, Manufacturing, Services, merchandising



**Table B: Development Finance Institutions**

No.	Name	Website	Based	Description	Geographical focus	Sector focus
1	African Development Bank	www.afdb.org	Côte d'Ivoire (Tunisia)	DFI - Africa	Africa	Multiple
3	OeEB	www.oe-eb.at	Austria	DFI - Austria	Africa, Europe, Latin America	Manufacturing trade, services, industry and agricultural sector, infrastructure and financial
4	BIO	www.bio-invest.be	Belgium	DFI - Belgium	Africa, Asia, Latin America	Financial services, Food industry, Infrastructure and Industry
5	BOAD	www.boad.org	Togo	West African Development Bank	Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo	Multiple
6	CDC Group	www.cdcgroup.com	London	DFI – United Kingdom	Africa, Asia, Latin America	Multiple
7	China Africa Development Fund	www.cadfund.com	China (South Africa)	Chinese government financed equity investment fund focusing on investments in Africa	Africa	Multiple
8	Cofides	www.cofides.es	Spain	DFI - Spain	Global	Multiple
9	DEG	www.deginvest.de	Germany	DFI - Germany	Africa, Asia, Latin America and Eastern Europe	All sectors with particular attention to agribusiness, to infrastructure and processing industries as well as the financial sector.
10	FinnFund	www.finnfund.fi	Finland	DFI - Finland	Africa, Asia, Latin America and Eastern Europe	Manufacturing, agribusiness, power generation, telecommunications and services.
11	FMO	www.fmo.nl	Netherlands	DFI - Netherlands	Global, Emerging economies	Financial Institutions, Energy, Housing, Corporates
12	IFC	www.ifc.org	USA	DFI – World Bank Group	Global	
13	IFU	www.ifu.dk	Denmark	DFI - Denmark	Countries with a per capita income of less than US\$ 3,084 (2010) plus South Africa, Botswana and Namibia	Multiple
14	SIMEST	www.simest.it	Italy	DFI - Italy	Global	Multiple
15	Norfund	www.norfund.no	Norway	DFI - Norway	Global	Multiple
16	OPIC	www.opic.gov	USA	DFI - USA	Global	Multiple
17	Proparco	www.proparco.fr	France	DFI - France	Africa, French Overseas territories, Eastern Europe and Latin America	Productive sector, financial systems, infrastructure and equity investment
18	Swedfund	www.swedfund.se	Sweden	DFI - Sweden	Africa, Asia and Latin America, as well as the non-EU countries of Eastern Europe	Multiple
19	SIFEM	www.sifem.ch	Switzerland	DFI - Switzerland	Africa, Asia, Eastern and South Eastern Europe and Latin America	Multiple
20	Africa Finance Corporation*	www.africafc.org	Nigeria	Private finance institution	Africa	Infrastructure

\*Africa Finance Corporation is categorised as a DFI for the purpose of the database but is not included in the calculation of supply in Chapter 3



**Table C: Foundations, Private Family Offices and Private Individuals**

No.	Name	Website	Based	Description	Geographical focus	Sector focus
1	Aga Khan Foundation - IPS West Africa	<a href="http://www.akdn.org/AKF">www.akdn.org/AKF</a>	Ivory Coast	Holding with participations in various industries	West Africa	Packaging, Agro-industry, Energy, Infrastructure, Distribution
2	Argidius Foundation	<a href="http://www.argidius.com">www.argidius.com</a>	Switzerland	Founded in 1956, the Argidius Foundation has since 1992 explicitly followed a strategy of support for international, market-driven, business development initiatives to alleviate poverty	Eastern Europe, West Africa and Central America	Multiple
3	Durabilis Foundation	<a href="http://www.durabilis.be">www.durabilis.be</a>	Belgium	Durabilis operates as a partner in sustainable economy by providing financial, human and technical resources and knowledge to entrepreneurs in the third world.	Africa and Latin America	Multiple
4	George Soros (individual)	n/a	USA	Philanthropist George Soros has invested US\$ 5m in Manocap.	Global	Multiple
5	Google Foundation	<a href="http://www.google.org">www.google.org</a>	USA	Philanthropic arm of Google corporation.	Global	Multiple
6	Grameen Credit Agricole Microfinance Foundation	<a href="http://www.grameen-credit-agricole.org">www.grameen-credit-agricole.org</a>	Luxembourg	Grameen Crédit Agricole Microfinance Foundation was born out of the joint initiative of Crédit Agricole and Grameen Bank	Emerging markets	Microfinance
7	LGT Venture Philanthropy*	<a href="http://www.lgt.com/en/private_kunden/philanthropie">http://www.lgt.com/en/private_kunden/philanthropie</a>	Switzerland	The LGT Venture Philanthropy Foundation was founded in 2007 by initiative and funds of the Princely Family of Liechtenstein. Its mission is to raise the sustainable quality of life for the less advantaged people especially in the developing world.	Latin America, Africa (sub Saharan), India, South East Asia and China	Water, health, nutrition (incl. agriculture), renewable energy, infrastructure for social investments, education, resource management
8	Lundin for Africa	<a href="http://www.lundinforafrica.org">www.lundinforafrica.org</a>	Canada	Lundin for Africa is the philanthropic arm of the Lundin Group of Companies. It was founded in 2006 by the Lundin family, with a view to contributing toward improvements in the lives of Africa's most impoverished and vulnerable populations.	West and Central Africa	Agriculture, Financial Services for the Poor, SME Venture Capital
9	Marie & Anne Philippson Foundation**	<a href="http://www.philippsonfoundation.org">www.philippsonfoundation.org</a>	Belgium	The mission of the Foundation is to support social entrepreneurs, strengthen their organisation and help them enhance their social impact.	Africa	Multiple
10	Mulago Foundation	<a href="http://www.mulagofoundation.org">www.mulagofoundation.org</a>	USA	Mulago is a private foundation designed and built to carry on the life work of Rainer Arnhold. Rainer's passion was the prospect of a better life for children in poverty, and so the Foundation's work is focused on health, poverty, and conservation in the world's poorest places	Global	Livelihood, Health, Education, Conservation

