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Impact Investing
A Sustainable Opportunity for MSMEs

Applied to GIZ SEDIN NICOP Value Chains in Nigeria

Abuja, July 2019

Implemented by

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Impact Investing

A Sustainable Opportunity for MSMEs

Applied to GIZ SEDIN NICOP Value Chains in Nigeria

Chili / Pepper

Tomato

Leather

Ginger

Garments

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Abbreviations

AUM	Assets Under Management (usually expressed in USD)
AVCA	African Private Equity and Venture Capital Association
BOP	Bottom of the Pyramid: consumers living on less than $1.25/day
CAGR	Cumulative Annual Growth
CDC	Commonwealth Development Corporation, UK’s DFI
CSR	Corporate Social Responsibility
DFI	Development Financial Institution
ESG	Environmental, Social and Governance Criteria standards for company’s operations
EVPA	European Venture Philanthropy Association
FAO	Food and Agriculture Organisation of the United Nations
FDI	Foreign Direct Investments
FMO	Netherlands Development Finance Company
FOREX	Foreign Exchange
GDI	Gender Development Index
GDP	Gross Domestic Product
GIIN	Global Impact investing Network
GII	Gender Inequality Index by UNDP
GIZ	Gesellschaft für Internationale Zusammenarbeit GmbH
GSG	Global Steering Group for Impact Investment
HDI	Human Development Index
HHRR	Human Resources Department
HNWI	High Net Worth Individuals
IAASTD	The International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD) initiated by the World Bank in 2002
IC	Investment Committee
ICRC	International Committee of the Red Cross
ICT	Information and Communication Technology
IFC	International Finance Corporation (from World bank)
IMF	International Monetary Fund
IM&M	Impact Measurement and Management
IPO’s	Initial Public Offerings
IRIS	Impact Reporting and investment Standards
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
KPI	Key Performance Indicator

MFI	Micro Finance Institution
MRI	Mission Related Investments
NGO	Non-Governmental Organization
NICOP	Nigeria Competitiveness Project by GIZ
OAF	One Acre Fund
ODA	Official Development Aid
OECD	Organisation for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
PYMWYMIC	“Put Your Money where your Meaning”, Community of impact investors
PE	Private Equity
P&L	Profit and Loss
SDGs	UN Sustainable Development Goals
SEDIN	Pro-Poor Growth and Promotion of Employment in Nigeria Programme
SHFs	Small Holder Farmers
SIB	Social Impact Bond
SPO’s	Social Purpose Organisations
SROI	Social Return on Investment
TA	Technical Assistance
TOC	Theory of Change
VC	Value Chain
VC	Venture Capital
WASH	Water, Sanitation and Hygiene projects
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program

1. Executive Summary

The impact investing sector has become a thriving and growing market, since the term was first coined in 2007 by the Rockefeller Foundation – *"investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return"* – and is estimated at a total size of USD 502Billions in impact investment assets in 2018, while expectations are for the market to continue to grow at the average annual rate of +17%. This "doing good while making money" investment approach has become mainstream as more and different stakeholders join the industry worldwide, supporting the case for impact investing as a fundamental strategy to unlock the remaining USD 2.5 trillion required every year to achieve the United Nations Sustainable Development Goals (SDGs). To achieve this, Impact investing will require to engage in unlikely and unusual partnerships amongst a wide array of public and private stakeholders and tackle the challenges that the industry is facing. This includes clarifying the identity of what Impact investing is and is not, the feasibility of scale, the need to further develop financial intermediation and the infrastructure necessary for the ecosystem to operate and thrive, the standardisation of processes, information and impact and management tools, and enabling the access to impact investments for all, ensuring to develop the absorptive capacity so that supply meets demand needs and vice versa. Impact Investors should also look into following the principles for transforming finance while making impact investments, specifically ensuring to engage communities in the design of the products, adding more value than they extract and balancing the risk and return fairly amongst all stakeholders, including beneficiaries.

Impact investing will need to embrace the trends already observed in the sector, namely the need for diversification – in terms of sectors, stakeholders and geographies – and the growing interest in gender lens investing as a way to reduce inequality, empower women and girls, but also to increase and maximize impact results. Additionally, the development of the industry will be significantly influenced and determined by other global trends affecting all sectors like the future of work, the Fintech revolution and disruption, the democratisation of data, the focus on gender and young population and the increasing growth of digital technology.

The main profile for impact investors is that of fund managers from the US or Europe investing mostly in US and Europe. They are interested mainly in microfinance, financial services, energy and agriculture sectors, using mostly private debt instruments into micro finance institutions (MFIs) and SMEs and looking to achieve positive social and environmental impact, specifically measured and managed towards social intention, while expecting market rate returns.

Impact investing in Africa is still a nascent industry, representing 15% of total global Assets Under Management, albeit growing and spurred by the return of foreign direct investments which have started flowing back into the region again as of 2018. Impact investors in West Africa and Nigeria in particular, show a slightly different profile, the typical investor being a development financial institution (DFI) – that accounts for 95% of disbursements in the region, vs. 25% globally – using debt instruments and supporting the same basic service sectors, while ICT and agriculture are showing significant growth. Private non-DFI investors are growing in the region but are still faced with many challenges. On the one hand, they face operational limitations like the lack of awareness and/or credibility around impact investing, the high costs of doing business and access to credit, lack of basic infrastructure like electricity, unclear and changing government policies, instability, an underdeveloped ecosystem and intermediation segment as well as poor impact measurement and management tools and practices. On the other hand, they face financial limitations like limited deal flow opportunities due to the lack of investment ready companies, limited deal structures, instruments and exit options (although these are all rapidly changing).

The impact investing ecosystem is rapidly growing worldwide as more stakeholders join any of the three segments. On the supply side of impact capital, you find fund managers, DFIs, foundations and institutional investors. On the demand side for impact capital, there are MFIs, SMEs and more recently social impact bond issuer. Finally, there are intermediaries including fund advisors, crowdfunding platforms on the financial side, and incubators, accelerators, technical assistance service providers, industry networks and associations and academia, on the non-financial side of intermediation. While the three segments are growing, particularly in West Africa, the industry needs to work on strengthening the intermediation infrastructure to support the ecosystem and on making a strong case to attract local investors, particularly to support the missing middle financing gap targeted at the early stage, when SMEs require financing of between USD 25,000 and USD 500,000.

For Nigeria, the study identified around 55 impact investors, 13 DFIs and 42 non-DFIs, most of them international. The most active and prominent local investors identified are the Tony Elemelu and Dangote Foundations, as well as private equity and venture capital firms, such as Altheia Capital, Doreo Partners, who manage the successful and award-winning Babban Gona SME, and Unique Venture Capital. Investors in Nigeria are mainly looking into supporting SMEs in the financial services/fin-tech, agriculture/ag-tech and ICT sectors, like LAPO Bank, Paga, Paystack, Babban Gona, Esoko and Andela. When sourcing deal flows, investors consider a wide array of criteria, mainly the strategic fit with their mission, geography and sector focus, and more specifically the social intentionality and social impact objectives and indicators, sustainability and scalability of business model, profitability of the business and the management team skills and governance processes.

Investors don't seem to target specific value chains as part of the selection criteria and none of the investors identified seem to have invested into the target value chains of the Nigeria Competitiveness Project (NICOP) that include tomato, pepper/chilli, ginger, leather and garment. However, agriculture is clearly an important and growing sector of focus for impact investors and offers a clear opportunity to attract investors into tomato, pepper, chili and ginger, while the leather and garments/fashion value chains could be appealing for investors seeking to support the creation of women and youth employment. This study includes case studies on some of the mentioned SMEs to help understand the elements that might help to trigger investments into NICOP value chains and offers recommendations on some key stakeholders that might be valuable linkages for NICOP to achieve its objectives.

Finally, the impact investing sector and its thriving and nascent status offer a good opportunity for GIZ and NICOP to become a fundamental intermediation piece lacking in the Nigerian ecosystem. In this sense, main conclusions and recommendations are related to (i) the need to lead and support the development of the local impact investing ecosystem, strengthening particularly the intermediation segment and attracting and involving local stakeholders willing to support early stage and small size investments; (ii) the continuous need for SMEs on technical skills and capacity building support, and training on what impact investing is all about, how to become investment ready and support in fund raising; (iii) the modernisation of SMEs via embracing digitalisation and technology that will be key for survival and competitiveness; (iv) influencing government business policies on the costs of doing business in Nigeria will be important to continue to attract international investors; (v) particularly for the agriculture sector, the need to develop affordable and appropriate insurance products for small holder farmers (SHFs) and agricultural SMEs will be key to increase resilience and face climate change; (vi) finally, gender focus and gender lens investing will be determining many of the investments after some studies have proven a higher impact for these type of investments.

2. Introduction

2.1 Background

NICOP is part of the Pro-Poor Growth and Promotion of Employment in Nigeria Programme – SEDIN, which is commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ), co-funded by the European Union (EU) and implemented by the Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. As a four-year project under the West African Competitiveness envelope, NICOP is designed to support key value chains in Nigeria to promote structural transformation, overcome coordination and linkage failures and improve access to regional and international markets while taking social and environmental concerns into account. NICOP will assist micro, small and medium-sized enterprises (MSMEs) to take advantage of opportunities to add value and migrate to new and higher-level tasks along selected value chains.

This will be done through a four-tier approach; (1) enhancing the competitiveness at firms' level, especially through industrial clusters, with a combination of market development as well as technical and entrepreneurial training, (2) strengthening intermediate organisations to improve and expand service delivery to MSMEs, for example with regards to quality control and standards certification, greenhouse solutions, market access, competitive pricing of inputs, access to technology and IT-based solutions, (3) supporting advocacy and reforms of regional, federal and state-level policies and regulations in favour of industrial and agricultural competitiveness, and (4) assisting the adaptation and introduction of appropriate financial services and supporting value chain actors to access funds for investment, in particular with regard to modernizing and upgrading production capabilities. NICOP will forge strong and durable partnerships with key public and private sector stakeholders across focal states to ensure that ownership and commitment is secured, and the multiplying impacts of the programme provide the required systemic and sustainable changes.

2.2 Objectives of the Study

The current study falls under NICOP's fourth pillar, access to finance and investment facilitation. The overall objective of the study is to explore both innovative and traditional sources of finance, which are not very common nor widely known in the Nigerian context, and do a mapping and deep dive into these innovative sources of finance to understand what the options in this area are. Impact investment and patient capital are two of the innovative sources of finance that NICOP has highlighted with high potential for the selected value chains. The study will also identify the leading patient capital and impact investors with an appetite in Africa in general, and in Nigeria and NICOP value chains in particular. Finally, the study aims to understand what the investment selection criteria and the guidelines used by impact investors are in order for NICOP to facilitate linkages and get target beneficiaries finance and investment ready.

The key focus of the study will be:

- Identifying key sources of impact investment and patient capital funds with specific interests in Nigeria and in NICOP´s value chains.
- Mapping of for profit and/or non-profit social enterprises with focus on NICOP's value chains.
- Understanding the guidelines and criteria that each of them uses to assess potential investment and ultimate fund operations.
- Establishing the adequate contacts and linkages between potential investment opportunities and impact investment funds.

GIZ SEDIN NICOP will be facilitating linkages between investors and companies/projects that can receive this investment and will ensure the beneficiaries are "investment ready" by providing them with the necessary technical assistance, including without limitation good agricultural practices, backward integration, farmer training, introduction of improved inputs, production processes improvement, quality improvement, business expansion, standard and certification support, market linkages, financial literacy, insurance, access to finance, policy support, etc. This will greatly facilitate the investment selection for the selected sources of finance and will reduce the risk while increasing the profitability of the investment.

2.3 Key Concepts

Given the newness of the technical names used to describe of some of the financial and investment innovations that will be covered in the study, some standard definitions for some key concepts are provided.

2.3.1 Impact investing

The term impact investing was coined by the Rockefeller Foundation in 2007 and is now commonly defined by the Global Impact investing Network (GIIN)[1] as: "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors' strategic goals".[2] Impact investments have attracted a variety of investors like fund managers (for private equity, venture capital and impact investing firms), DFIs, institutional investors (like commercial banks, pension funds and insurance companies), family offices, private foundations, high net worth individuals (HNWI's), private investors and non-governmental organizations (NGOs). Some stakeholders refer to impact investment as social investment. The GIIN has recently agreed on four core characteristics that investments need to fulfil to be considered an "impact investment": (i) intentionality, (ii) use of evidence and impact data when designing the investment, (iii) manage impact performance data, and (iv) contribute to the growth of the industry. More detailed information will be provided in the impact investing section of this study.

2.3.2 Venture Philanthropy

"Venture philanthropy and social investments are about matching the soul of philanthropy with the spirit of investment, resulting in a high-engaged and long-term approach to creating social impact."[3] Venture philanthropy addresses the need for flexible funding through three core practices: (i) tailored financing, (ii) organisational support, and (iii) impact measurement and management. Venture philanthropy navigates the space between traditional philanthropy and impact investing, although by the European Venture Philanthropy Association (EVPA) standards it includes impact or social investments, as it can include any type of financial support, from grants to equity or debt investments. Its use has gone mainstream for stakeholders like private foundations, NGOs, governments and social enterprises, that address it to support organisations operating with a social purpose and focused either on impact only (charities) or those focused on both impact and financial return.

[1] The GIIN Investor Forum is the largest global convening of leaders in the impact investment industry. GIIN is a non-profit organization dedicated to increasing the scale and effectiveness of impact investing.
[2] Definition by GIIN, Global Impact Investment Network, www.thegiin.org
[3] Definition by EVPA, European Venture Philanthropy Association, www.evpa.eu.com

2.3.3 Patient Capital

The patient capital term is associated to Acumen.org[4] founder, Jacqueline Novogratz, who defines it as follows: "Patient capital investing bridges the gap between the efficiency and scale of market-based approaches and the social impact of pure philanthropy. Patient capital has a high tolerance for risk, has long time horizons, is flexible to meet the needs of entrepreneurs, and is unwilling to sacrifice the needs of end-customers for the sake of shareholders. At the same time, patient capital ultimately demands accountability in the form of a return of capital: proof that the underlying enterprise can grow sustainably in the long run."[5] Patient capital has recently been called "patient equity" and in essence refers to a type of impact investing which is long-term, usually equity based, into SMEs at an early to growth stage, with proven business models that tackle the world's most pressing issues, aiming for both social and financial returns.

2.3.4 Social Businesses

There is no standard or regulated definition for a social business or enterprise other than in the few countries where there is a separate legal entity for them, like Community Interest Companies (CICs) in the UK, and BCorp (a private US certification for good business practices). According to Nobel Laureate, Muhamad Yunus, "a social business is a business with a social mission at its core and a business objective (related to any of the poverty issues affecting humanity), with a business model that is financially sustainable, where there are no dividend shares (beyond the capital invested), profits are reinvested in the business, where employees get fair market working conditions and gender and environmentally friendly."[6] An alternative type of social business has the same characteristics but owned by the poor or disadvantage who can benefit from profit sharing. Social businesses are for profit but take into consideration all environmental, social and governance (ESG) principles. Most social businesses are focused on tackling poverty issues using business models and savvy to achieve sustainability and put an end to the traditional dependence and exclusiveness of grant money to solve the world's most pressing problems.

2.3.5 Blended Finance and Blended Revenue

According to the Organisation for Economic Co-operation and Development (OECD), blended finance is the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries.[7] Blended finance requires a public-private sector collaboration. The objective is to blend the concessionary funds from DFIs or private foundations, that are willing to assume higher risks, through instruments like grants, guarantees, first loss capital, technical assistance or subordinated loans, together with funding from more risk-averse investors. The blended instruments will have different risk-return spectrums or blended revenues, so that private investors will most likely have higher returns and shorter repayment terms. This way the investment meets the investee's needs and still furthers the objectives of different investors. Blended instruments are most commonly used in early stage investments and are a good way for both investors and investees to gain experience.

Blended finance is a strategy to deploy more funds to support developing countries, beyond official development aid (ODA), that catalyses private capital towards the completion of the United Nations SDGs. It offers concessionary funds that re-balance the higher risk of these type of high impact

[4] Acumen is a non-profit impact investment fund with over 15 years' experience in investing in social enterprises that serve low-income communities in developing countries across Sub-Saharan Africa, South Asia, Latin America, and the United States.

[5] Acumen non-profit organization's founder coined the patient capital term, www.acumen.org

[6] Professor Yunus' definition of Social Business, www.muhammadyunus.org

[7] http://www.oecd.org/development/financing-sustainable-development/development-finance-topics/blended- finance.htm

investments that might discourage private investors. The size of the blended finance market is estimated at USD 50 million, according to the Blended Finance Taskforce, a global group of leaders and experts on the mission of mobilising the trillions needed for the SDG's achievement.[8]

3. Methodology

A combination of methods and instruments were used to conduct this study.