No.	Name	Website	Based	Description	Geographical focus	Sector focus
11	Omidyar Network	www.omidyar.com	USA	Omidyar Network is a philanthropic investment firm dedicated to harnessing the power of markets to create opportunity for people to improve their lives. We invest in and help scale innovative organisations to catalyse economic, social, and political change.	Global	Multiple
12	Shell Foundation	www.shellfoundation.org	UK	Catalyse scalable and sustainable solutions to global development challenges.	Ghana, Nigeria	SME, Energy
13	Skoll Foundation	www.skollfoundation.org	UK	Foundation to drive large-scale change by investing in, connecting and celebrating social entrepreneurs and other innovators dedicated to solving the world's most pressing problems.	Global	Social entrepreneurs
14	The Tony Elumelu Foundation	www.tonyelumelufoundation.org	Nigeria	The Tony Elumelu Foundation is an independent, not-for-profit institution dedicated to the promotion and celebration of excellence in business leadership and entrepreneurship across Africa.	Africa	African business leaders and entrepreneurs

\* LGT Venture Philanthropy is included in the database as looking to make investments in West Africa in the future but not included in the calculations in Chapter 3 as yet to make any investments

\*\*Marie and Alain Phillippon Foundation is included in the database as it is interested in impact investing in the future but not included in the calculations in Chapter 3 as currently only making grants

## Table D: Institutional investors

(Those institutions identified that either invest alongside a DFI or in an impact investing PE/VC fund or MFI)

No.	Name	Description	Country
1	Bank of Africa	Bank	Senegal
2	Ecobank	Bank	Senegal
3	First City Monument Bank	Bank	Nigeria
4	SGSSB	Bank	Ghana
5	Zenith Bank	Bank	Nigeria
6	Nigeria International Bank	Bank	Nigeria
7	Skye Bank	Bank	Nigeria
8	CBAO	Bank	Senegal
9	Sonibank	Bank	Niger
10	Banque Atlantique de Côte d'Ivoire	Bank	Côte d'Ivoire
11	Banque de Developpement du Mali	Bank	Mali
12	Banque Togolaise de Developpement	Bank	Togo
13	IBTC Chartered Bank Ltd	Bank	Nigeria
14	Ghana Commercial Bank	Bank	Ghana
15	National Investment Bank	Bank	Ghana
16	HFC Bank	Bank	Ghana
17	AXA Assurances	Insurance Company	Senegal
18	Union des Assuriers du Senegal-Vie (UASEN-VIE)	Insurance Company	Senegal
19	Ghana Union Assurance	Insurance Company	Ghana
20	SIC Insurance Company Ltd	Insurance Company	Ghana
21	SONAM	Insurance Company	Senegal

No.	Name	Description	Country
22	SSNIT	Pension Fund	Ghana
23	Caisse Nationale de Securite Sociale	Social Security Fund	Niger

### Table E: Microfinance institutions

(as sourced from the Microfinance Information Exchange ([www.mixmarket.org](http://www.mixmarket.org)) 2009 data)

No.	Name	Based
1	Advans Ghana	Ghana
2	African Gate Financial Support	Ghana
3	Ahantaman Rural Bank Ltd	Ghana
4	Akuapem RB	Ghana
5	Association of Progressive Entrepreneurs in Development	Ghana
6	ASA Ghana	Ghana
7	Atwima Kwanwoma	Ghana
8	Bosumtwi Rural Bank Limited	Ghana
9	Centre for Agriculture and Rural Development International	Ghana
10	Calvary Enterprise Development Foundation	Ghana
11	Cedi Finance Foundation	Ghana
12	Christian Rural Aid Network	Ghana
13	Dwetire Microfinance	Ghana
14	EB-ACCION Savings & Loans Company Limited	Ghana
15	E-Life Development Agency	Ghana
16	First Allied Savings & Loans	Ghana
17	Garden City	Ghana
18	Grameen Ghana	Ghana
19	Initiative Development Ghana	Ghana
20	Kaaseman RB	Ghana
21	Kraban Support Foundation	Ghana
22	Lower Pra Rural Bank	Ghana
23	Maata-N-Tudu Association	Ghana
24	Nwabiagya Rural Bank	Ghana
25	Opportunity International Savings and Loans - Ghana	Ghana
26	ProCredit SLC Ghana	Ghana
27	Sinapi Aba Trust	Ghana
28	South Akim RB	Ghana
29	Union RB	Ghana
30	Upper Manya Kro Rural Bank Limited	Ghana
31	Accion Microfinance Bank Ltd	Nigeria
32	Centre for Grassroots Economic Empowerment	Nigeria
33	Development Exchange Center	Nigeria
34	Lift Above Poverty Organisation	Nigeria
35	Self-Reliance Economic Advancement Programme	Nigeria
36	Alliance de Credit et d'Epargne pour la Production (ACEP)	Senegal
37	Coopérative Autonome pour le Renforcement des Initiatives Économiques par la Micro finance	Senegal

No.	Name	Based
38	Crédit Mutuel du Sénégal	Senegal
39	DJOMEC	Senegal
40	MEC Fédération des groupements et associations des femmes productrices de la région de Saint-Louis	Senegal
41	MicroCred Senegal	Senegal
42	Programme d'Appui aux Mutuelles d'Épargne et de Crédit au Sénégal	Senegal
43	SEM	Senegal
44	Union des Institutions Mutualiste Communautaire d'Epargne et de Credit DAKAR	Senegal
45	Association de Lutte pour la promotion des Initiatives de Développement	Benin
46	Fédération des caisses d'épargne et de crédit agricole mutuel	Benin
47	Finadev	Benin
48	Association pour la Promotion et l' Appui au Développement de MicroEntreprises	Benin
49	Agence pour la Promotion et l'Appui aux Petites et Moyennes Entreprises	Benin
50	RENACA	Benin
51	Vital Finance	Benin
52	CVECA Boucle du Mouhoun	Burkina Faso
53	Groupe d'Accompagnement à l'Investissement et à l'Epargne	Burkina Faso
54	Laafi Sira Kwieogo	Burkina Faso
55	Mutualité Femmes et Développement	Burkina Faso
56	Réseau des caisses populaires du Burkina Faso	Burkina Faso
57	Union des Caisses d'Epargne et Crédit du Sahel	Burkina Faso
58	Union Régionale de Coopératives d'épargne et de crédit du BAM	Burkina Faso
59	CFCC (Cooperative Financiere de la Communauté Chretienne)	Côte d'Ivoire
60	RCMEC	Côte d'Ivoire
61	Union Nationale des Coopératives d'Epargne et de Crédit de Côte d'Ivoire	Côte d'Ivoire
62	GAMBIA WOMEN'S FINANCE ASSOCIATION	Gambia
63	Reliance Financial Services Company Limited	Gambia
64	CPECG Yete Mali	Guinea
65	Credit Rural de Guinée	Guinea
66	PRIDE Finance	Guinea
67	Local Enterprise Assistance Program	Liberia
68	CVECA Kita/Bafoulabé	Mali
69	Jigiyaso Ba	Mali
70	Kafo Jiginew	Mali
71	Kondo Jigima	Mali
72	Miselini	Mali
73	Nyesigiso	Mali
74	Réseau de Micro-institutions de Croissance de Revenus	Mali
75	Soro Yiriwaso	Mali
77	Union des Caisses Communautaires d'Epargne et de Crédit de Guimballa - Youwarou	Mali
78	ASUSU CIIGABA	Niger
79	Mutuelle d'Epargne et de Crédit des Femmes	Niger
80	Grassroots Gender Empowerment Movement Microfinance Services Ltd.	Sierra Leone
81	Hope Micro Sierra Leone	Sierra Leone
82	LAPO-SLE	Sierra Leone
83	Luma Microfinance Trust Ltd	Sierra Leone

No.	Name	Based
84	Faitière des Unités Coopératives d'Epargne et de Crédit du Togo	Togo
85	Mutuelle des Groupements de Producteurs de Café et Cacao	Togo
86	TIMPAC	Togo

### Table F: Microfinance Investment Vehicles (MIVs)

MIVs that finance the above MFIs (not included in calculations in Chapter 3)

No.	Name	Website
1	Access Holding	<a href="http://www.accessholding.com">www.accessholding.com</a>
2	ACCION - Frontier Investments Group	<a href="http://www.accion.org">www.accion.org</a>
3	ACCION Global Investments	<a href="http://www.accion.org">www.accion.org</a>
4	Advans	<a href="http://www.advansgroup.com">www.advansgroup.com</a>
5	Africap Investment Ltd	<a href="http://www.africapfund.com">www.africapfund.com</a>
6	Alterfin	<a href="http://www.alterfin.be">www.alterfin.be</a>
7	Catalyst Microfinance Investors	<a href="http://www.catalyst-microfinance.com">www.catalyst-microfinance.com</a>
8	Citi Microfinance	<a href="http://www.citigroup.com/citi/microfinance/about.htm">www.citigroup.com/citi/microfinance/about.htm</a>
9	Cresud	<a href="http://www.cresud.com.ar/cresud/index_eni.htm">www.cresud.com.ar/cresud/index_eni.htm</a>
10	Incofin	<a href="http://www.incofin.be">www.incofin.be</a>
11	Leapfrog Investments	<a href="http://www.leapfroginvest.com">www.leapfroginvest.com</a>
12	Luxemburg Microfinance and Development Fund	<a href="http://www.lmdf.lu">www.lmdf.lu</a>
13	Microcredit Enterprises	<a href="http://www.mcenterprises.org">www.mcenterprises.org</a>
14	MicroVest Capital Funds	<a href="http://www.microvestfund.com">www.microvestfund.com</a>
15	Oikocredit	<a href="http://www.oikocredit.org">www.oikocredit.org</a>
16	Opportunity International	<a href="http://www.opportunity.org">www.opportunity.org</a>
17	PlaNis	<a href="http://www.planetfinancegroup.org">www.planetfinancegroup.org</a>
18	responsAbility	<a href="http://www.responsability.com">www.responsability.com</a>
19	Triple Jump	<a href="http://www.triplejump.eu">www.triplejump.eu</a>
20	Womens World Banking	<a href="http://www.swwb.org">www.swwb.org</a>
21	Oxfam Novib Fund (managed by Triple Jump)	<a href="http://www.triplejump.eu">www.triplejump.eu</a>
22	Blue Orchard	<a href="http://www.blueorchard.com">www.blueorchard.com</a>
23	Grameen Foundation	<a href="http://www.grameenfoundation.org/sub-saharan-africa/ghana">www.grameenfoundation.org/sub-saharan-africa/ghana</a>
24	Rathbone Greenbank Investments	<a href="http://www.rathbonegreenbank.com">www.rathbonegreenbank.com</a>
25	SNS Asset Management (SNS Institutional Microfinance Fund)	<a href="http://www.snsam.nl">www.snsam.nl</a>
26	ICCO - Terrafina program	<a href="http://www.icco.nl">www.icco.nl</a>