Desk Review

Consisting mainly of online browsing and data gathering on specific organisations' websites and through online data bases from impact investors' and social businesses' networks to identify key target impact investors and stakeholders within the impact investing ecosystem in Nigeria. Documents on the NICOP project and its specific value chains as well as available online reports on the impact investing market from industry network associations were also reviewed.

Stakeholders Mapping and Engagement

An initial mapping of the available stakeholders was drafted based on the desk review study and on standard industry classifications, specifically the Global Impact investing Network (GIIN), followed by a phase of engaging with identified key prospects for potential interviews, which were scheduled as available.

Key Stakeholder Interviews

Interviews were done either by phone, Skype/Zoom or similar, with an approximate average of 30-45min per interview. A total of 11 interviews were carried out with different stakeholders: one foundation, six impact fund managers, three social businesses, and one accelerator. Although the author contacted over 30 different stakeholders, the response and availability level were lower than expected, limiting the scope of the qualitative study. To compensate for the small base, the author has complemented the study with information available online, like annual reports, audited financials, websites, industry reports and data bases.

[8] https://www.blendedfinance.earth/about

4. The Impact Investing Sector

4.1 Impact Investment: A Global Perspective

Impact investing is a name coined by the Rockefeller Foundation at the Bellagio Centre in Italy in 2007 when pioneers investing in social fields were looking to describe their shared purpose of investing to have both a social and/or an environmental impact, together with a financial return. There have been examples of investments that were consciously looking into the social impact as back as 1758, when the Quakers were screening out investments into tobacco, alcohol and drugs. Already in 1948, the Commonwealth Development Corporation (CDC), the UK's Development financial institution, started implementing an investment strategy focused on "doing good without losing money", and in 2001 Acumen Foundation, a pioneer to the impact investing sector, was already talking about patient capital.

More than 10 years after the impact investing term was first coined, the impact investing market has become a mainstream investing and development strategy attracting different public and private investors and philanthropists, pulled by the claim of a triple return, a triple impact or blended value - social, environmental and financial - for the good of the people, the planet and organisations, respectively. It has also been claimed to be the so much needed strategy to raise the missing more than $2.5 trillion per year required to meet the United Nation's SDGs. Foundations seem to be providing millions in grants, governments are providing billions in donations, but we still need the private sector to provide the remaining trillions required. This is where impact investing comes in. The social and environmental challenges we face are too wide and the financial resources limited, so we need different approaches to the already existing ones if we are to win the battle against poverty. As pioneer impact investor, Morgan Simon, puts it, "it is clear that the free-market-plus charity model has failed to produce global prosperity"[9]. Governments, social organisations and private individuals have already started walking this new path, we need the private sector to join the fight beyond corporate social responsibility (CSR) and ESG strategies, we need them to direct part of their resources towards doing good while still making money.

Impact investing is about the meeting of two worlds traditionally antagonistic to each other: the philanthropic and financial worlds. High net worth individuals, family offices, businessmen and philanthropists have historically separated both things: venture capital investments to make money and philanthropic donations to do good. Impact investing is all about doing good and making money at the same time. More and more impact investors believe - and are set to prove - that there is no need for a trade-off, that it is possible to obtain a social and environmental impact alongside a financial return. The impact investing industry is bringing together those two separate worlds, forging collaborations between different stakeholders which were unlikely before, like banks with non-profits, philanthropists with venture capitalists, etc. This is probably one of the most important systemic changes that the impact investing industry is bringing along, encouraging new and innovative collaborations and alliances (SDG #18) for a common goal around reducing poverty and achieving the SDGs. Impact investing has become the most recent development revolution (similar to what happened with microcredits), and many stakeholders are getting involved and have their minds set to building success stories to further develop the industry and maximise social and environmental positive impact.

[9] "Real Impact: The New Economics of Social Change (English Edition)" de Morgan Simon

According to the GIIN, impact investment needs to comply with four core characteristics:

(i) Intentionality: intentional desire to contribute to social and environmental benefit.
(ii) Use of evidence and impact data when designing the investment,
(iii) Manage impact performance data: investments need to be measured and managed towards the intention.
(iv) Contribute to the growth of the industry: sharing of best practices and track records.

Impact investing is therefore not an asset class, but rather an innovative and transformational investment strategy in the fight against poverty and has become a thriving industry in itself. In this sense, it has also influenced ESG, mission related investments (MRI)[10] and CSR strategies across industries and within big corporations, venture capital firms and family offices, which are looking into impact investing to be included into their investment strategies and mandates.

Below are two different graphs that illustrate how different impact investing network organisations classify impact investments across the spectrum. While the European Venture Philanthropy Association (EVPA) focuses on the main driver of the organisation - from Impact Only, through Impact First and to Finance First -, the Put Your Money where your Meaning is Community (PYMWYMIC) focuses on the intentionality of the organisation of doing good, doing no harm or having no social objective at all.

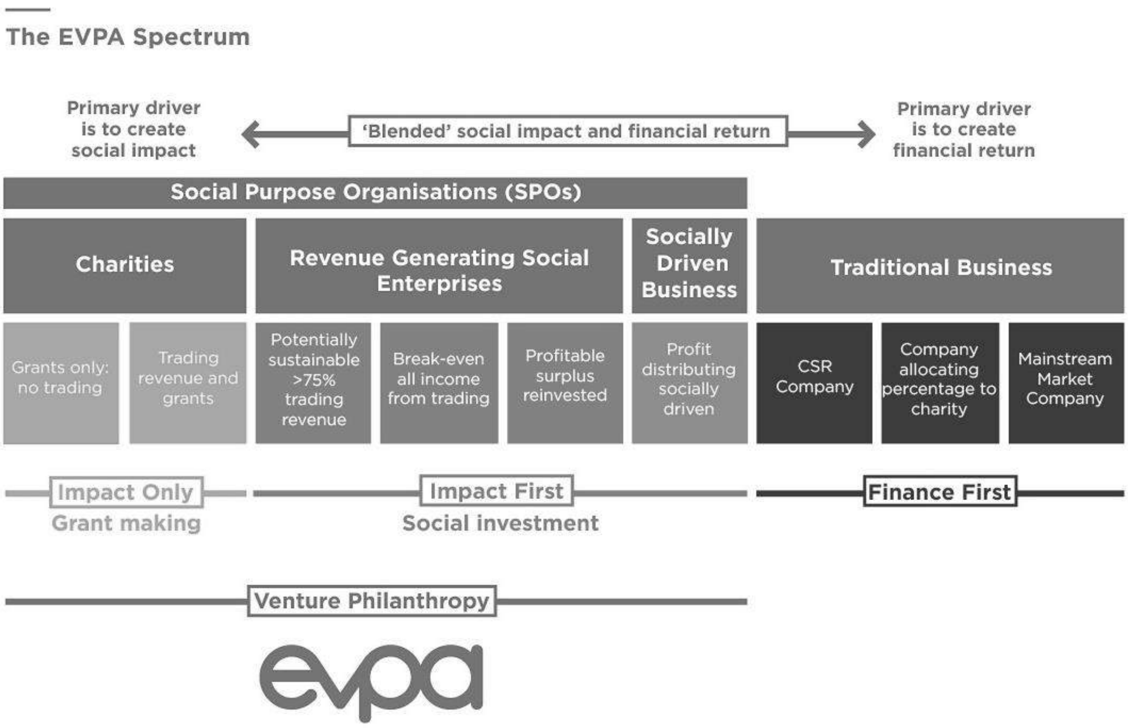


Figure 1. Venture philanthropy and Social Investments spectrum, by EVPA.eu.com

[10] Mission Related Investments (MRIs) are one of the most powerful tools an organization can use to achieve social impact. An MRI is any investment activity that furthers the investor's organizational mission.

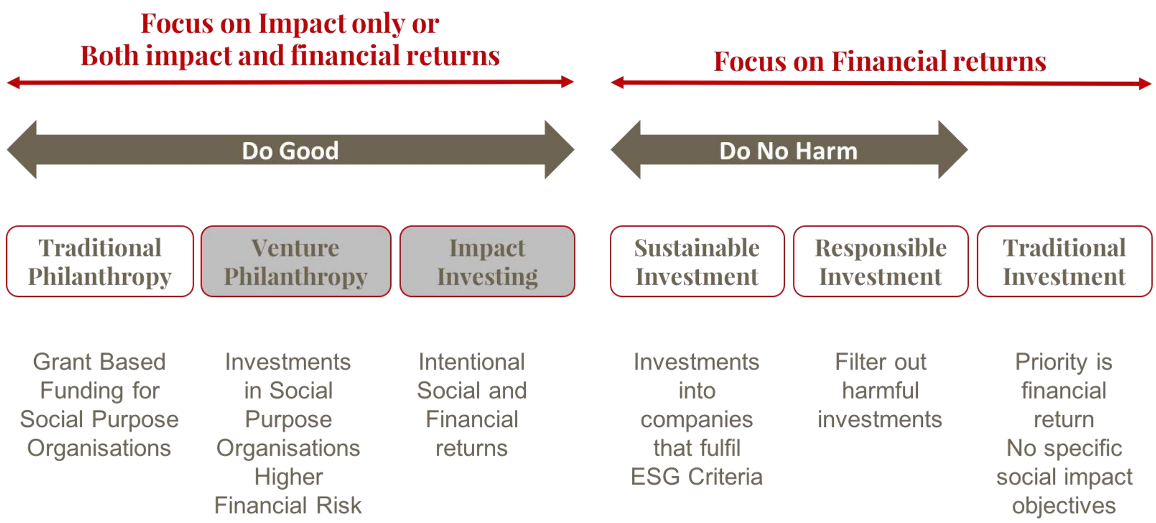


Figure 2. Impact investing definition, by author from source PYMWIMIC.com

The impact investing industry soon realised the need to develop a framework that defined the industry standards, to help measure and report impact investments, so they could build a solid track record to prove the triple impact theory and attract more investors and to influence policy development. The GIIN has led this effort with the creation of a global network for impact investors, the development of Impact Reporting and Investment Standards (IRIS), an online searchable database called ImpactBase, as well as the Global Impact Investing Rating System (GIIRS), which offers a rating on the social and environmental impact of companies and funds. The Rockefeller and Calvert Foundations have also joined the effort creating the ImpactAssets Global 50[11].

<u>The Impact Investment Industry – Size and Core Characteristics</u>

According to the “Sizing the Investment Market Study”, the GIIN estimates that there were around 1,340 impact investors at the end of 2018, managing a total of USD 502 billion in impact investing assets. 64% of impact investors are fund or asset managers located in the US or Europe, followed by foundations (21%) and banks/private financial institutions and development financial institutions (DFIs) (4% and 2% respectively). Fund managers handle about 50% of the industry’s assets under management (AUM), followed by DFIs that manage just over 25% of total AUM. Most impact investing organizations are relatively small, with about half of them managing less than USD 29 million each, while some large players manage over USD 1 billion each.

[11] The ImpactAssets 50 is intended to illustrate the breadth of impact investment fund managers operating today, though it is not a comprehensive list.

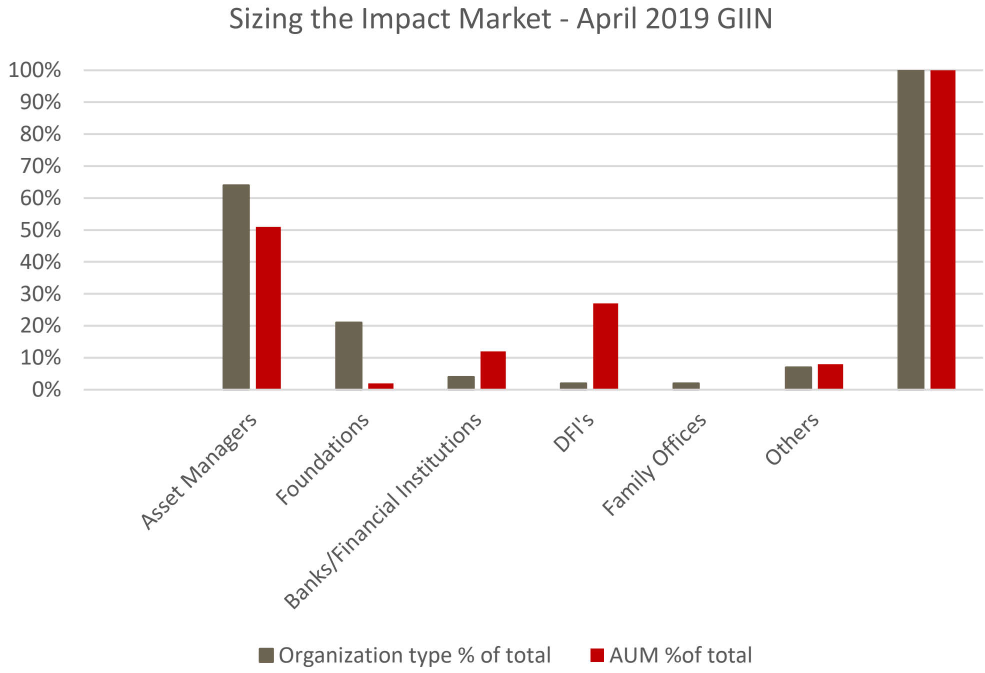
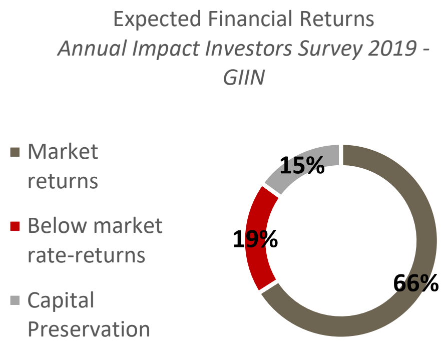


Figure 3. Impact Investors by type, by author; source: GIIN Annual Impact Investors Survey, 2019

The "Annual Impact Investor Survey 2019" by GIIN,[12] analyses the nature, behaviour and types of investment of the 266 impact investors in the survey, and draws five key findings from their operations by the end of 2018, which make for a clear picture of the industry's situation today: (i) the diversity of the industry: most impact investors are fund managers located in US or Europe, focused almost exclusively on impact investments, targeting market-rate returns, have both social and environmental objectives, and invest 50% in emerging markets and 50% in developed markets, mainly into access to energy, microfinance/financial services and agriculture; (ii) the market continues to grow at an estimated cumulative annual growth rate (CAGR) of 17% in AUM in the past four years (amongst investors participants in the survey for all four years), while the fastest growing sectors are ICT, agriculture, and water, sanitation and hygiene (WASH), although none of them are the biggest in absolute terms; (iii) impact measurement and management is central to impact investing: 80% of investors have a social mission drive and 98% measure and manage impact, while 60% use the SDGs to track their performance; (iv) 90% of respondents reported performance in line with social and financial objectives with gross returns at an average of 4.4-8% for private debt and 6.9-16.9% for private equity. The majority of investors were seeking for market financial returns.

[12] https://thegiin.org/research/publication/impinv-survey-2019



Investors will choose asset class instruments according to their financial returns' expectations, ranging from the more catalytic ones like grants, subordinated loans and guarantees to private equity. According to the survey most investors aim for market returns while capital preservation is the least common financial goal.

Figure 4. Expected financial returns for impact investors, source GIIN 2019

Figure 5. Risk-return spectrum for Impact investing, by thegiin.org

[13]

Impact Sectors & Geographies

Energy, MFIs and financial services continue to be the main investment sectors for impact investors. Access to finance is overwhelmingly the most important investment sector, probably following an inception strategy where most impact funds were almost 100% invested into MFIs, as this is a mature and profitable sector with a developed commercial infrastructure and therefore provides for a solid track record for investments. The biggest growths have been experienced however in agriculture (10% of total AUM vs. 6% in 2017), followed by WASH (which has grown from 4% of total AUM to 7%) and ICT.