## Table G: Development Banks

Development banks identified that lend themselves to impact investing (not included in calculations in Chapter 3)

No.	Name	Country
1	Banque Régionale de Solidarité	Regional Group
2	BRM Bank	Regional Group
3	Caisse Nationale de Crédit Agricole du Sénégal (CNCAS)	Senegal
4	Direction de l'Entreprenariat Féminin	Senegal
5	Nigeria Industrial Development Bank	Nigeria
6	Nigeria Bank for Commerce and Industry	Nigeria
7	Nexim	Nigeria
8	National Economic Reconstruction Fund	Nigeria
9	Urban Development Bank	Nigeria
10	Nigeria Education Bank	Nigeria
11	Nigerian Agricultural and Credit Bank	Nigeria
12	Diamond Bank Nigeria	Nigeria
13	Access Bank Nigeria	Nigeria
14	Agricultural Development Bank of Ghana	Ghana
15	Banque de l'Habitat du Bénin	Benin
16	Banque de l'Habitat du Burkina Faso	Burkina Faso
17	Banque Agricole et Commerciale du Burkina	Burkina Faso
18	Banque pour le Financement de l'Agriculture	Burkina Faso
19	Banque de l'Habitat de Côte d'Ivoire	Cote d'Ivoire
20	The Liberian Bank for Development & Investment	Liberia
21	Banque Nationale de Développement Agricole	Mali

## Appendix B – List of institutions interviewed

No.	Organisation	Type of organisation	Contact name	Country
1	ACEP	MFI	M. Sarr	Senegal
2	Acumen Fund	PE/VC	Catherine Casey	USA / Ghana
3	African Development Bank	DFI	Martin Poulsen	Tunisia
4	AFIG	PE/VC	Patrice Backer	Senegal
5	AfricInvest	PE/VC	George Odo	Kenya
6	Africa Finance Corporation	DFI	Fola Fagbule	Nigeria
7	African Capital Alliance	PE/VC	Kike Longe	Nigeria
8	Aga Khan - IPS WA	Foundation	Mahmoud Rajan	Côte d'Ivoire
9	AGRINA	Enterprise	Moussa Seck	Senegal
10	Alitheia Capital	PE/VC	Mobola Oniboje	Nigeria
11	Aureos Capital	PE/VC	Kodjo Aziagbé; Amy Tognisso-Fanny	Senegal
12	Aureos Capital	PE/VC	Mr Aidek	Ghana
13	Blackstar Advisors	PE/VC	Chris Adu Boahen	Ghana
14	Chocosen	Enterprise	Anna Perinic	Senegal
15	Deer Isle Capital	PE/VC	Lena Sène	USA
16	Doreo Partners	PE/VC	Kola Masha	Nigeria
17	Durabilis Foundation	Foundation	Sebastiaan Saverys; Paul Jacquet de Haveskercke	Belgium
18	E+Co	PE/VC	Ernest Obeng	Ghana
19	ENERGECO	Enterprise	Mme Sall	Senegal
20	FATE Foundation	Foundation	Elizabeth Olofin	Nigeria
21	Fidelity Capital Partners Limited / Jacana	PE/VC	Simon Merchant	Ghana
22	Fruitec	Enterprise	Zongo Adama	Burkina Faso
23	Gadco Cooperatif UA	Enterprise	Karan Chopra	Ghana
24	GHAMFIN	MFI network	Yaw Gyamfi	Ghana
25	Ghana Venture Capital Finance Trust	PE/VC	Anthony Siaw, Joe Gyapong, Percival Ampomah	Ghana
26	Grameen - Credit Agricole	Foundation	Jean-Luc Perron	France
27	Grassroots Business Fund	PE/VC	Eliot Marcus	Ghana
28	Grofin	Debt finance institution	Mathias Dorfe	Ghana
29	GVEP	PE/VC	Simon Collings	UK
30	Hystra	Business advisory	Laurent Liautaud	Senegal
31	International Finance Corporation	DFI	Mary-Jean Moyo	Ghana
32	International Finance Corporation	DFI	Jerome Cretegnny	Senegal
33	IFU	DFI	Martin Romer	Ghana
34	INAFI	MFI	Soukeyneba Ndiaye Ba	Senegal
35	Injaro Investments	PE/VC	Jerry Parkes	Ghana
36	Investisseurs et Partenaires	PE/VC	Jeremy Hajdenberg	France
37	Kind Hearts Initiative	NGO	Dr Suleiman	Nigeria
38	Laiterie du Berger	Enterprise	Bagory Bathily	Senegal
39	Lemelson Foundation	Foundation	Patrick Maloney	USA
40	LGT Venture Philanthropy	Foundation	Oliver Karius	Switzerland
41	Manocap	PE/VC	Tom Cairnes	Sierra Leone

No.	Organisation	Type of organisation	Contact name	Country
42	Marie & Alain Phillipson Foundation	Foundation	Anne Henricot	Belgium
43	MN Environmental Services Ltd	Enterprise	Adeola Asabia, Jife Williams	Nigeria
44	Microcred	MFI	M. Guyon	Senegal
45	Ministry of Finance	Government ministry	Cheikh A Bamba Fall; Amadou Bao	Senegal
46	Oasis Capital	PE/VC	Matthew Boadu Adjei	Ghana
47	PhiTrust Active Investors	PE/VC	Olivier de Guerre	France
48	Proparco	DFI	Mme Liautaud	Senegal
49	Proparco	DFI	Cyril Renault	France
50	Root Capital	PE/VC	Bamba Fall	Senegal
51	Savannah Fruits	Enterprise	Bart Boterman	Ghana
52	SECOSEN/Terral	Enterprise	Kevin Torck	Senegal
53	SEM Microfinance	MFI	John Fay	Senegal
54	Shell Foundation	Foundation	Chris West	UK
55	SOVEC	PE/VC	Sander Smit van Oyen	Ghana / Netherlands
56	Technoserve	Business advisory	Nick Railston-Brown	Ghana
57	The Philanthropy Workshop West	Investor	Elliot Donnelly	USA
58	Tony Elumelu Foundation	Foundation	Wiebe Boer, Tony Elumelu	Nigeria
59	Transcentury	PE/VC	Susan Waruhiu	Kenya
60	Trust Africa	Foundation	Akwasi Aidoo; Sunday Khan, Bhekinkosi Moyo	Senegal
61	Ty Danjuma Foundation	Foundation	Gima Forje	Nigeria
62	Verod Capital	PE/VC	Danladi Verheijen	Nigeria
63	West African Central Bank	WAEMU Central Bank	Panel	Senegal
64	West Africa Trade Hub	Export trade facilitator	Vanessa Adams, Roger Brou	Ghana

## Appendix C – Case studies

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Page C4 - Case study: Beer-Shéba (Senegal)

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Page C6 - Case study: The Tony Elumelu Foundation (Nigeria)

Page C7 - Case study: ProCredit Savings and Loans (Ghana)

### Case study: GADCO Coöperatief U.A. (Ghana)

#### Background

GADCO Coöperatief U.A. is an integrated agri-food operator focused on the production, processing, and market supply of cereal and protein-based foods in sub-Saharan Africa. Founded in 2008, GADCO has configured its business model and operations to be scalable across multiple crops and countries.

#### Description

GADCO is vertically integrating its business operations, which provides a sustainable competitive advantage as a low cost producer from the farm-to-consumer food-products. Adopting modern farming practices, innovative community partnerships, and market linkages help GADCO build a strong competitive and strategic position in the value chain. In early 2011, it secured equity funding from Seattle-based asset manager Summit Capital LLC to expand in Ghana.

#### Outcomes

By combining large-scale and high-yield commercial production systems with smallholder programmes, GADCO ensures its own traceable and consistent commodity supply. GADCO is focusing first on the production, processing, and marketing of sub-25kg packaged rice in Ghana, given its strong consumer demand (5-year CAGR: 9%) and high import dependency (>60%). It has formed revenue-sharing partnerships with local communities for its long-term leases (50 years) and will extend this inclusive model on additional farmland for its cluster-based expansion. As it scales annual production beyond 40,000mt, GADCO's chain-wide integration will allow it to diversify both its product range (*e.g. snacks, noodles, pasta*) and its addressable consumer segments (*e.g. emerging middle class and BOP markets*). GADCO has created a strategic link with Brazil to transfer operational, management, and R&D capabilities—collectively raising crop yields and sustainably developing GADCO's business operations.

In addition to creating employment, GADCO intends to generate other social and economic benefits. These include introducing sustainable farming practices to the communities (*e.g. no-till cultivation, soil health, water conservation, and improved seed varieties*), and contributing to regional food security, market development, and domestic balance of payments by producing primarily for African consumer markets.

Source: Gadco Coöperatief U.A

## Case study: Terral (Senegal)

### Background

The Senegalese consume over 1 million tonnes of rice every year (90kg per year per person, or 250 grams a day). Approximately 80% of this rice is imported, with existing local production and consumption restricted to rural areas. Given the increasing price of rice on international markets, Durabilis Foundation identified an opportunity in the Senegalese market to sell and distribute locally produced rice. In 2006, the Durabilis Foundation had invested in Société des Eaux de Consommation du Sénégal (SECOSEN) in Senegal—a business providing clean drinking water in small oxo-biodegradable plastic sachets—and had developed a distribution network that could be leveraged for this new rice project to provide a competitive alternative to imported rice for the Senegalese market.

### Description

The new business was named Terral, and aims to fill a gap in the supply chain of local rice production and consumption. Currently, the rice market in Senegal is dominated by a few key rice importers, and local rice has a poor image among consumers, who prefer imported rice. Terral will serve as the missing link in the purchase, distribution, and marketing of locally produced rice to the domestic market.

Terral will purchase rice from primary processors (responsible for cleaning, hulling, separating, bleaching, polishing, and sorting) in the “Vallée du Senegal” in northern Senegal. Terral will then package the rice into smaller units and distribute it to wholesalers and distributors through the existing SECOSEN network to sell to urban local consumers in Dakar. Terral will also develop a new network of wholesalers, semi-wholesalers, retailers, and restaurants to which they will promote the local rice. Terral’s activities will be integrated throughout the rice supply chain. It will partner with local primary processors to develop rice warehouses, invest in a nucleus farm, and provide technical assistance to farmers to boost yield and improve the quality of seedlings. The discarded rice hulls will be used for bio-fuels.