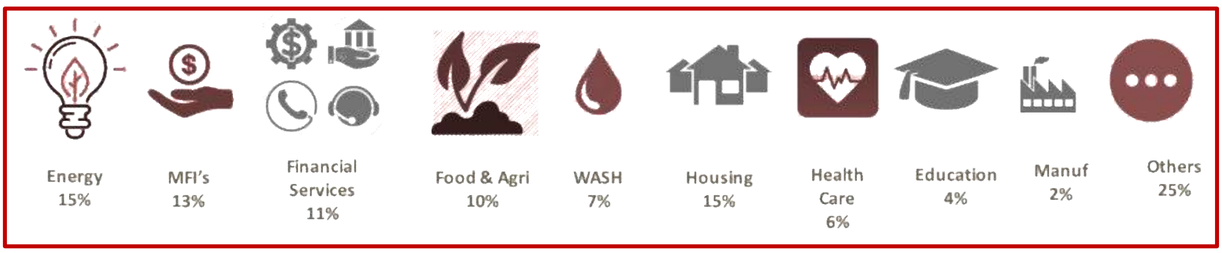


Figure 6. Figure 6. Impact Investments by Sectors as % of total AUM, by author; source GIIN 2019

In terms of geography, the developed countries still receive a big portion of the impact investing pie, accounting for 38% of total AUM (North America and Europe), followed by 14% for Latin America and 14% for Sub-Saharan Africa – which has grown +2% points from 2018 – with the rest of geographies at an average of 4-6% of total AUM each.

[13] https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing

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Impact Assets Classes

Within the impact investment industry, investors have a wide array of investment instruments and classes, and the choice of these are widely determined by the investment strategy desired, the development stage of the investee, the level of risk the investor is willing to take and the possibility of being more or less hands-on. The most popular asset class is private debt which continues to show a CAGR of 17% since 2013. Both private and public equity continue to grow significantly but from a low base in terms of AUM. Most investments continue to be invested into mature private companies, growth stage companies and mature publicly traded companies. Venture and seed companies represent a small percentage of AUM but more than 50% of the investors have invested into these stages, which shows that ticket sizes for these stages are significantly lower. Early stage investments continue to be a missing gap within the industry.

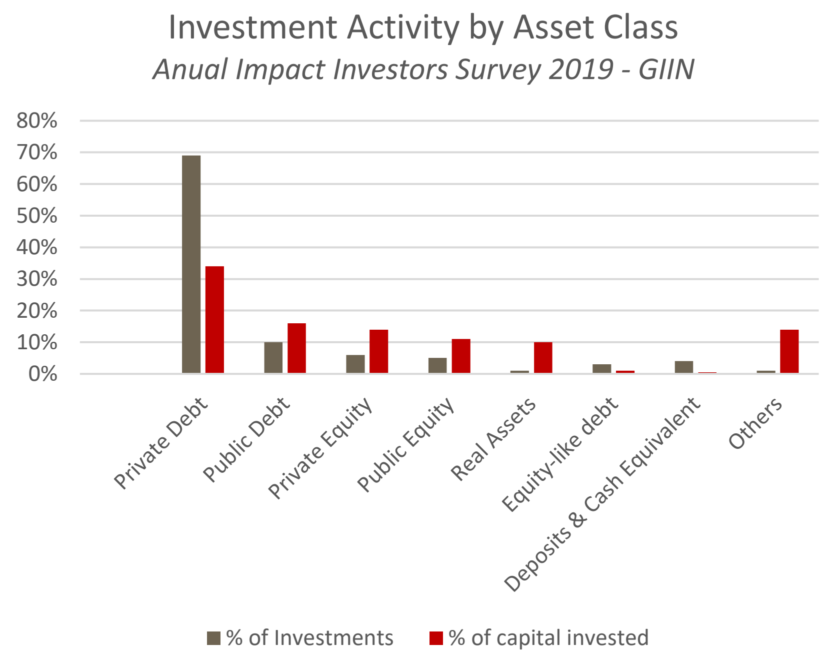

Figure 7. Investments by Asset Class as % of investments made, source GIIN 2019

Future of Impact Investing

Although there are no clear growth estimates for the impact investing market beyond 2020, there are some trends that can influence its evolution: (i) the market has gone mainstream - growing at a pace of approx. CAGR +17% since 2010; (ii) the sector is diversifying, attracting different stakeholders from traditional investing markets, like pension funds, insurance companies and commercial banks; (iii) the climate and environmental issues seem to be taking the lead - beyond renewable energy - together with technology driven initiatives and agriculture, and are growing faster than the traditional MFI priority investment sector; and (iv) partnerships and collaborations amongst different ecosystem stakeholders, very unusual and unlikely before, will be key moving forward, while the role of traditional stakeholders, like DFIs and pioneer risk tolerant private investors, might skew the focus towards minimising the risk of impact investing for other investors through creative blended instruments; (v) additionally, there seems to be a growing global consideration, particularly among younger generations, that recognizes that money should do good, other than just make more money, so investments should also seek to fuel sustainable social and environmental impact. Trends like CSR, ESG and MRI are already affecting all sectors, a signal of a larger shift in the global financial markets; (vi) finally, there seems to be a growing interest from investors to use a gender lens approach to impact investing, although it is still nascent. The GIIN has launched a specific initiative to explore the opportunities and challenges of gender lens investing - investments made with the specific intention to benefit, support and empower women and girls. The GIIN classifies into two main categories[14]: (i) a mission driven gender lens investing with the intention to address gender issues and/or promote gender equity, like investing into women-led SMEs or into SMEs that offer products or services that benefit women and girls; and (ii) a more commercial gender lens approach that uses specific processes and strategies to make investment decisions, using processes that focus on gender or using gender indicators within the investment criteria, like share of board, founders, organisation structure, commitment to gender equality, etc. In this line, the industry is seeing a growth in SMEs focused on servicing women and girls, as well as investors using a gender lens approach across all investments and even exclusively, like the Women's World Banking Capital Partners – a private equity that invests in financial institutions focused on enabling access to finance to women – and the value seeds social business that supports female small holder farmers.

To continue to grow, the GIIN anticipates some challenges that will need to be tackled like the feasibility of scale, increased accessibility of impact investments to everybody and greater transparency and standardization. According to the GIIN "Roadmap for the Future of Impact Investing"[15] there are some large-scale trends that will affect all investments, including impact investments, that need to be considered when shaping the future of impact investing, and some actions that will need to be taken for the development of the sector:

- **The future of work**: Automation will result in more productivity and structural shifts that will most likely eliminate many jobs and create new employment opportunities and higher skilled jobs. The Andela SME from Nigeria is a good example on how they are contributing to the creation of jobs, like remote work and technological skills, following this global trend.
- **The FinTech revolution and disruption** will provide financial services by making use of software and modern technology. FinTech will affect both investors – in the way they operate and make decisions - and also beneficiaries - electronic and mobile payments and banking are significantly increasing and will most likely become more important in emerging markets, which will continue to leapfrog traditional banking and credit cards, as they did with computers, and as we are already seeing in many Sub-Saharan African countries. Mobile payments and platforms - like Paystack or Robo advisors, automatized financial assessments based on a software that uses algorithms to select investments - are some examples of this trend. FinTech will also lead to new technologies and business models.
- **The democratisation of data** will contribute to a higher transparency for the performance of impact investments, with trends like the use of block chain technology and big data to customize and segment products and services.
- **Investment vehicles for small private investors**, like crowdfunding and equity crowdfunding, allow individuals to participate in investments of common social interest and with small amounts of funding. The market is valued at USD 10.2 billion for 2018 and is expected to grow at a CAGR of 16% up to 2025, reaching a USD 28.8 billion size.[16] China is the biggest market with 37% of total while US is 33%. Initiatives like Kiva.org have disbursed USD 1.33 billion to 3.3 million borrowers from 1.8 million lenders worldwide.

[14] https://thegiin.org/gender-lens-investing-initiative
[15] https://thegiin.org/assets/GIIN_Roadmap%20for%20the%20Future%20of%20Impact%20Investing.pdf
[16] https://www.prnewswire.com/in/news-releases/the-global-crowdfunding-market-was-valued-at-10-2-billion-us-in-2018-and-is-expected-to-reach-28-8-billion-us-with-a-cagr-of-16-by-2025-valuates-reports-888819175.html

- **Wealth transfer to women and younger generations** will influence the impact investing industry as these groups seem to show greater interest in other ways of aligning financial choices with their values and broader purposes.

Combining the Rockefeller Foundation's recommendations for the future development of the impact investing industry together with the GIIN's roadmap of recommended actions, in the next few years the industry should focus on:

- **Strengthening the identity of impact investing** by creating awareness of this identity and changing the paradigms around traditional investments behaviours and expectations.
- **Further strengthen the financial intermediation enabling investment banks, funds, etc.** to develop a new range of products, improve the scaling beyond the predominant MFIs, financial services and energy sectors, and develop a wider spectrum of products, specifically blended finance vehicles that catalyse lower risk investments and options for retail investors.
- **Reinforce and support the impact investing infrastructure** by strengthening and empowering an ecosystem that works on creating networks, industry standards, common performance metrics and advocates for policy and regulation changes that incentivise impact investments.
- **Develop absorptive capacity** so the supply of impact investment money can meet demand. Most investors name the lack of high-quality investment opportunities with track records as one of the key challenges, as well as the lack of financial and management skills in social enterprises and amongst entrepreneurs. Also important is the need to develop tools and services that help measure and integrate impact alongside risk and return. It is therefore key to support investments with the technical assistance of experts like accelerators, incubators and others.

Finally, looking into the future it is worth considering the "Transforming Finance Principles" developed by Morgan Simon, a pioneer impact investor from the US and previous social activist. The financial industry should look into those principles as it grows and scales, taking into consideration the learnings from a sister industry, microfinance, and the important lesson that "it is execution that matters". The principles are: i) engage the communities in the design, governance and ownership; (ii) investments add more value than you extract; (iii) balance risk and return fairly between investors, entrepreneurs and communities.[17]

4.2 Impact Investing in Africa

Africa continues to be one of the fastest growing regions in the world behind Asia. Although the 5-6% growth figures of the 2000-2012 period have been decreasing after the 2008 economic crisis and after the decreasing oil prices in 2014. The International Monetary Fund (IMF)[18] projections estimate an average growth of 3.5-3.7% for the 2019-2020 period for the Sub-Saharan region – with different prospects by country that reflect the heterogeneity of the region. Prospects in Nigeria are weighing down based on decreasing commodity prices, to 2.1-2.5% in 2019 and 2020 respectively. In terms of development figures, the Sub-Saharan region is still at a very low Human Development Index (HDI); shows the 3rd lowest Gender Development Index (GDI) after the Arab states and South Asia; and is the

[17] http://transformfinance.org
[18] https://www.imf.org/en/search#q=africa%20gdp%20evolution&sort=relevancy

region with the highest Gender Inequality Index (GII) rate[19], which altogether are the main factors attracting social investors willing to support the development of the region.

In terms of money flows, the decreasing trend in Global Foreign Direct Investments (FDI)[20] continued for the third consecutive year at -13% or USD 1.3trillion in 2018. Fall was once again concentrated in developed economies, while investments into the African region increased by +11% at USD 46 billion in 2018, although still below the annual average of the previous 10 years of USD 50 billion. Sub-Saharan Africa received USD 32 billion, growing by 13% vs. 2017, with South Africa leading the reception of inflows, which more than doubled vs. previous year. West Africa FDI inflows declined by by 15% largely due to Nigeria, where flows showed a significant drop of 43% to USD 2 billion.[21] The sources of external finance for developing countries were mainly remittances (at an estimated growth of 9.6% vs. 2017) and bank loans, while ODA continues to be the smallest piece of FDI. Latest official data for ODA in 2017 show a slight increase of 1.5% halting the declining trend of the previous years. ODA for Africa grew by 3.9% in 2017 becoming the largest recipient region of ODA. Most countries in Africa increased ODA funds, while Ethiopia and Nigeria continue to be the largest recipients, at 7% and 5% of total ODA respectively in 2017.[22] Despite both FDI and ODA indicators seem to have reverted the declining trend, averages are still significantly lower as compared to the pre-crisis years and seem to confirm the need for paving the way on the operations and policy fronts to attract more and different investors.

In line with global trends, African governments are looking into impact investing as an innovative and complementary way to address the delivery of basic services to the population and tackle development priorities, beyond ODA and FDI. According to the United Nations Development Programme (UNDP) and the GIIN organisations, impact investment could provide the private capital together with the necessary technical skills to trigger the creation of market-based solutions to address poverty issues and improve human and gender development levels as well as reduce inequalities.

Looking into the impact investing sector, Africa represents today 15% of the destination of the total AUM, according to the GIIN Annual Survey of 2019, and more investors are focusing on this region due to the low HDI levels and significant growth potential. Noteworthy, most of the impact investing capital unleashed in the region to date is mainly foreign, from US and Europe, from fund and asset managers together with DFIs, and is focused on the financial, energy, education and healthcare sectors. Impact investors are moving towards emerging markets, like South Asia and Sub-Saharan Africa, as these regions have the greatest concentration of inhabitants living below the poverty line and require sustainable solutions to poverty issues and enabling access to basic services like clean water, education, health, finance, etc. Impact investors are also being attracted by some international and regional trends that are driving the interest: (i) impact investing is becoming mainstream; (ii) the rise of blended finance structures for SMEs that offer both profit and non-profit capital through the same vehicle, offering philanthropic money to cover for first losses or technical assistance support, and that catalyses the pull for private capital to invest at lower risk-returns; (iii) the exponential development of technology in Africa, which has enabled the mobile payment and energy distribution innovations and increased connectivity to allow to offer many services at affordable prices for customers at the bottom of the pyramid (BOP).

[19] http://hdr.undp.org/en/content/gender-inequality-index-gii
[20] https://unctad.org/en/PublicationsLibrary/wir2019_en.pdf
[21] https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2109
[22] https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/Africa-Development-Aid-at-a-Glance-2019.pdf

While these trends are very attractive for investors, in the context of an underdeveloped ecosystem, unleashing impact investing funds in Africa faces certain challenges - as posed by the UNDP's study on impact investment in Africa. They are related to either the specific business/financial opportunity or to the nature and limitations of operating businesses in the region.[23] These challenges were also confirmed by most of the stakeholders interviewed.

i) Operating limitations

a. **Lack of awareness and/or understanding** of the impact investing sector amongst local stakeholders, coupled with a reluctance from local private and institutional investors to move away from traditional investment strategies in favour of innovative, higher risk and uncertain return options with little track record like impact investments.

b. **Lack of awareness or credibility of social enterprises**: there is no existing legal structure to acknowledge this type of businesses or a big enough track record and technical experience that can provide investors with the comfort and guarantees that they need to choose social businesses over regular businesses.

c. **Limited capital supply across the risk/return spectrum**: according to the GIIN 2019 Survey, only 13% of total AUM were invested into venture or early stage businesses, resulting in a limited availability of capital for early stage ventures stemming from an apparent little or no appetite for risk. This is what many investors refer to as the "missing middle", whereby business angels and foundations are supporting seed and pilot stages, impact investors are supporting organic growth and scaling stages, but few are supporting the "hazardous journey through the dessert of early stage growth businesses".

d. **An unclear and changing regulatory environment** coupled with underdeveloped financial markets and infrastructures build up to a high cost of opportunity of investing or doing business in the region.

e. **Poor linkages between social enterprises, entrepreneurs, investors and networks,** all part of an ecosystem which is key to enable the connections that are required to establish standards, share best practices, influence policy making and boost the sector.

f. **Poor and inconsistent impact measurement**: although improving, the sector is still used to or familiar with some of the available standard reporting frameworks on impact performance, which have become an absolute "must" selection criteria for impact investors, as this remains a key differentiating factor between traditional and impact investments.

ii) Financial and business opportunities limitations

a. **Deal flow**: sourcing investments is one of the biggest challenges due to the limited number of investment ready businesses and social enterprises and their limited access to or knowledge of impact measurement and management practices, essential to unlock impact investors' resources.

b. **Limited fund and deal structures** that can meet the African market needs and risk situation, like first losses and guarantees: this is being addressed more and more by the blended finance funds deployed by DFIs, HNWIs and some private foundations, who are contributing the concessionary funds to cover for the first losses that many impact funds are defining, and offering guarantees and others to cover for the high risks associated to the operating environment, be it access to foreign exchange (FOREX), changing government and financial policies, corruption or security issues.

[23] https://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/Impact%20Investment%20in%20Africa/Impact%20Investment%20in%20Africa_Trends,%20Constraints%20and%20Opportunities.pdf

c. **Exit options**: most exits of investments in Africa have been through sells to strategic buyers rather than initial public offerings (IPOs).

In order to continue the growing trend of the impact investing in Africa, all stakeholders in the ecosystem will need to collaborate and work together towards addressing these challenges, establishing public-private partnerships across sectors that will enable the sharing of practices needed to continue to build track records, establish operating standards and influence government policies around doing business in the region.