The working capital for the project is provided by the Durabilis Foundation, and USAID has also provided CFA 25 million (or US\$ 50,000) towards the marketing costs for the local rice.

### Outcomes

The potential economic impact of this project is significant. Not only will local rice farmers have a new avenue for marketing their produce, but promoting local rice to the domestic market, if successful, could make Senegal less dependent on expensive imports. As well as creating jobs and generating income and tax revenue, the project will also help address food security issues in the country.

Source: Durabilis Foundation



## Case study: MN Environmental Services Ltd (Nigeria)

### Background

MN Environmental Services Limited, a hygiene services management company, was established in 2008 in Lagos, Nigeria by entrepreneurs Adeola Asabia and Jife Williams. The company was created as a result of the work Ms Asabia and Ms Williams had done through their non-governmental organisation (NGO), Metamorphosis Nigeria. Metamorphosis-Nigeria improves quality of life and helps urban communities by promoting safe sanitary and hygiene practices. The NGO was set up in January 2000 with a vision of a world in which every human being has access to adequate and effective sanitation.

### Description

Metamorphosis-Nigeria constructs public toilets and showers in highly-populated urban areas such as busy motor parks, markets, commuter points, and poor community settlements that lack access to safe water and sanitary facilities. During and after construction of public convenience facilities, stakeholders in the target area are taught safe hygiene and sanitation practices, which are geared towards changing behaviour on environment and sanitation issues.

MN Environmental Services Ltd manages these facilities. Users pay 30 Naira (24 US cents) to use the toilet and 50 Naira (32 US cents) to use shower facilities. Hygiene assistants clean the facilities and teach users about health. This creates jobs for the poor and disadvantaged. Staff are trained and provided with proper cleaning equipment, and fees collected pay staff salaries, maintenance costs, and other development initiatives needed in or near the location site.

### Outcome

After receiving grants as an NGO to construct the initial facilities, Williams and Asabia are looking to raise finance for MN Environmental Services Ltd to run existing operations and build additional facilities. The enterprise expects to earn a return on average equity of 24% by the end of its second year. Looking to be both commercially viable and have a social impact, Asabia and Williams plan to build 38 public toilet blocks over 10 years, bringing clean water and sanitation services to approximately 600,000 people. In addition, provision of 38 facilities will employ 260 people directly and 1,300 people indirectly.

Source: MN Environmental Services Ltd

## Case study: Beer-Shéba (Senegal)

### Background

The Serer people of Senegal are skilled farmers and traditionally live in rural areas. Due to deterioration of the climate in the region over the last 30 years and consequently shorter rainy seasons, subsistence agriculture is no longer providing the basic necessities for life in the village communities. The Serer area has become a poverty-stricken zone where over-exploitation of the fields and deforestation have deteriorated the environment, driving many Serer to big cities to find employment.

### Description

Beer-Shéba intends to integrate local community development concepts into a sustainable agricultural and reforestation project for the Serer farmers in rural Senegal. Using Techno-Agriculture Poverty Alleviation (TIPA) technology, Beer-Shéba hopes to develop community gardens that will enable local farmers to grow their own vegetables and sell them to markets. This will allow the farmers to earn a living as well as ensure the sustainability of the initiative. TIPA is a concept developed by Professor Dov Pasternak that integrates irrigation and community development. TIPA uses the Family Drip Irrigation System (where irrigation technology is combined with gravity-powered low water pressure), which allows traditional farmers to enjoy all the advantages of drip-irrigation at low costs.

Currently, Beer-Shéba has no access to the energy required for the TIPA irrigation system. To address this problem, the project is pioneering the idea of using a TIPA photovoltaic pumping system. This technique involves using solar technology to produce energy for pumping water for irrigation without the need for a battery. Beer-Shéba is currently seeking investment of CFA 133 million (US\$ 266,000) to purchase equipment. Using TIPA technology, local farmers will be able to grow high-value crops year-round. The community gardens will allow local farmers to grow vegetables on allocated plots. Each farmer will be supplied with seeds, tools, fertilisers, phyto-sanitary products, and water. The vegetables are sold at market price, and the profits divided between investors and farmers.

### Outcome

Once financing is secured, Beer-Shéba plans to divide its five acres of land into 100 plots, 75 for the three villages and 25 for a training centre. The plots will be allocated by the village monitoring committee to the most competent, most motivated, and most in need, half of whom must be women. In partnership with the coordinator of women's groups in the area, Beer-Shéba aims to promote the economic role and build the capacities of rural women in the Serer. It also intends to expand its activities to 100 acres, involving nearly 1,200 people from surrounding villages. This will allow not empower the villagers economically, but also contribute to the sustainable management of the environment. As the number of farmers growing and selling produce increases, so will the financial sustainability of the initiative.

Source: GVEP/Dalberg 'Renforcement du secteur de l'électrification rurale au Sénégal' 2011

## Case study: Venture Capital Trust Fund (VCTF) (Ghana)

### Background

The VCTF was established by the Government of Ghana to provide financial resources to SMEs through venture capital financing companies. Its vision is “to create a vibrant and well-structured venture capital industry boasting of investments in various sectors, leading to poverty reduction through job and wealth creation with a collateral growth in government revenues”. The VCTF started with a seed funding of approximately US\$ 15 million (GH¢22.4million) from the Government of Ghana.

### Description

In partnership with local and foreign investors, the VCTF has created a pool of about US\$ 55 million (GH¢83 million) for SME investments. In doing so, the Trust Fund has established five venture capital funds and invested the equivalent of US\$ 17 million. Among others, it supports funds such as the Fidelity Equity Funds, Activity Venture Finance Company, and the Ebankese Venture Fund listed above. As of the beginning of 2011, more than 1,000 direct jobs have been created by 39 portfolio companies. Additionally, government tax revenue resulting from the 39 portfolio companies has increased by an average rate of 264.5% per annum after venture financing capital, and some portfolio companies have recorded turnover growth in excess of 100%.

### Outcome

The VCTF hopes to increase the total pool of funds available to exceed US\$100 million to support SME investments. To further develop SMEs into large businesses and also invite the public to share in profitable SMEs, fund managers will be encouraged to list on the Ghana Stock Exchange. The VCTF will also intensify its public awareness campaign to educate SMEs on the benefits of equity investments and attract more funds from local financial institutions. It also plans to launch an Angel Investor Fund, aimed at attracting high net-worth individuals as “business angels” to invest in SMEs.

Source: [www.venturecapitalghana.com.gh](http://www.venturecapitalghana.com.gh)

## Case study: The Tony Elumelu Foundation (Nigeria)

### Background

The Tony Elumelu Foundation, established in Nigeria in 2010, is an independent, not-for-profit institution dedicated to promoting and celebrating excellence in business leadership and entrepreneurship across Africa. The founder, Tony Elumelu, widely acknowledged as one of Africa's most influential and successful business leaders, set up the foundation with funds from his private family office. The Board of the United Bank of Africa (UBA) also pledged an annual grant to the foundation.

The objective of the foundation is to contribute to Africa's equitable economic transformation and prosperity by equipping the African private sector to lead the transformation. Although the foundation is finalising its strategy and will soon launch, its vision is based on "catalytic philanthropy"—using multiple traditional and non-traditional approaches to enable transformative change. The foundation will intervene through a series of programmes, impact investments, partnerships, strategic convenings, and grants across the segments of the African business growth cycle. This work will be complemented by a series of transversal interventions through policy and advocacy, research, and networking.

### Description

Catalytic philanthropy means the work of the foundation will be executed very differently from traditional approaches to philanthropy and corporate social responsibility. The traditional approach is shorter-term grant-making focused on impacting and partnering with the social sector in an often localised manner. The foundation, by contrast, will create systemic transformative change through multiple types of interventions—including impact investments that offer a financial return—and multiple partners from across the private, public, and social sectors. The primary interventions of the foundation will focus on the different segments of the African business growth cycle: business students, start-ups, small and growing businesses, national companies, African multinational companies, and African global companies.

### Outcome

As an innovative catalytic 21<sup>st</sup>-century African philanthropy organisation engaging with the private sector, the Tony Elumelu Foundation recognises the power of impact investing and seeks to foster the acceptance, growth, and deployment of significant impact capital towards addressing social problems in Africa. In that regard, in addition to their other programmatic, policy, and research work, the foundation will serve as a key node both in Nigeria and across the region to promote the impact investing in Africa through collaborative research, policy interventions, networking, and meetings.

Beyond catalysing the industry, the foundation will direct a pool of its own resources into an impact investing portfolio targeting high-growth businesses with potential for market-rate financial returns, in addition to scalable social and environmental impact. Working alongside Heirs Holdings, its partner investment company, it will use both intermediary investment vehicles and direct equity investments in businesses to grow its portfolio. These investments will serve, alongside the foundation's programme and grant-making activities, to advance Africa's economic development and prosperity. All returns from the impact investments will be re-invested in the foundation, and over time, this will become the endowment of the foundation, providing a sustainable source of funding for the foundation's operations, programmes, and grant-making activities.

Source: Tony Elumelu Foundation

## Case study: ProCredit Savings and Loans (Ghana)

### Background

In Ghana, there are three major savings and loans institutions: ProCredit S&L, Opportunity International S&L, and First Allied S&L. These three players jointly represented more than 450,000 depositors at the end of 2009 and accounted for an aggregate deposit balance of more than US\$ 62 million.

### Description

ProCredit S&L Ghana—whose shareholders include the Doen Foundation in the Netherlands and ProCredit Holding Germany—is a development-oriented financial institution. Its shareholders respect a return on investment but are not primarily interested in profit maximisation. ProCredit S&L provides loans to very small, small, and medium-sized enterprises. In 2009, it achieved a return on equity (ROE) of 28%, and its loan portfolio amounted to US\$ 22.1 million at the end of 2009. ProCredit S&L recently launched a campaign to publicise its increased focus on SME lending, which has generally been neglected by mainstream banks. A strong team of SME experts and Client Relationship Managers was formed at head office level.

### Outcome

At the end of 2009, it opened two business centres in Ghana for the SME target group. The new offices provide services tailored to their needs and are staffed by specially trained personnel. It also introduced two new products aimed at SMEs and other clients who need short-term financing—ProDouble and the ProCredit Line. ProDouble allows a client to have more than one loan outstanding at a time, while the ProCredit Line provides flexible, short-term financing solutions.