4.3 Impact Investing in West Africa and Nigeria

The West Africa region is the second fastest growing economy in Africa and, although not an easy region to do business, recent developments show improvements in this regard. Nigeria is undoubtedly the economic powerhouse in West Africa with the biggest population size and gross domestic product (GDP) in the region. In terms of human development, most West African countries are below global average, have significant inequalities, face challenges related to poverty, health, education and nutrition, together with gaps in energy, infrastructure and agricultural production, which calls for demand for capital and innovation to support a thriving entrepreneurship sector that can have a significant contribution to tackle the mentioned development issues if properly supported.

West Africa is therefore an attractive target for impact investors. However, while impact investing is not new to the region, it still remains an underdeveloped sector and is highly unknown or uncertain to local investors who are either not familiar with the term or doubt the inherent concept of being able to achieve both social impact and financial returns all in one. Together with the difficulty of understanding the ways of doing business in the region, the lack of investment ready companies, the unpredictability of policy regulations, and political instability all account for the main barriers for the impact investing sector to further develop in the region.

The latest official data on impact investments into West Africa dates back to 2015. The author has used this as a starting point to provide an overview of the most recent official picture of the sector's size and main characteristics. The study then offers a quality vision of how the market seems to have evolved in the region since. According to the GIIN's study, "The Landscape of Impact Investing for West Africa",[24] which included the activity of a total of 40 impact investors during the 2005-2015 ten-year period, the region received 27% less impact investments than East Africa, despite having over double the GDP size, most of the funds coming from DFIs. More than 50% of the impact investment capital went to Ghana and Nigeria - which have received almost the same amount of investments despite Ghana's GDP size difference (Nigeria accounts for 80% of west Africa's GDP), probably due to more friendly business policies - followed by Senegal and Cote d'Ivoire. Majority of investors are non-DFIs, however DFIs deploy over 95% of total investments, with 50% of them being over USD 50 million in size. DFIs had an overwhelmingly stronger weight on investments compared to the estimated global average (95% of total investments deployed in West Africa, vs. 25% globally, confirming the room for growth from investments by non-DFI investors. The biggest interests were in the financial services and agriculture sectors for non-DFIs, and on energy, manufacturing and infrastructure for DFIs. The most common asset used was debt although non-DFIs use a wider range of instruments like equity and quasi-equity

[24] https://thegiin.org/assets/160620_GIIN_WestAfrica_full.pdf

instruments as well. The chart below reflects the landscape for impact investors identified by the GIIN in 2015 for the region.

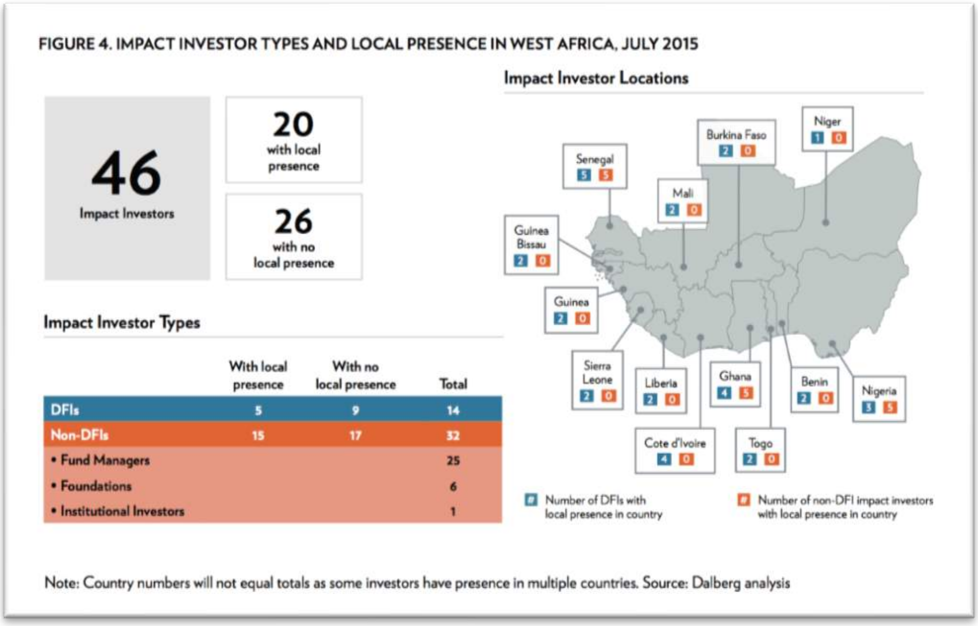

Figure 8. West Africa Impact Investor Landscape, by GIIN Impact investing in West Africa Report, 2015

Since 2015 the impact investing market has significantly increased worldwide. The research done for this study indicates that the same holds true for West Africa, as more investors are looking into the development opportunities that the continent holds, a kind of “it’s time for investors in Africa”. While investors researched and interviewed still seem to have a stronger pull for East Africa, as the sector matures, more investors join in the sourcing for opportunities in other regions with even bigger social and environmental challenges. This will become a natural move for portfolio diversification and differentiation. Despite the changing trend identified, the profile of the typical investor in West Africa continues to be similar to that of 2015, with DFIs still deploying the majority of investments. The biggest difference probably relies in the change of sector focus, diversifying and moving from MFIs, financial services and energy to include agriculture, education and health. Nigeria and Ghana continue to be the primary destinations for impact investing, although Senegal and Côte d’Ivoire seem to be accelerating the pace.

Nigeria

Being the biggest country and economy in the region, Nigeria ranks 157 (out of 189 countries) in the HDI global ranking, with 53% of its total population still living below the poverty line of Purchasing Power Parity (PPP) at USD 1.90/day. A high working poor class with over 70% of employees is making less than USD 3.10/day. Nigeria has a high youth unemployment rate at 19.7% for 2018 according to the World Bank and holds one of the highest inequality rates in Africa. It is part of the group with the lowest gender development indexes (GDI at 0.868) as defined by the UNDP.[25] In terms of money inflows, Nigerian FDI significantly decreased after the 2014 crisis and have continued that trend until early 2019 when FDI seems to have reverted[26], while oil continues to be the key driver for FDI despite growing investments into the manufacturing and service sectors.

After the economic crisis following the commodity price reduction in 2014, the Nigerian government, in the context of the Economic Recovery Growth Plan (ERGP) 2017–2020, is on the way to reducing the oil-dependence of the country. It aims to diversify the economy and boost the support to other sectors, improving the overall business environment and access to finance, upgrading infrastructure, combating corruption, reducing unnecessary bureaucracy and incorporating some incentives for investors - specifically in the agriculture and tourism sectors, like the introduction of imperatives for banks to support equity investment and promotion of SMEs, as per the Small and Medium Enterprises Equity Investment Scheme (SMEEIS). [27] This scheme seems to set a relevant and attractive framework to attract impact investors.

In line with the information available for the impact investing sector for West Africa, the data on the size and nature of impact investments in Nigeria has not been officially updated since the GIIN 2015 study, so the author is using this data as reference and has updated information wherever available, drawing qualitative conclusions from interviews of stakeholders in the sector. Since 2005 and until 2015, an estimated total of USD 3.9 billion were deployed in Nigeria in the form of direct or indirect impact investments – through intermediaries like fund managers. Very much in line with the impact investing landscape in West Africa, DFIs are the primary source of direct impact investments accounting for 96% of total capital deployed with an average size deal of USD 20.2 million, while non DFIs make smaller deals at an average of USD 0.9 million. At the time of the study, 28 impact investors had made impact investments into Nigeria, while the number of impact investors identified by the author is around 60 amongst all types, confirming a growing trend for the sector and for investors' interest, although the number of investors in Nigeria is still low compared to other African countries, particularly in East Africa. As defined by the GIIN, the profile of a typical impact investor in Nigeria would be: not from Nigeria, not operating in Nigeria, the majority would invest early and patiently, expect returns between 13-17% in equity or quasi equity deals, and would most likely follow a "hands-on" approach (whether via formal technical assistance for DFIs or via in-kind support for non-DFIs). In terms of sectors of preference, Nigeria follows the same trend as West Africa, with MFIs and energy sectors leading investments, but is showing a particular focus and growth in agriculture (in line with governments priorities), manufacture and ICT.

[25] http://hdr.undp.org/en/countries/profiles/NGA
[26] https://www.ceicdata.com/en/indicator/nigeria/foreign-direct-investment
[27] https://www2.deloitte.com/content/dam/Deloitte/za/Documents/deloitteafrica/Invest%20in%20Nigeria_Country%20Report_July18.pdf

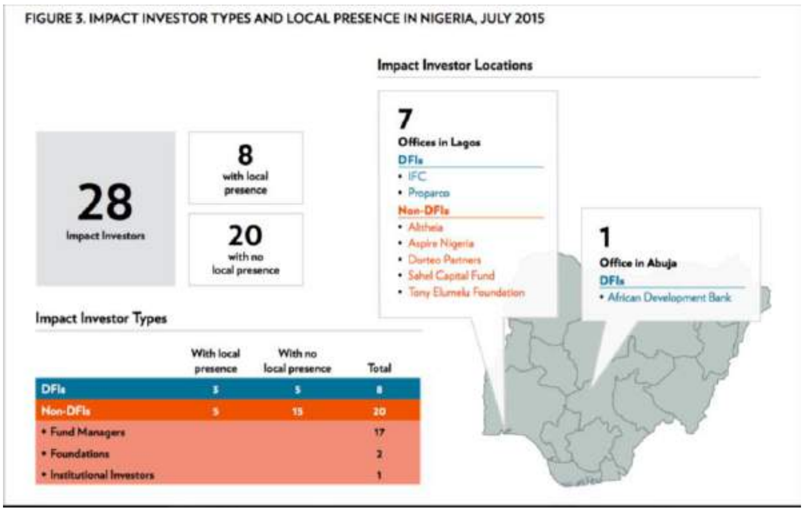

Figure 9. Impact Investors landscape in Nigeria 2005-2015, by GIIN 2015 West Africa Report

Source: GIIN 2015	DFI's	Non DFI's
# of Investors	8	20
Sector Focus	Energy Manufacturing ICT	Financial Services (MFI's) ICT Agriculture
Target Investment	Large Enterprises SME's	SME's
Stage of Investment	Venture Growth	Venture Growth
Avge. Deal Size	$50M	$1-5M
Main Instrument	Debt	Equity Quasi-equity
Source of Funding	Governments	DFI's Family Foundations HNWI
Key Stakeholders	IFC Proparco AfDB KfW	Alitheia Aspire Nigeria Dorteo Partners Sahel Capital Fund Toney Elemelu Foundation

Figure 10. Summary of Impact Investors landscape in Nigeria, 2005-2015, source GIIN 2015

The table to the left is a summary of the impact investing landscape identified by the GIIN for the 2015 survey and includes actors from 2005 to 2015. While DFIs invest in larger deals and larger enterprises in the energy, manufacturing and ICT sectors through debt instruments, non-DFIs are more prone to invest smaller size deals into SMEs operating in the financial services and agriculture sectors, using equity instruments. The research conducted by the author shows that since the GIIN study, the profiling of the sector has not significantly changed, however, the number of stakeholders has significantly increased, particularly amongst the international fund managers and foundations. Also, the type of instruments used have become more sophisticated. The specific new actors identified will be covered later in the section for the impact investing sector mapping in Nigeria.

The challenges mentioned previously regarding the barriers to impact investing in Africa have been validated for Nigeria by many of the key stakeholders interviewed for this study. The impact investing sector here faces, additionally, other macro-economic and structural challenges. The cost of doing business (Nigeria ranks 146 in the World Bank's Doing Business Index report 2019[28]), high tax and lending rates (i.e. Nigerian MFIs

[28] https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf

have rates of 40-60% compared to other West African countries like Senegal or Ghana where government has capped the rates around 25%)[29], the lack of fundamental infrastructure (like electricity and roads), the lack of policy clarity and continuity, the soaring corruption and the security issue, altogether make of Nigeria a higher opportunity cost vs. other Sub-Saharan countries.

4.4 Impact Investing in NICOP Value Chains

According to the interviews and desk research conducted, impact investors do not seem to select their impact investments according to specific value chains, but rather using specific investment criteria (specified and explained in a later section). Investment decisions are primarily based on the overall mission fit, geography and sector alignment and on the expected social impact and market potential. Investors will source and screen investments based on their specific investment criteria and following specific due-diligence processes (explained in a later section as well) but are unlikely to disregard or consider an investment based exclusively on the value chain. Therefore, approaching investors by offering an overall business and investment opportunity within the broader agriculture or leather and garments/fashion sectors as a whole, seems more appropriate and better fit to the operating processes that impact investors follow. To note, the author could not identify an investment into any of the specific NICOP's value chains (VCs) of interest to date, but several investments into cassava, maize, rice, poultry and fish.

Looking into the broader sector, and not into specific product VCs, agriculture and food has become one of the focus sectors for impact investors and one of the fastest growing. It caters to more than 866 million people in the world officially employed in the agricultural sector in 2017 according to FAO,[30] 34% living in Southern Asia, 17% in Eastern Asia and 25% in Sub-Saharan Africa. The agricultural sector accounted for 57.4% of total employment in Sub-Saharan Africa and 42.2% in Southern Asia. Although the share of total employment in agriculture has declined over the past decade, the total number of workers in agriculture in Sub-Saharan Africa has grown. More importantly, out of the more than 570 million farms in the world, over 90% are run by small holder farmers (SHFs) who produce about 80% of the world's food. Ironically, as the One Acre Fund puts it, *"it is a bitter irony that the majority of the world's hungriest people are farmers".*[31]

Both, the FAO and the International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD) consider the support and investment into SHFs one of the most important and promising ways to achieve the SDG 2 - end hunger, ensure food security, improve nutrition and promote sustainable agriculture.[32] Moreover, it is less energy consuming and more environmentally friendly than investing in intensive farming. To improve productivity and the lives of the many people that they employ, SHFs need innovation, capacity building was well as financial and market linkages support. All these elements fit like a glove with NICOP's strategy and intervention plans and offer an important opportunity for GIZ to become a key partner for the development of the impact investing sector within the agriculture sector in Nigeria.

[29] Quotes by interviews from Netri Foundation and Symbiotics
[30] https://www.globalagriculture.org/fileadmin/files/weltagrarbericht/Weltagrarbericht/10BäuerlicheIndustrielleLW/Pocketbook2018.pdf
[31] One Acre Fund's Farmers First strategy https://oneacrefund.org/what-we-do/farmers-first/
[32] https://sustainabledevelopment.un.org/sdg2

Worth mentioning is the role of women and the feminisation of agriculture, according to the IAASTD, “the number of female-headed households is increasing as a result of civil wars, AIDS and the migration of men to cities in search of paid work”. [33] Therefore, both in Africa and large parts of Asia, women in rural areas bear the main responsibility for taking care of children and elderly and constitute the majority of the agricultural labour force in small-scale and subsistence farming. In this context, it is important to consider and address the gender gap existing in agriculture. Women lack the resources (time, land propriety, access to finance, training, productive resources and services) and opportunities (legal and social barriers) to further contribute to the productivity of the sector.[34]

An important development in impact investments within the agriculture sector has been the efforts by all stakeholders to identify and design creative and alternative ways to manage and minimise the vulnerability of SHFs to extreme weather events and climate change, and its negative impact on production and global food security. Many investors are partnering up with insurance companies and intermediaries to develop insurance products that meet SHF’s requirements and at the same time are affordable. According to a study by GIZ, “Innovations and Emerging Trends in Agricultural Insurance”[35], only 1% of SHFs are insured in Africa, and if so, the weighted average subsidy is the lowest in the world at 37%. The sector is starting to use index-based products – based on weather or yield patterns – that allow for insurance companies to calculate pay-outs based on an index highly correlated with the loss caused by the insured risk. There is no need to assess losses on a farm level, which significantly reduces the cost of the process and product. With these products, once the index suggests that that SHFs have suffered losses, the company will automatically issue the compensation. This and other digital innovations[36] are key to enable the access of insurance products to SHFs, that may cover for either inputs only or inputs and yield losses. Initiatives, like the InsuResilience Fund by KfW, or the Acumen Resilience Agriculture Fund (ARAF), aim to tackle this issue by investing into insurance companies that support SHFs or into agricultural business that include or enable access to insurance products. Some social organisations like One Acre Fund will include insurance products in the service package financed to SHFs.

Regarding the manufacturing sector, and particularly the garments/fashion and leather VCs, the interviews revealed no particular interest in or focus on them, although investors acknowledge the potential of the sectors. The key barriers or challenges mentioned, refer to the lack of knowledge or experience in the sector, and the lack of previous investment experiences. However, these VCs offer a big opportunity for unleashing the creative and business potential of local artists, driving local entrepreneurship and talent support while contributing to youth and female employment. These factors altogether should be an attractive pull for investors, provided SMEs within the sectors are sufficiently developed and efficient throughout the VC and investment ready.

Based on the feedback received from the interviews, the following sub-sections analyse the potential of each of the NICOP VCs to attract impact investors based on their current track record investments and selection criteria.

[33] Definition of feminisation of agriculture by IAASTD, https://www.globalagriculture.org/report-topics/about-the-iaastd-report.html
[34] http://www.fao.org/3/i2050e/i2050e01.pdf
[35] https://www.giz.de/de/downloads/giz-2016-en-innovations_and_emerging_trends-agricultural_insurance.pdf
[36] https://www.cgap.org/blog/digital-innovations-smallholder-agricultural-insurance

4.4.1 Tomato/Pepper/Chili and Ginger

Regarding specific products, impact investors' focus within the agriculture sector has been on supporting either staple crops - prioritising a food security approach and objective for their investments -, or export crops, that prioritise income increases for SHFs and which provide investors with different options to cover for FOREX risk, - like receiving debt repayments directly through international buyers of export crops -. Ginger could potentially be included into the category of export crops and, although tomato, pepper and chili do not fall into either of the two categories mentioned, they are nonetheless high value crops, compatible with other major staple crops, mainly directed to local markets and therefore a natural value chain for any impact investor focused and/or experienced in agricultural investments, whether it be directly into social business or SHF's associations, or through agriculture impact funds. Net, as long as any of the agribusinesses and organisations involved in these value chains meet the criteria required by investors, there is an opportunity to unlock the funds to support these value chains.

Particularly on the tomato value chain, there seems to be a huge opportunity for impact investors since Nigeria is the largest tomato harvested land in Africa but also the producer with the lowest yields in Africa with SHFs accounting for 90% of tomato production, according to FAOstat[37]. The biggest challenge remains on reducing the estimated 45% waste of yearly tomato production[38], properly linking the tomato producers with the processors and improving agricultural practices to improve production and cover for the local demand, limiting the need for imports and therefore contributing to the strengthening of the local economy and life improvement of farmers. All these challenges seem to perfectly fit the type of development support that many impact investors are looking into. Some examples of this are several initiatives and innovations identified to specifically prevent or reduce harvest losses, where the tomato value chain has been included and targeted: (i) the Global alliance for improved nutrition initiative includes several plans, like the *Growth and Employment in States Wholesale and Retail Sector (GEMS4)*[39] that trains producers on handling practices, considering cold chain investments, etc., and the *Post-harvest Alliance for Nutrition (PLAN)* by Gain that brings together public and private stakeholders to reduce the loss and waste of nutritious foods; (ii) the *YieldWise Food Waste Initiative* by Rockefeller Foundation, a USD 130 million initiative to cut post-harvest losses, using technological solutions for farmers, fostering partnerships (like the one with Dangote Farms Ltd), and increase awareness of food waste; and (iii) other technological innovations like solar powered cold storage facilities, packing houses or zero energy cool chambers.[40] These initiatives, together with the identification of target social businesses active in the tomato value chain, could very well contribute to attract the interest of impact investors forging blended financing alliances to support particularly the reduction of tomato production waste in Nigeria.

Some local businesses identified operating in the agricultural value chain are:

- NafarmFoods: an enterprise that processes and preserves fruits and vegetables such as tomatoes, onions and pepper through drying and/or converting to powdery form to help combat the issues of its scarcity, extreme cost and wastage during it harvest season.
- Varden Farms and Foods: is an organic farm producing high quality organic agricultural products that are healthy, durable and best standard for human consumption, aimed at boosting food safety and security and creating wealth through agriculture. Varden Foods is the food

[37] http://www.fao.org/faostat/en/#data/QC
[38] https://www.pwc.com/ng/en/assets/pdf/nigeria-tomato-industry.pdf
[39] https://beamexchange.org/practice/programme-index/71/
[40] http://sahelcp.com/wp-content/uploads/2017/07/Sahel-Newsletter-Volume-15_Tomato.pdf

company specialized in the processing and distribution of high-quality fresh farm produce for consumption in and around Nigeria.

- AACE foods: processes, packages and distributes cereals, grains, herbs and vegetables sourced from smallholder farmers in rural communities in West Africa.
- FarmCrowdy: uses a crowdfunding digital financial technology to provide an alternative financing channel for locals to invest directly in agriculture.
- Hello Tractor: is the “Uber for farmers”, an online platform to connect tractor owners with SHFs that require planting and harvesting services.
- Babban Gona, One Acre Fund: although these businesses are focused on providing a package of services to farmers in the maize value chain – like input-based financing technical training, inputs delivery and other services – many of their SHFs additionally plant tomatoes and/or ginger and could benefit from their service model as well.
- AFEX: aims to increase the competitiveness of the agriculture sector in Nigeria offering services to SHFs in aggregation, storage, financial access and selling of products, moving them from production of commodities only to transaction as well, through their online platform.

4.4.2 Leather/Garments

The leather sector in Nigeria is extremely developed, efficient and professionalized in the early stages of leather tanning, but it is not integrated at all with the successive stages of the value chain, which have important quality and consistency issues and evident market linkage gaps. In the same line, players in the garment and fashion sectors are not adequately integrated in the value chain and the sector is very atomized with non-professionalized actors working in isolation. This has translated into a lack of awareness of the potential of these two value chains for impact investors, who have traditionally invested more into access to basic services and products, like health, education, WASH, access to finance, energy, housing, etc. While manufacturing is gaining traction and interest for impact investors, the study found no evidence of specific investments into garments/fashion and leather value chains, but identified a donor program - the GEMS4 project mentioned before for the tomato value chain – which has a specific focus on leather, promoting the “skin preservation salt” to increase the shelf-life of skins. The study did find some interesting and innovative social initiatives in Nigeria, mentioned below, around the fashion/garments value chains, which seem to have a strong potential for the employment and empowerment of both women and young people. These value chains also offer the potential of high margins for retailers and returns for investors, although the design, branding/marketing and distribution in local and external markets are key for the success of businesses in these very competitive value chains, where differentiation or added value is needed. None of the interviewed or researched companies had a specific focus on leather, the biggest barrier being the need for specific machinery, the lack of technical skills and some investors mentioned the potential environmental risk associated to the leather business.

Some of the businesses and initiatives identified in the fashion/garments VCs are:

- Kinabuti Ltd. and Kinabuti Foundation: an ethical fashion label to empower women and youth in Nigeria. The business has stopped because of lack of profitability despite the high demand from local hotels, schools and hospitals to produce uniforms. During the interview, they mentioned that after closing, 100% of their 40 employees found an employment within the sector and are still employed three years after. They continue to train youth and women on tailoring and business skills, which has now become the focus of their business model.

- Serah Kassim fashion brand: a fashion academy to train designers and pattern makers. She is part of the Tony Elemelu Foundation Entrepreneurship Programme.

4.5 Impact Investing Stakeholders' Ecosystem Mapping

The following exercise aims to map the different groups of stakeholders that are part of the impact investing ecosystem in general and the specific stakeholders by groups identified specifically for Nigeria. For the sake of this study, the author has used the classification by the Global Steering Group for Impact Investment (GSG) and GIIN to define the main groups of stakeholders involved in the impact investing ecosystem.

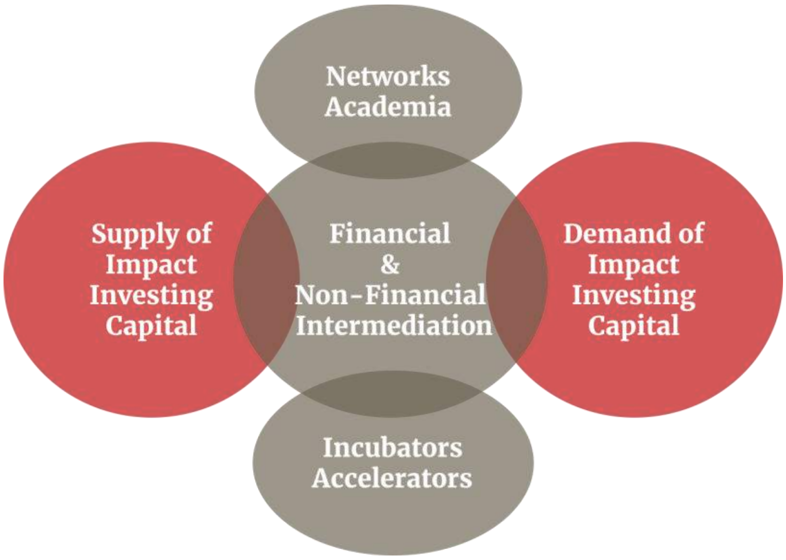

Figure 11. Impact investing Ecosystem: overall stakeholders mapping, by author

4.5.1 Ecosystem: Supply, Demand and Intermediation

The impact investing ecosystem can be classified into three broad groups, depending on their main role: the supply of impact investing capital, the demand of impact investing funds, and the intermediation between supply and demand. Some stakeholders might navigate across groups as they often take on different intermediation and support roles, as well as the main supply or demand ones.

i) Supply side: this refers to all organisations or individuals supplying capital - whether directly or indirectly - for making impact investments, so "impact investors". There are several types of private and public investors, generally classified as either Development Financial Institutions (DFIs) or non-DFI investors, including fund managers, foundations, HNWIs, family offices, microfinance institutions (MFIs), Institutional Investors (like commercial banks, pension funds, insurance companies) and private investors (crowdfunding networks, solidarity pension funds, etc.).
ii) Demand side: refers to all stakeholders looking to raising impact investing funds to support their businesses and projects towards the achievement of social and environmental goals, together with their financial objectives. The majority of the demand is pulled by MFIs, SMEs or social

enterprises. Recently, however, there is a growing trend of impact investing demand from NGOs and intermediate organisations to issue social impact bonds.

iii) Intermediation and other actors: all other actors that are active in either or both the supply or demand side, whether supporting investors, enterprises or both. This can include incubators and accelerators, technical assistance (TA) providers, donors, research institutions and academia, industry associations and networks, credit rating services, etc.

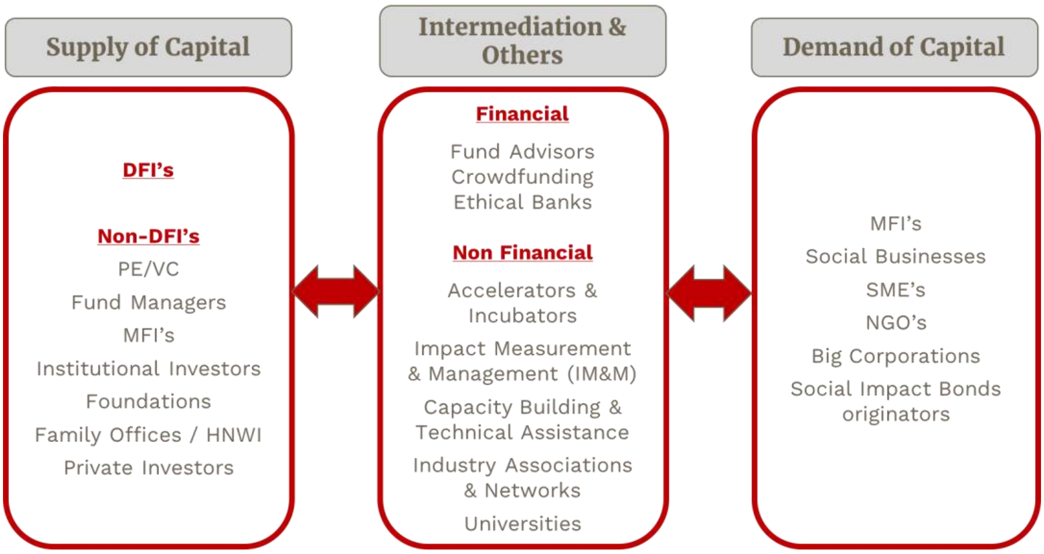

Figure 12. Impact investing Ecosystem: Key Stakeholders Groups, by author

The Supply Side of Impact Investing

Generally, the supply side is classified into DFIs and non-DFI investors, which include private equity and venture firms and fund managers, institutional investors, MFIs, family offices, HNWI and private investors. In the profiling of stakeholders in the supply side, DFIs accounted for 45% of total AUM globally in 2018 according to the GIIN annual survey. They have larger deal sizes (average of USD 50 million) and usually prefer debt as investing instrument as it requires less involvement, less risk and has an easier exit. On the contrary, non-DFIs will favour smaller size deals (ranging USD 1-5 million) and equity or semi-equity instruments, and use a more hands-on approach towards investments, in many cases taking a seat on the board. MFIs have lower investment deals (usually USD 50-1,000) in the form of micro-loans to micro-entrepreneurs but still account for 13% of impact investments portfolios. As shown previously in the overall market perspective, most investors are interested in a multiple of sectors, the most important ones being financial services and MFI's, energy, agriculture and WASH.

This overview of the supply of impact investing capital also reflects the existing gap in the lower deal size range, namely investments of between USD 25,000 to USD 500,000. They are necessary to support the riskier seed and early stage SMEs, which in turn are essential to the continuity of the entrepreneurial ecosystem. This low deal size financing gap - too big for MFIs, too small for larger investors and previously covered by grants from NGOs and foundations - needs concessionary capital from different investors to support the missing middle, commonly referred to as the "journey through the dessert" phase. This could be unleashed by the "blended finance" or "catalytic capital" instruments that foundations and DFIs have started to use taking on lower return rates in favour of higher returns for other lower risk profile investors. The chart below is a summary of the key characteristics of the main suppliers of impact investing capital.

Characteristics	DFIs	Fund Managers for Private Equity (PE) & Venture Capital (VC)	Foundations	Institutional Investors	MFIs
Average investment size (US$) (range)	US$ 50M	US$1-5M	US$ 1-5M	US$ 1-50M	US$ 50 - 1,500
Instruments used	Primarily Debt, Blended finance or catalytic capital like first losses &guarantees	Equity, debt, quasi- equity	Equity, debt, quasi-equity , blended finance	Comm. Banks: debt; Insurance companies & pension funds: debt and equity	Debt and other microfinance products, e.g. insurance
Additional services provided	Technical assistance / managerial advisory services	Advisory services, and other business development services	Business development services / T.A.	n/a	Financial and business T.A
Sector focus	Multiple	Multiple	Multiple	Multiple	Financial Inclusion/Access to Credit
Focus of investment	Fund managers, start-ups, SMEs, large firms, MFI's	SMEs for VC firms and Impact Funds / Med-Large Enterprises for PE funds; All MFI's	Social enterprises, Fund managers, SME's, start-ups, NGOs, MFI's	Comm. Banks: large firms Insurance companies and pension funds: fund managers, MFIs	Micro- enterprises, micro-entrepreneurs and individuales
Sources of capital	Governments and private sector	DFIs, foundations, institutional investors, and private individuals	HNWI/ Endowments /private wealth	Depositors and clients	DFIs, NGOs, donors, foundations, private Fund, institutional investors
Financial return expectation	Mostly market rate returns for debt (2-8%)	Range from market rate returns (7-18%), with some non-profit funds accepting below market-rate returns (<7%)	Mix of capital preservation, below market rate returns and market rate returns	Market rate returns	Mix of market rate returns and below market rate returns
Impact Measurement & Management (IM&M)	Yes (proprietary or externalised)	Mostly have Social KPI's in impact metrics and follow industry standards (SDG's, IRIS	Proprietary IM&M tools and/or use industry standard indicators (SDG's, IRIS, etc)	n/a	Mostly follow SPI4 social performance tool by CERISE

Figure 13. Supply of Impact Capital Stakeholders key characteristics. By the Rockefeller Foundation and Dalberg "Impact investing in West Africa" report, 2011. Updated by author

<u>The Demand Side of Impact Investing</u>

The demand for impact investing capital is concentrated in MFIs and SMEs, and to a lesser extent in Social Impact Bonds (SIBs), a new player in this segment. MFIs are part of a mature and regulated sector which has historically been the first receiver of impact funds and continues to be a 13% of total impact investments of AUM. SMEs are the predominant form of business and employment in many sectors, accounting for 60% of employment worldwide. SMEs and social businesses, however, do not share the same ease as MFIs to access traditional venture capital and require specific and more flexible investments tools and terms that fit their businesses' size and stage requirements. Additionally, SME's require innovation - to increase productivity and wages -, and digitalisation to access financial services and business skills, amongst others. Other stakeholders that have also started to demand impact capital are NGO's with some sort of business models and Social Impact Bond issuers.