Source: ProCredit S&L Annual Report 2009



## End notes

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- <sup>a</sup> Monitor Institute (2009) 'Investing for Social and Environmental Impact: A Design for Catalysing an Emerging Industry'
- <sup>b</sup> JP Morgan and the Rockefeller Foundation (2010) 'Impact Investments: An Emerging Asset Class'
- <sup>c</sup> IMF country reports, OECD statistics, Emmanuel K. Boon, Frederick Ababio, "Corporate social responsibility in Ghana: lessons from the mining sector", 2007
- <sup>d</sup> ILO Labour Statistics (laborsta.ilo.org). Mali data is for 2004, Nigeria is for 2007, Senegal is for 2006, and Sierra Leone is for 2004. Agriculture includes hunting and forestry but excludes fishing.
- <sup>e</sup> World Bank, FAO, IFAD (2009) 'Gender in Agriculture Sourcebook'
- <sup>f</sup> FAOSTAT
- <sup>g</sup> World Bank (2010) 'Building Competitiveness in Africa's Agriculture'
- <sup>h</sup> McKinsey Global Institute (2010) 'Lions on the move: The progress and potential of African economies' estimates that Africa has the potential to increase the value of its annual agricultural output from US\$ 280 billion in 2010 to around US\$ 500 billion by 2020 and to US\$ 880 billion by 2030.
- <sup>i</sup> IFC (2010) 'The Business of Health in Africa'
- <sup>j</sup> Ibid.
- <sup>k</sup> Tom Minney (2010) 'Africa Health Fund makes first investment' ([www.africacapitalmarketsnews.com](http://www.africacapitalmarketsnews.com))
- <sup>l</sup> UNICEF (2009) 'State of the World's Children 2010' ([www.unicef.org/rightsite/sowc/statistics—data](http://www.unicef.org/rightsite/sowc/statistics—data) is from 2006)
- <sup>m</sup> WHO (2010) 'UN-Water Global Annual Assessment of Sanitation and Drinking Water (GLAAS) Report'
- <sup>n</sup> Ibid.
- <sup>o</sup> Ibid.
- <sup>p</sup> UNECA (2010) 'Economic Report on Africa'
- <sup>q</sup> Monitor Institute (2009) 'Investing for Social and Environmental Impact to A Design for Catalysing an Emerging Industry'
- <sup>r</sup> Ibid.
- <sup>s</sup> ECOWAS (2006) 'White Paper for a Regional Policy geared towards increasing access to energy services for rural and per-urban populations in order to achieve the Millennium Development Goals'
- <sup>t</sup> Ibid.
- <sup>u</sup> GTZ (2009) 'Renewable energies in West Africa'
- <sup>v</sup> GTZ (2009) 'Renewable energies in East Africa'
- <sup>w</sup> Sarr & Thomas (Enda TM) (2005) 'The role of renewable energy in the development of productive activities in rural West Africa: the case of Senegal'
- <sup>x</sup> Government of Nigeria (2006) 'Renewable Electricity Policy Guidelines'
- <sup>y</sup> Ibid.
- <sup>z</sup> European Environment Agency (2007) 'The pan-European environment: glimpses into an uncertain future'
- <sup>aa</sup> African Development Bank 'Clean Technology Fund' ([www.afdb.org](http://www.afdb.org))
- <sup>bb</sup> The total of 68 refers to those funds identified that currently have a portfolio in the region and meet our definition criteria. It is recognised that there are more funds that are either currently fund raising or that are yet to develop their portfolio in the region. There are also funds that focus on funding microfinance institutions. To avoid double counting we have not included these funds in the calculation but they are also listed in Appendix A.
- <sup>cc</sup> World Economic Forum (2010) 'The Missing Middle Initiative: Highlighting the Problem, Accelerating the Solution'
- <sup>dd</sup> [www.venturecapitalghana.com.gh](http://www.venturecapitalghana.com.gh)
- <sup>ee</sup> AfDB 2009 Annual Report
- <sup>ff</sup> IFC 2010 Annual Report
- <sup>gg</sup> IFC 2010 Annual Report, CDC 2009 Annual Report
- <sup>hh</sup> IFC 2010 Annual Report
- <sup>ii</sup> [www.trustafrica.org](http://www.trustafrica.org)
- <sup>jj</sup> Parthenon Group & Bridges Ventures (2010) 'Investing for impact, Case Studies Across Asset Classes'
- <sup>kk</sup> [www.entrepreneursecosystem.org](http://www.entrepreneursecosystem.org)
- <sup>ll</sup> These figures are sourced from the Microfinance Information Exchange ([www.mixmarket.org](http://www.mixmarket.org)) and based on data from 86 MFIs across West Africa
- <sup>mmm</sup> Sourced from the Microfinance Information Exchange ([www.mixmarket.org](http://www.mixmarket.org)). The global total is based on data from 1,928 MFIs across the world, and the sub-Saharan Africa total is based on data from 33 countries. It is estimated that there are over 2,500 MFIs in West Africa.
- <sup>nn</sup> Ibid.
- <sup>oo</sup> Ibid.
- <sup>pp</sup> Intellectap (2009) 'Emerging opportunities for microfinance in West Africa'
- <sup>qq</sup> Ibid.
- <sup>rr</sup> [www.goodwell.nl](http://www.goodwell.nl)
- <sup>ss</sup> Rockefeller Foundation 'Impact Investing Initiative Newsbrief No. 2'
- <sup>tt</sup> Centre for Global Development (2010) 'More than money: Impact investing for development'
- <sup>uu</sup> Rockefeller Foundation 'Harnessing the Power of Impact Investing Initiative' ([www.rockefellerfoundation.org](http://www.rockefellerfoundation.org))