According to Social Finance UK, a pioneer in the sector, "Social Bonds provide investment to address social problems and look to fund preventative interventions. They link financial returns to the delivery of measured social outcomes. If, and only if, the social outcome is achieved, the outcome payer repays the investors for their initial investment plus a return for the financial risks". Social Finance estimates there are currently over 120 SIB's, for more than USD 300 Million investments to tackle social issues in 24 countries worldwide.[41] An interesting example of SIBs is the recently approved International Committee of the Red Cross (ICRC) Social Impact Bond, the world's first Humanitarian impact bond for

[41] https://www.socialfinance.org.uk/what-we-do/social-impact-bonds

Nigeria, Mali and DRC.[42] Also in Nigeria, in the agriculture sector the Raise Out of Poverty Bond (ROPO)[43], - supported by UK Aid and Babban Gona, and invested by Palladium and other private investors -, that aims to scale-up Babban Gona's activities, finance business expansion amongst SHF's, increase women's participation by 25%, and to demonstrate to investors and potential start-ups that agriculture in Nigeria can be profitable. ROPO has already issued 3 bonds and the UK Aid has reinvested the capital and interests from first bonds into the third bond.

Intermediation and Other Stakeholders

The intermediation of both financial and non-financial stakeholders is fundamental to the development of a robust impact investing ecosystem, as they provide the so much required support in all the different areas of need for investors: deal sourcing, fund structure advisory, financial, business and impact management support, digital access and network linkages, sharing of best practices and processes, policy advocacy, research & development, industry standards definition, etc. These stakeholders are the connectors within the ecosystem, the enablers for knowledge sharing and therefore an invaluable source of information, networking and support for the industry.

The financial intermediation refers to all organisations supporting the ecosystem with all financial services but credit, and include fund advisors and fund managers (who are sometimes private equity or venture capital firms, in which case they are considered part of the supply side of impact capital) as well as ethical banks and crowd-funding platforms that connect and group small private investors to invest into SMEs. The non-financial intermediation includes all organisations supporting the ecosystem with other services like accelerators and incubators (that provide business management and technical capacity building programs, network support and sometimes angel and seed investments), technical assistance service experts (like Technoserve, who create business solutions to poverty), industry networks and associations (like the GIIN, the GSG, Toniic and EVPA, who provide connections, best practices sharing, measurement and management tools and frameworks, industry standards development, policy advocacy, etc.), and donors and donor programs that finance and provide T.A. support.

4.5.2 The Nigeria Impact Investing Stakeholders Mapping

The impact investing landscape in Nigeria has not been officially analysed nor measured since the 2015 study from the GIIN.[44] The stakeholders identified then – as well as the ones mentioned by the previous study by Dalberg and the Rockefeller Foundation from 2011[45] – seem to still be operating the ecosystem, while the author has identified several new stakeholders to the market, most of them international. As mentioned previously, Nigeria is still a small and developing impact investing market – receiving almost the same amount of USD investments as Ghana despite the GDP difference. Nigeria has a big potential for growth, amid the appropriate network and intermediate services development and favourable regulations, together with an increase in the awareness and understanding of all stakeholders of what impact investments are.

[42] https://www.icrc.org/en/document/worlds-first-humanitarian-impact-bond-launched-transform-financing-aid-conflict-hit
[43] http://www.propcommaikarfi.org/our-markets/babban-gona
[44] https://thegiin.org/assets/160620_GIIN_WestAfrica_full.pdf
[45] https://assets.rockefellerfoundation.org/app/uploads/20150610104900/Impact-Investing-in-West-Africa.pdf

Suppliers of Impact Capital in Nigeria

Generally speaking, non-DFI investors are higher in number (particularly MFIs and PE/VC firms), however DFIs deploy the majority of impact investing capital in Nigeria, at 97% of total funds disbursed up to 2015. This is in line with West Africa but significantly higher compared to the global landscape, where DFIs account for 25% of investments.[46] The image below is a summary of the impact investors, by segments, identified by the author during the research and interviews conducted for the study. Important to note is that the author has only included the investors that are exclusively or mainly impact investors and active in Nigeria or West Africa, although there are other traditional investors supporting SMEs, as identified by the Aspen Network of Development Entrepreneurs (ANDE) ecosystem snapshots for 2013 in both Lagos[47] and Abuja[48]. A total of 60 investors were identified, 13 DFIs or governmental institutions and 40 non-DFIs, mainly impact investing fund managers (for venture capital and private equity firms) and foundations. The majority of investors in Nigeria continue to be international - whether foundations, DFIs or PE/VC Fund managers - and while the majority have already invested into Nigerian sectors and businesses, some of the identified investors are looking into Nigeria for the first time and for newly set-up funds (i.e. Acumen's ARAF Fund and Gawa Capital's Huruma Fund). Most DFI and non-DFI investors in Nigeria have Sub-Saharan Africa or emerging countries as priorities and most of them have agriculture, food security and/or agribusinesses as a sector focus. Growth remains the primary investment stage strategy amongst fund managers, while DFI and foundations are most likely to include seed and early stage as well as growth. While DFI investors continue to focus more on debt instruments and are including blended finance tools as well, non-DFIs continue to prioritise equity and semi-equity. For detailed information on each stakeholder's mission, investment strategies and other information, please refer to annexes 1-5 on fund managers, 6-7 for foundations and to section 5 for recommendations on linkages for the NICOP project from supply side stakeholders.

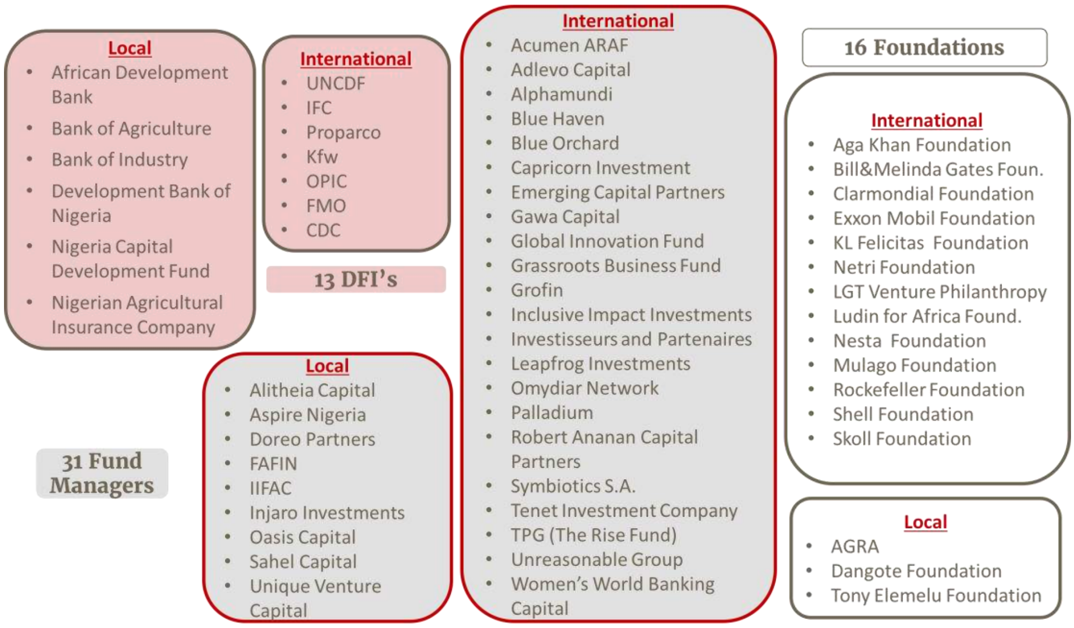

Figure 14. Nigeria Impact investing Supply Stakeholders Mapping, by author

[46] https://thegiin.org/assets/160620_GIIN_WestAfrica_full.pdf, p. 16
[47] https://cdn.ymaws.com/www.andeglobal.org/resource/resmgr/west_africa/Lagos_Entrepreneurial_Ecosys.pdf
[48] https://cdn.ymaws.com/www.andeglobal.org/resource/resmgr/west_africa/Abuja_Entrepreneurial_Ecosys.pdf

Demand of Impact Capital in Nigeria

According to the Central Bank of Nigeria, there are almost 900 licensed MFIs in the country, which also seem to be a big pull for impact capital. SMEs, although an important player, are still a growing destination for impact funds. Starting a business can be challenging in many countries, and in Nigeria in particular, being rated 146 in the World Bank's Doing Business Indicator, where businesses struggle around property registration, access to electricity and the process involved in starting-up, while access to credit seems to be available although expensive. Policy changes and reforms around the ease of doing business are key for SMEs to spur and grow. [49] The author identified some SMEs that were relevant to the NICOP VCs or that have been successful invested into by impact investors. The author only mentions LAPO Bank as an example of the MFIs invested into, however has not analysed this specific demander or funds in detail, since it is not a target for the study. Stakeholders in this segment are mainly local, although author has included some international SME's operating in Nigeria as well. Annexes 9-13 have more detail on some stakeholders identified on the demand side, particularly for SMEs.

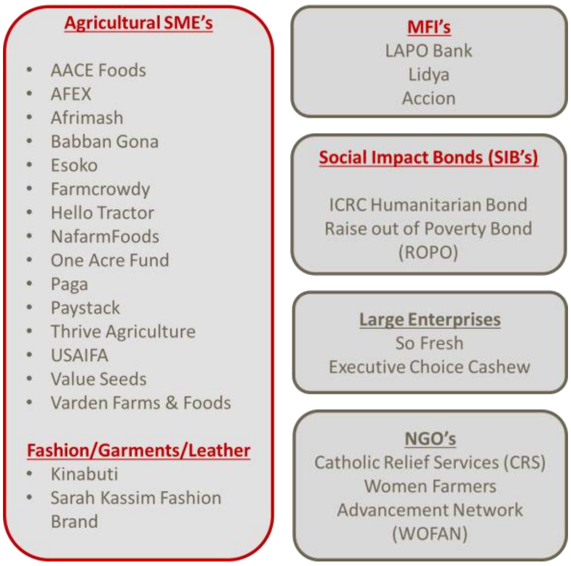

Figure 15. Nigeria Impact investing Demand Stakeholders Mapping, by author

Intermediation of Impact Capital in Nigeria

The intermediation for impact investing capital seems to be an underdeveloped segment of the ecosystem in Nigeria, and apparently not very structured - as per some of the interviews - although it seems to be growing following the economy recovery and the spur in business creation. Organisations in this segment cater for SME's needs on specific skills development on the one hand - like business, financial, technical or technological skills - usually by T.A. experts, accelerators, incubators and donor programs. On the other hand, they support fund managers' needs - on developing impact investment strategies, impact measurement indicators and tools, etc. - by fund advisors, industry networks and associations, etc. The market has observed a flourishing of intermediates, particularly accelerators and incubators and other capacity development providers. The stakeholders identified in Nigeria for this group of the ecosystem are both local and international and are only a sample of what seems to be the total market. See Annexes 14-16 for more details.

[49] https://www.doingbusiness.org/en/rankings

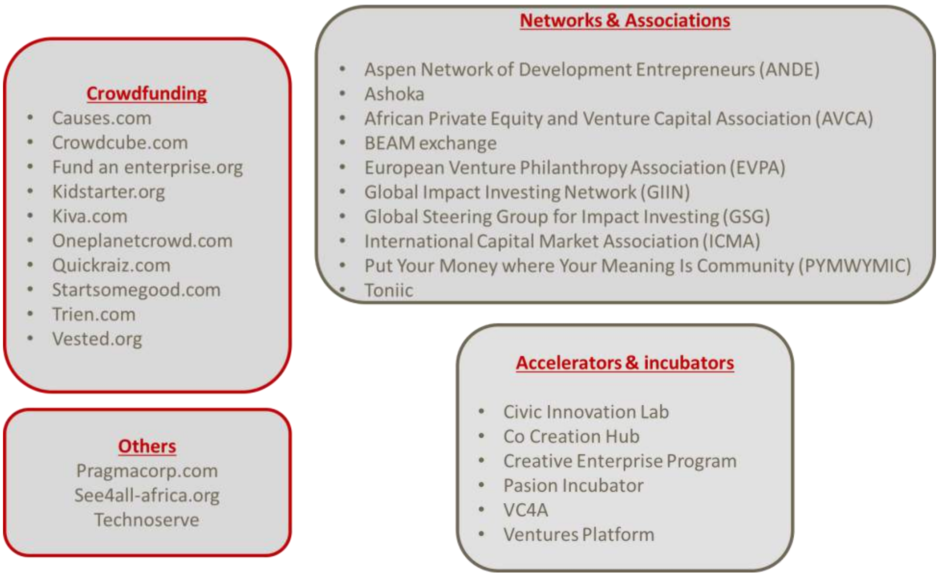

Figure 16. Nigeria Impact investing Intermediation Stakeholders Mapping, by author

4.6 Impact Investors' Investment Strategies and Selection Criteria

The investment strategies followed by different impact investors are usually defined after the social mission they are willing to accomplish or after the organisation's mandate, by the social impact they expect to achieve and by the financial return expectations set. Investment strategies determine the selection criteria that will enable investors to source and select the investments that are best fit to serve those missions or mandates.

<u>Investment Strategies</u>

Investment strategies usually explain how the organisation or investor will achieve their mission, and often include the target population, target sector and geography, the type of investee and sometimes asset class and even return target information. Below are investment strategy examples from some of the interviewees:

Netri Foundation: provide financing to microfinance institutions and social enterprises located in low-income or lower middle-income countries. Return expectation is capital preservation.

Gawa Capital: provide financial services to millions of un-banked people through the organizations they invest in. Return expectation are market rates.

Acumen Resilient Agriculture Fund (ARAF): invest in high-growth agribusinesses with a combined focus on livelihood improvement and climate resilience for smallholder farmers in Africa. Return expectations are flexible, but objective is to maximise returns.

Symbiotics S.A: lending to MFIs and banks. Market returns financial target.

Investment Selection Criteria

For many of the interviewed investors, and in line with GIIN's 2019 annual survey's key findings, identifying good deal flows is one of the biggest challenges within the impact investing sector. Unless having presence in the target investment countries, one usually relies upon other stakeholders in the ecosystem, like accelerators, fund managers and private equity advisors, to identify pipeline opportunities. Once identified the opportunity, most investors will run a due-diligence process following their own investment criteria, while others will outsource the service to experts. All impact investors follow specific criteria for the selection of their portfolio investments, some stemming from the venture capital investment experiences and others from the philanthropic and social arenas. The combination of the two are key to determine whether a deal flow opportunity can be considered an impact investment and, more importantly, whether it fits the investor's objective or the fund's mandate.

Based on the interviews and online research conducted, investment criteria for impact investors could be grouped into four different categories: intentionality, sustainability & scalability, profitability and governance. Investors may have different indicators and tools for assessment of each of these key criteria, however, the chart below highlights the most common sub-criteria and indicators identified. Criteria are not in order of importance but, when asked about the weight for each of them, most investors highlighted the importance of a skilled and committed management team - since they know the model, the what and the how of the business - the social impact and the sustainability of the business model.

i) Intentionality refers to the organisation's intention to deliver a positive social and/or environmental impact. Investors will seek to invest into organisations that are aligned with the investors' mission and target geographies and sectors. Intentionality can be measured through the organisations' mission statement, the target population (like underserved communities, low income/HDI countries, rural population, B.O.P, affordable products and services, etc.), the use of proceeds (for social businesses), and having clear and specific social impact results or social targets. Many investors work with frameworks to assess the social intention of an organisation, like the "Theory of Change (TOC)" – a diagram that shows how an organisation or business aims to have an impact on the target beneficiaries. The TOC will usually include well-defined and measurable social Key Performance Indicators (KPIs), which the organisation will use to measure and manage impact results.

ii) Sustainability and Scalability refer to the potential of the organisation and business model to be financially sustainable and to grow or scale. For this, investors will assess (a) the existence of a business model that can generate income (a proven model for growth stage investments or at a proof of concept stage for seed investments), the business value proposition, the market opportunity and business plan for growth and/or scale; (b) a diversified source of funding (private and public, grants, blended investments, etc.), which will help determine the sustainability of funding requirements; and (c) being part of the ecosystem networks, which is a must for scaling. Noteworthy, some impact investors mentioned that scalability does not necessarily require an expansion beyond local borders and are *"happy if organisations focus on what they do best, where they do it best."* Partnerships with local stakeholders were mentioned by some investors as a must for certain countries like Nigeria: *"for Nigeria you definitely need a local partner, however as a nascent domestic industry it is not formalised or structured, the intermediation is not well organised."*

iii) Profitability refers first to the capacity of the business to become profitable, and therefore be able to achieve the financial return expected from investors, and secondly to the capacity to grow. For growth investments, most investors will require at least break-even or a positive profit & loss (P&L) account, while early stage businesses will be measured based on P&L projections. Investors will look into the financial track record and request externally audited P&L and cash-flow accounts, as well as a 3-5 year financial and growth plans to help assess the potential and risks. For large equity investors, the availability of exit scenarios is an important criteria to consider as well and was expressed as one of the limiting factors for investments in Nigeria.

iv) Team and Governance is mentioned as one of the most important criteria to consider while selecting an investment. Starting with the entrepreneur, investors will assess the management team's experience and skills, their commitment to the organisation, their capacity to accomplish the growth plan as well as a Human Resources (HHRR) plan in line with it. In terms of governance, the transparency and efficiency of the organisation, the commitment to ESG principles, having decision making and planning and risk management processes in place together with a board structure involved in those processes. Many organisations will also have advisory boards. Finally, many investors leverage on their networks to get referrals from experts and might even share due-diligence processes which many times might lead to co-investments.

v) Other criteria: some investors will include additional specific criteria to their target sectors. For the agriculture sector, for example, this might include some sector clearances and certifications or some specific indicators that help assess the level of innovation, the technological disruption of the model, the availability of insurance to cover for SHF's climate risks, etc. More and more investors are looking into using a gender lens through either a mission-driven gender lens investing approach that aims to increase the number of women-led companies and to deploy capital to businesses that promote gender equity or benefit women through products and services. Others use a commercial gender lens approach that may consider the share of the board, founders, or senior management team that is female or whether products disproportionately benefit women.[50] According to the International Finance Corporation (IFC) report "Moving toward gender balance"[51], private equity and venture capital funds with gender-balanced senior investment teams generated 10 to 20% higher returns compared with funds that have a majority of male or female leaders. This might mean that investors will be looking into this approach as not only a way to maximize impact and achieve gender equality but also to increase returns. The image below summarizes the impact investments selection criteria described.

[50] https://www.forbes.com/sites/bhaktimirchandani/2019/01/03/want-to-discuss-gender-lens-investing-metoo/#3fb72a7b3ec6

[51] https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/gender+at+ifc/resources/gender-balance-in-emerging-markets

European Union

german cooperation
DEUTSCHE ZUSAMMENARBEIT

Impact Investment Selection Criteria

Intentionality *(Alignment & Impact)*	**Social and/or Environmental mission & objective**	Has a social mission and aligned with investor's, ideally articulated via a Theory of Change
	Target population	B.O.P population, low HDI countries, rural areas, undeserved communities, women etc.
	Target geographies and sectors	In line with investors'
	Social Impact Measurement	Has social KPI's defined and tools for measurement
	Use of proceeds	To determine Social businesses (i.e. 50-100% proceeds reinvested into business mission)
Sustainability & Scalability *(Potential for scale Innovation)*	**Business model and plan**	Has a proven and sustainable business model and growth/scale plan; innovation or disruption
	Market opportunity	Market analysis of opportunities, value proposition and potential for scale
	Sources of revenue	Diversified, sustainable?
	Partnerships/Networking	Is member of sector networks or engages in partnerships
Profitability	**Historical Financial track record**	@least 2-3 years company history for growth stage; not required for seed; Solid credit track record; portfolio quality and diversification
	Key Financial Performance (P&L)	Pre or post- revenue; breakeven or profitable; Past 2 years external audits
	Growth and financial projections	For 3-5 years;
	Exit scenarios	Ideally available exit plans
Team & Governance *(Leadership)*	**Team members and capabilities**	Management team, skills and structure; HHRR ; Management Information Systems
	Governance	ESG principles , transparency, planning, & decision making processes
	Board governance	Whether available, involvement in planning and decision making ; shareholders
	Risk Management	Whether risk management strategy in place; manageable sovereign risks
	Referrals	Network stakeholders' recommendations
Othe Criteria	**Gender Lens**	Investing in women-owned or -led enterprises; enterprises that promote workplace equity; that offer products or services that substantially improve the lives of women and girls
	Sector specific criteria	I.e. Agriculture: insurance products, certifications, technological disruption, innovation

Figure 17. Impact Investors Summary of Key Selection Criteria, by author.

4.7 Impact Investments Due Diligence Process

The due diligence process is undertaken by the fund/asset managers, fund advisors, foundations or family office teams and is usually evaluated and supervised by their Investment Committee (IC), with which they will have different relationships and levels of intervention, although IC is usually the body in charge of investment approvals. Due diligence processes can range from three to nine months periods depending on the level of requirements, the availability of local teams to conduct the research and analysis, and the responsiveness of the investee team. The GIIN has summarised the standard due diligence process used by investment committees to select investments as follows: (i) market survey or desk research, (ii) early identification for pre-screening, (iii) selection in first IC committee, (iv) due diligence which is then discussed in IC 2, (v) negotiations (if approved), (vi) local agreement, (vii) disbursements, (viii) monitoring & supervision, and (ix) exit.

The image below shows the different phases that the GIIN has identified as standard procedure for impact investing due diligence processes. While the first IC will include standard criteria, as the process progresses, the IC will request a more in-depth analysis of the specific criteria identified. This will vary by organisation and business. The availability of the teams to respond to IC's requests is also significantly valued and considered during the process.

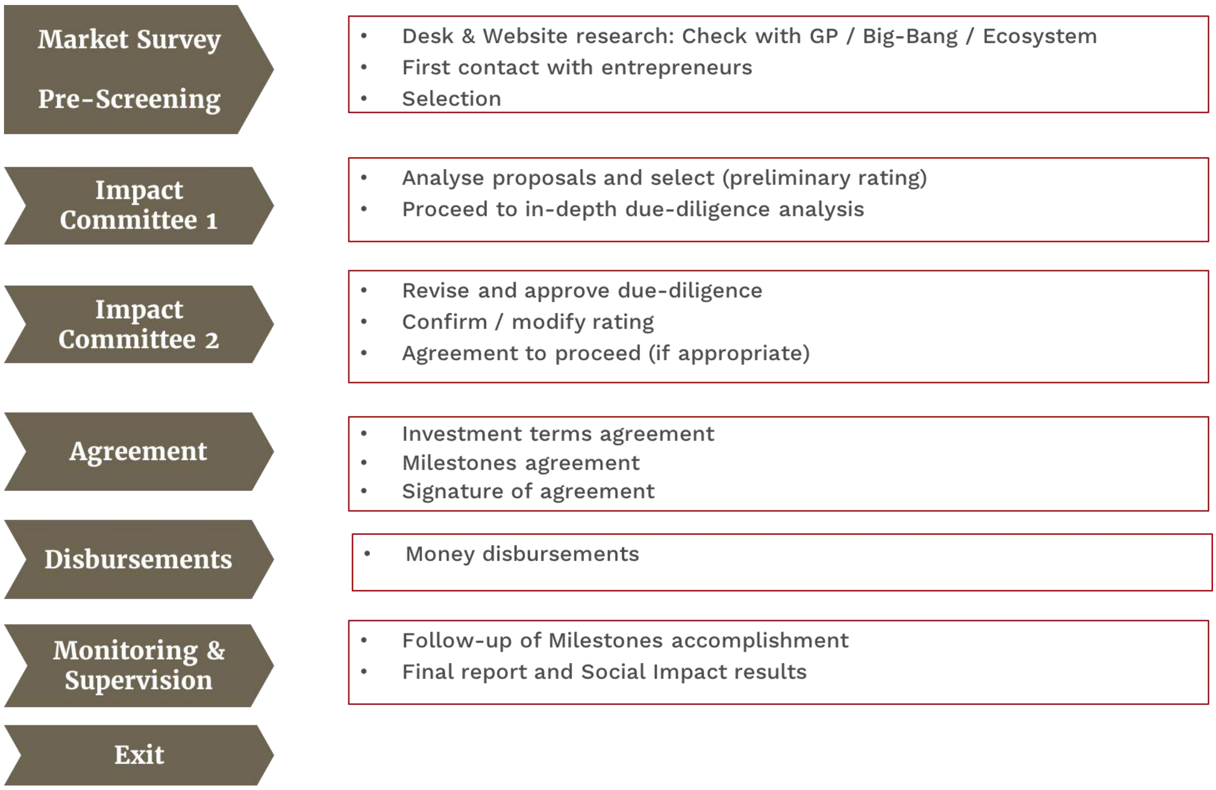

Figure 18. Standard Due-diligence process for Impact Investors, source: GIIN and author

4.8 Nigeria Impact Investing Case Studies

As mentioned before, sourcing for the right SMEs to invest in, is key for investors and also a challenging task. This is the reason why many investors seek for support in this field, mainly through fund advisors, accelerators and incubators and other private investors. Following the overall criteria explained before, investors will need to scout for, screen, analyse and select potential businesses, ensuring they are the best possible fit with investment strategies and impact targets. The study identified several social enterprises and non-profits that have been selected by investors in the sectors of agriculture, financial services and technology innovations, affecting agriculture as well as in the garments sector. This section outlines some of the key characteristics and elements of each of these businesses that have made them attractive to impact investors, based on some of the interviews conducted and on the online research.

4.8.1 Babban Gona: Revolutionising Agriculture

Babban Gona, meaning “great farm” in Hausa, is a Nigerian social business that aims to improve the lives of SHFs by making them more money, focusing in solving the structural problem of low economies of scale in the agriculture sector. To do so they have developed a service delivery model that provides agricultural inputs financing, technical training, extension and market facilitation services. They are implemented within an agricultural franchise model. This model has proven to be sustainable and scalable, attracting a diversified range of investors - like Skoll and Mulago foundations, the Global

Innovation Fund (GIF) or the Dutch Development Financial Institution (FMO) - to support the growth and scaling of the business throughout the country. They have been very creative in raising funds from other investors like crowd-funders (e.g. Babban Gona has an investment profile in KIVA.org), obtaining blended finance from some DFIs and foundations, and also involving the public sector with the development of the Raise Out of Poverty Bond (ROPO)[52], explained previously in the demand mapping in Nigeria. In this sense, Babban Gona is leading the way for other social businesses to become appealing for impact investors. Their vision is to impact and benefit 1 million SHFs by 2025 and have a systemic impact on the agricultural sector in the country.

Name	Babban Gona		
HQ's location	Lagos, Nigeria		
Website	www.babbangona.com		
# employees	n/a		
2018 Impact	70,000 pax access health food; 12,000 Ha under sustainable cultivation; 16,000 loans disbursed; net income increases of x4; 99% loan repayment		
Annual revenues	US$21.6M (est. The crunch base).		
Beneficiaries	20,000 Maize SHF's (organised in Trust Groups an represented in Board) in North Nigeria (Kaduna, Kano, Katsina)		
Mission	To make 1 million smallholder farmer members more money by 2025		
TOC	**Problem**	**Solution**	**Impact KPI's**
	Nigerian SHF's remain poor due to several factors including but not limited to land fragmentation, broken value chains, poor access to finance, inadequate cash flow, lack of extension services, and limited access to good markets. These factors create low economies of scale that systemically keep farmers in a cycle of poverty.	The Babban Gona agriculture franchise overcomes low economies of scale. Utilizing a sustainable private sector model, it provides cost effective end-to-end services to a network of franchise farmer groups.	- Access to Healthy food; - #Ha under sustainable cultivation - % income increase for SHF's - # loans disbursed - % repayment
Business Model	**Service delivery model within an agricultural franchise structure**	Financial services in kind and @ low rates (20%) for loans of average US$450 Agricultural Inputs services Training & Development to encourage the upgrade from subsistance to commercial farmers (Farm University) Marketing services (warehousing) & access to markets/buyers Yield & price Insurance product y Swiss Re Extension Services (last mile distribution stores by Trust group leaders)	
	Other services/initiaitives	Last Mile aggregating program to aggregate commodities from farmers Women's economic Development Initiative to access credits to start FMC small businesses Trust Group Entrepreneurship Initiative to scale SHF's businesses	
Key Challenges	**Human Capital**	Need skilled and qualified employees (they have created the BG Leadership Institute to train employees: funded by FMO and supported by WAVE Academies)	
	Financial Capital	Main financing is international. Need to access affordable capital for farmers., local MFI's rates range 40-60% for SHF; Local banks loans @ 16-20%. Need concessionary funding and other instruments (like guarantees) to reduce the price of money and enable higher margins for farmers	
	Operational Challenges	Storage facilities are not propely developed (i.e. cold storage) and transportation because vehicles are not reliable and infrastructure is underdeveloped	
Sources of funding	**Grants**	Foundations and DFI's	
	Impact Investments subordinated debt	Skoll Foundation, Global Innovation Fund, Mulago Foundation	
	Impact Investments senior debt	Neri Foundation, FMO, NSIA	
	Raise out of Poverty Bond (Propcom Mai-kafi)	ROPO is funded by UKAid, Bill&Melinda Gates, KIVA and First City Monument Bank	
	KIVA	Private individual investors (https://www.kiva.org/about/where-kiva-works/partners/288)	

[52] http://www.propcommaikarfi.org/our-markets/babban-gona

4.8.2 One Acre Fund: Farmers First

One Acre Fund (OAF) is a US non-profit organisation focused on improving food security for SHFs in Sub-Saharan Africa. They entered the Nigerian market in March 2018, focusing on maize SHFs in Niger State. Their business model includes a bundle of services for SHFs, including input financing and distribution, insurance for inputs, training and market facilitation services. Moreover, a system change program aims to forge partnerships with local governments to influence policies and infrastructure and enable the systemic changes necessary for the sector to be able to increase productivity and efficiency via modernisation and capacity building. They have a wide experience in East Africa, where they have been able to prove and scale their model. One Acre Fund is currently serving around 800,000 farmers and are on track to reach their target of 1 million SHFs by 2020. They claim impact to be their northern star and do regular and rigorous measurement on their impact, measuring SHF’s yield increases and Social Return on Investment (SROI) for investors. The latter is measured as the average incremental profit per farmer divided by the average donor subsidy per farmer. The organisation has a 72% financial sustainability. Entering in Nigeria has been a challenge for them with regards to registering their business as an international organisation and hiring skilled local workers to support SHFs. Transportation has also been quite a challenge as it is unreliable and costly. In Nigeria, they are testing “Hello Tractor”, the “Uber” for farming (more information below in this section), to try and overcome the transport issue. This is also in line with their efforts in research and innovation to develop new solutions to SHF’s problems. In terms of financing, OAF raises funds as a global organisation and distributes them according to regional needs. The majority of their funds come from donations, but they have started to receive investments from DFIs and foundations, which are mostly in the form of working capital debt loans addressed to covering the financial gap between the purchase of inputs they distribute to SHFs and the repayment of loans. They have started operations in Niger State where they plan to reach 100,000 SHFs in five years, and have other expansion plans as well.

Name	One Acre Fund (non profit)	ONE ACRE FUND	
HQ's location	US		
Website	www.oneacrefund.org		
# employees	7300		
2018 Impact	800,000 SHF's served; +US$91 additional income/farmer; +42% yield increase; 97% loan repayment; SROI US$2,77		
Annual revenues	@ est. US$ 100M including contributions and revenues from sales to farmers		
Beneficiaries	SHF's in SSA; 500 Maize SHF's in Niger state		
Mission	To serve smallholder farmers; put farmers first		
	Problem	**Solution**	**Impact KPI's**
TOC	More than 50 million smallholder farmers in Sub-Saharan Africa are locked in annual cycles of hunger because they're unable to grow enough food to feed their families. Malnutrition can have serious, lifelong effects, especially for children, robbing them of their full potential as they grow up.	Market-based strategies to fight rural poverty.	- # of SHF's served; -US$ income increase increase - % of income increase - SROI (Social Return on Investment)
Business Model	**Core Program:** **a market-based model that offers a complete bundle of services for farmers**	Financing for agricutural inputs and other basic products (asset based loans) Distribution of Farm inputs (wihtin walking distance) Training on agricultural techniques Market facilitation to maximise harvest profits (crop storage solutions	
	Systems Change Program	Government and ther key stakeholder partnerships to enable sustemic changes for farmers (like mitigating factors, climate resilience, etc)	
Key Challenges	**Human Capital**	Extension agents in Niger state	
	Financial and Legal	Establishing the international compamy process took 1 yr; FX and international money access is a slow process of 20 days; Government relations and legislation changes and uncertainty	
	Operational Challenges	Access to local seeds and fertilizers is good (Indorama, Golden, Seedco, Dcalp); The timing and delivery services are not good (issues with infrastructure and trucking middlemen i.e tried Hellotractor.com)	
Sources of funding	**Grants**	Restricted and unrestricted from private Foundations	
	Impact Investments	OPIC	

4.8.3 Hello Tractor: Connecting Tractors to SHF's

Hello Tractor is an agricultural technological social enterprise that aims to contribute to food security by supporting agribusinesses, focused on increasing modernisation and mechanisation of the sector. Their business model is very similar to other transport services platforms online, like Uber, connecting SHFs with tractors, and enabling for booking agents to intermediate these connections. They do not seem to report impact results although the platform app used to connect customers allows to profile SHFs and prove their credit worthiness, an important asset to unlock the potential for SHFs and agribusinesses to access funding. Like other business models based on the "internet of things", the potential for scalability and data information attracts investors' interests. It will be important, however, to follow-up on the progress of the ability of the platform and the agents to increase SHF's customer data base, while they already seem to have reached 75% of tractor owners. Hello Tractor has managed to obtain an asset-based financing of 10,000 tractors in 5 years from leading tractor manufacturer, John Deere.

Name	Hello Tractor		
HQ's location	Nigeria		
Website	www.hellotractor.com		
# employees	20		
2018 Impact	75% of tractor market engaged;		
Annual revenues	n/a		
Beneficiaries	SHF's and tractor owners		
Mission	An ag-tech social enterprise focused on achieving food security through the support to agribusinesess. Hello Tractor is an ag-tech company that connects tractor owners and smallholder farmers in Sub-Saharan Africa through a farm equipment sharing application.		
	Problem	**Solution**	**Impact KPI's**
TOC	In addition to food security, increased agriculture productivity remains critical to alleviating entrenched poverty and improving livelihoods for the 220 million farmers across Sub-Saharan Africa that survive on less than $2/day. Growth in agriculture boosts farmer income and leads to increased employment opportunities on and off the farm, with industries such as food processing, trade, manufacturing, and other services." The lack of access to mechanization contributes to a cycle of entrenched poverty and food insecurity, as well as a gender productivity gap, that jeopardizes community, country, and continent stability.	An Internet of things solution that supports the improved efficiencies, profitability, and transparency in the tractor contracting market. Hello Tractor de-risks and improves service delivery to ensure tractor owner success and creates equitable access to mechanization for smallholder farmers. Our solution begins with a tractor monitoring device that can be installed on any tractor, connecting it to the Hello Tractor cloud. Once connected the device transmits relevant data across our ecosystem.	- Income increase for SHF's; - Business increase for tractor owners - #employments
Business Model	**For Farmers**	Affordable, Reliable Access to Timely Tractor Service (an Uber -like service for farmers)	
	For Booking agents	Booking Agents know the farmers in their local communities and use their own knowledge and experience to educate farmers on the benefit of mechanized farming. They fill the role of demand aggregators by collecting tractor service requests from multiple farmers in a community.	
	For tractor owners	Fleet management; improve the tratcor business with modern technology	
Key Challenges		n/a	
Sources of funding	**Grants**	n/a	
	Impact Investments	Asset financing of tractors by John Deere (10k tractors in 5yrs)	

4.8.4 Farmcrowdy

Farmcrowdy is a digital agricultural platform that aims to empower rural SHFs by providing them with access to finance, inputs, technical know-how and market facilitation. They use an online model to connect SHFs and potential individual investors, called sponsors, who select the farm units they want to support and who will receive a return on the investment at the end of the crop cycle. The model seems to work like a KIVA but exclusively for farmers. Farmcrowdy includes some ginger farms from stages 1-3, as well as maize, cassava, rice, soya beans and poultry farms. They do not have any tomato/chili/pepper farms yet, which could be a good opportunity for NICOP project to include the farmers they support in these value chains. Some interesting SMEs in the agricultural sector they are supporting are Thrive Agriculture, AgroPark, FarmAgric, Farmkart, Growsel and Farmkonnect.

Name	Farmcrowdy		
HQ's location	Nigeria		
Website	https://www.farmcrowdy.com		
# employees	58		
2018 Impact	11,124 SHF's; 42,132 sponshorships;		
Annual revenues	n/a		
Beneficiaries	SHF's in Nigeria		
Mission	To enable everyone participate in the achievement of global food security. "Empowering farmers together"		
TOC	**Problem**	**Solution**	**Impact KPI's**
	It is difficult to find warmers to work with and there are 38Million SHF's who are unable to access loans, haver very low technical know-how and difficult access to market	Farmcrowdy connects Nigerian farmers to Nigerian individuals willing to support SHF's. Sponsors will support individual farm units.	- # of SHF's sponsored; - SHF's in community
Business Model	**Digital Agricultural Platform**	Nigeria's First Digital Agriculture Platform that empowers rural farmers by providing them with improved seeds, farm inputs, training on modern farming techniques and provides a market for the sale of their farm produce.	
	Farmer Integration Process	Crop and Land selection; Farmers identification through associations and community leaders; provision of inputs; sourcing of buyers. R	
	Sponsorhip Integration process	Digital platform; farm selection; sponsor of farm by providing funs; tracking of results; return of initial payment plus a return	
Key Challenges		Incubation time of 2-3 months to identify a project	
Sources of funding	**Grants**	n/a	
	Impact Investments	Individual investors via digital sponsorships	

4.8.5 AFEX Commodities Exchange Limited

AFEX is a Nigerian business that aims to capitalize on the country's agricultural potential to achieve food security and support SHFs to increase income and eventually reduce the barriers to competitiveness in the sector. Their business model is focused on three areas: (i) commodities exchange: offering agricultural-finance data to potential private investors as well as electronic warehouse receipts for farmers' stock, that act as collateral and are tradable on AFEX, (ii) financial inclusion: including SHFs into a financial online platform and providing them with a Bank Verification Number (BVN) that allows to profile them, and (iii) storage and aggregation services. The model includes different membership options that allow for business sustainability.

Name	AFEX	AFEX AFEX COMMODITIES EXCHANGE LIMITED	
HQ's location	Nigeria		
Website	www.afexnigeria.com		
# employees	n/a		
2018 Impact	n/a		
Annual revenues	n/a		
Beneficiaries	SHF's and agribusinesses		
Mission	to create a lasting institution that capitalizes on the country's agricultural potential to achieve regional (West Africa) food security and support small-holder farmers to increase their income earning capacity; ultimately reducing the barriers to competitiveness of the Nigerian agricultural sector.		
TOC	**Problem**	**Solution**	**Impact KPI's**
	The Nigerian agricultural faces has a big potential but faces significant barriers (like infrastructure, access to market, low commodities priciing, etc), that reduce the competitiveness of the sector	provide solutions to farmers' challenges in aggregation, storage, financial inclusion and selling of their products, enabling the transition from production to transaction for agriculture commodities, benefiting the overall economy	n/a
Business Model	**Commodities Exchange**	Generates agri-finance data, intelligence, and deal flow to increase private sector investment in commodities. Issue farmers an electronic warehouse (e-Wrs) receipt for the produce that they stash in AFEX warehouses. This receipt can be used as collateral by the farmers to access financing from financial institutions and is also tradable on the Exchange.	
	Financial Inclusion	Provide a platform for millions of SHF's to be included in the financial sector. The offline BVN devices enable to register the farmers and profile them.	
	Secured Storage	Give farmers a secure place to store their produce, enabling them to retain some influence in the market all year round. Through storage infrastructure, SHF's can also aggregate their produce with those of other farmers allowing them to access larger markets.	
Key Challenges		n/a	
Sources of funding	**Grants** **Impact Investments senior**	n/a	

4.8.5 Kinabuti

Kinabuti is a social business, created by two foreign social entrepreneurs located in Nigeria, aimed at empowering women and young people supporting and enhancing their creative talents through technical skills training that will help them access employment opportunities. Their original business model was comprised of two different organisations, the Kinabuti Ltd. Business – focused on producing – and distributing clothes in and out of Nigeria -, and the Kinabuti Fashion Initiative – a non-profit focused on training and skills development. Kinabuti Ltd. was supplying uniforms to hotels, schools and hospitals in Nigeria, while exporting garments to some European countries. However, the cost of doing business in the country – high input costs and high export taxes, power-cuts, expensive access to financing, etc. –, together with the difficulty to maintain exports quality standards, resulted in a lack of profitability which has forced them to stop the production activity and focus only on the training part of the model, which they are now expanding to other sectors beyond garments, like filming, photography and even agriculture. They have recently started the “Dare2Dream” talent show to create job opportunities using digital marketing. Their main source of income continues to be grants from international development organisations and local private companies and banks. One of the founders was interviewed and claimed to be confused on what impact investments are and felt that there is not enough information for entrepreneurs on the different options and instruments available for early stage businesses.

Name	Kinabuti Ltd & Kinabuti Fashion Initiative Foundation	KINABUTI	
HQ's location	Nigeria		
Website	www.kinabuti.com		
# employees	40		
2018 Impact	Trained over 100.000 people; 100% of staff found jobs		
Annual revenues	n/a		
Beneficiaries	Women and young people		
Mission	To empower and develop micro-enterprises in Africa by following an economic model where all stakeholders are part of a sustaiable and inclusive value chain		
TOC	**Problem**	**Solution**	**Impact KPI's**
	Women and youth unemployment in Nigeria is very high	Provide vocational and skills training to women and youth to foster employment opportunities	- Employability - Income increases
Business Model	Kinabuti Ltd.	Produces and distributes clothes in and outside Nigeria (uniforms for schools, hospitals, hotels, etc) Ethical business practices in partners with global MSME's	
	Knabuti Fashio Initiative (KFI)	Training and skill development programs in creative industries to empower Women and youth . Expanding into other sectors for traiing as well (i.e agric, photography, This is now the focus of the business since the Ltd. Closed operations	
	All-inclusive business model	Dare2dream talent show to create job opportunities for women and youth using digital marketing	
Key Challenges	Human Capital	Difficult fo find skilled workers to maintain the export quality level; talent evasion	
	Financial and Legal	Kinabuti Ltd. Close due to lack of profitability; Government policies change constantly; access to finance (scared of loans and bank interests)	
	Operational Challenges	Business environment is not friendly; Lack of basic infrastructure (electricity)	
Sources of funding	Grants	From international development organisations (GIZ, EU, UN) and local private companies and banks	
	Impact Investments	Not received any	

4.8.7 Andela

Andela is a very successful business in Nigeria and has been invested into by different venture capital firms and by the Omidyar network. Their business model focuses on two key elements that will determine the future of work, specifically remote work and digital revolution. They select software developers and offer them a paid training to boost their knowledge and skills and prepare them for international remote work. In exchange, trainees support Andela for a period of two years, after which they become part of the community that can be matched to and employed by international suppliers of software developers. With this model, Andela is contributing to the objective of employing youth in a high potential sector and reducing talent evasion.

Name	Andela		
HQ's location	Nigeria		
Website	www.andela.com		
# employees			
2018 Impact	130,000 applicants; 1,200 trained developers;		
Annual revenues	n/a		
Beneficiaries	Youth		
Mission	Andela builds distributed engineering teams with Africa's top software engineers. We handle talent assessment, onboarding, and continuous improvement. You get back to building.		
TOC	**Problem**	**Solution**	**Impact KPI's**
	There are five open jobs for every software developer looking for one in the U.S. alone. Africa is home to 1.2B people and 7 out of the world's 10 fastest growing internet populations.	Andela bridges that gap, solving the global tech talent shortage while catalyzing the growth of tech ecosystems on the African continent.	-# applicants; - # developpers; - #jobs
Business Model	**Capacity Building for developpers**	A paid and full-time training process to advance the career of software developpers	
	Providing developpers	Assess the needs of customer, Match with the best developpers based on fit, onboarding for team and integrating teh team by flying them to the clients HQ's	
Key Challenges		n/a	
Sources of funding	**Grants**	n/a	
	Impact Investments	Venture capital firms, Omidyar	

European Union

german cooperation
DEUTSCHE ZUSAMMENARBEIT

5. Impact Investing in Nigeria: Drivers, Challenges and Mitigating Factors

Interviewees were asked to share their investing experiences in Nigeria (when available), focusing on the drivers leading to investments as well as the challenges pre-empting them. For non-investors in Nigeria, interviewees were asked to outline the reasons for not investing in the country. Below is a summary of the key findings from the interviews regarding their experience, challenges and needs within the impact investing sector in Nigeria.

Drivers for Investing in Nigeria

- Low HDI and high poverty levels, together with the high inequality levels are the biggest social opportunities that impact investors see in Nigeria, where there is a strong potential to contribute to development and poverty alleviation by investing into businesses working to tackle those issues.
- The population and market size in Nigeria are appealing for investors as the breadth of the social impact can be very high, as well as the size for business revenues.
- The big segment of unemployed youth population is a relevant target for many investors, particularly those focused on employment, but not exclusively.
- The agriculture and mining potential for the country, supported by the Government's strategy to reduce the oil-dependence of the economy, are also interesting to investors, particularly agriculture, where investments can support the reduction of hunger and malnutrition and contribute both to food security and improvements in agriculture productivity, and therefore income improvements for SHFs.
- Diversification of portfolio is important for investors already present in the West Africa and East Africa regions.

Challenges for Investing in Nigeria

i) Macroeconomic Challenges

a. <u>Sovereign risk</u> was mentioned by some of the interviews as an important risk factor to integrate within an investment assessment into Nigeria. According to the French Insurance Company for Foreign Trade, the country's risk is high at a C level, the business climate is rated at a very high risk with a D level,[53] while credit rating stands at a stable B rating according to Standard&Poors (S&P).[54]

b. <u>The large dependence of the economy on oil exports</u>, which account for almost 90% of total export revenues in 2018 according to the Organisation of Petroleum Exporting Countries, OPEC,[55] makes it highly exposed to the market changes in the commodity pricing, similar to what happened during the 2014-2016 crisis, when the market experienced the biggest drop in oil in modern history. Previsions by the World Bank for oil prices up to 2030 have suffered a downside revision and are estimated to maintain a stable price of between USD 60-70/barrel in the 2020-2030 period. Despite the government is making efforts to diversify the economy towards the manufacturing and agriculture sectors, this remains a watch-out for investors.

c. <u>Inappropriate infrastructure, mainly electricity shortages and insufficient electrical energy distribution</u> was an important challenge that affects equally households and businesses, forcing them to use costly generators, significantly reducing profit for businesses and family economies. The National Electric Power Authority (NEPA) PLC is referred to

[53] https://www.coface.com/Economic-Studies-and-Country-Risks/Nigeria
[54] https://countryeconomy.com/ratings/nigeria
[55] https://www.opec.org/opec_web/en/about_us/167.htm

by most Nigerians as "Never Expect Power Always, Please Light Candle." As Nigerians like to say, "When the generator comes on, the profits fly away."[56]

d. Demographic explosion projected for Nigeria, which is expected to double by 2050 - from 200 million to almost 400 million people -, is a big opportunity but can also bring many challenges around poverty levels, food security issues and pressure for resources.
e. Security issues related to Boko Haram terrorist group and the high unemployment rates in the country that might drive young people to engage in criminal activities out of need and despair.

ii) Challenging Business Environment

a. Uncertainty around changing business policies, lack of clarity, deficient transparency, absence of information and general concerns around the ease of doing business in the country.
b. High operating costs for businesses in Nigeria, like import costs, taxes, opening an office, registering property, construction permits, and accessing loans from commercial banks, at an average of between 15-18% in the past 5 years[57], and in many cases requiring collaterals. While many investors do not have regional offices in Nigeria, they all mentioned the importance of having local presence or local partners who are familiar with the business environment.
c. Corruption is undoubtedly a big concern for investors, affecting their confidence on the much-needed public sector to develop the impact investing sector. According to Trading Economics Portal, Nigeria had a corruption index of 27 out of 100, being considered a highly corrupt country.
d. Long procedures for international organisations to register in Nigeria. Some of the interviewees mentioned a one-year period.

iii) The Costs of Investing in Nigeria

a. Forex legislation and management were mentioned as an important risk and challenge for investing in Nigeria. Specifically, investors mentioned the regulations that enable the Central Bank of Nigeria to control the access to forex - requiring lengthy applications when a forex payment is due - and that have negatively affected the timely repayment from investees, who are dependent on government's approval and availability of forex to fulfil payment obligations. This requires for investors to become creative and design procedures and instruments that minimize this risk.
b. High opportunity cost for investments in the country. Interviewees mentioned impact investments have a high cost compared to other local options like government bonds - preferred by risk-averse local institutional investors - and compared to investments into other countries in the Sub-Saharan African region. Investments in Nigeria might therefore not result as attractive.
c. Burdensome bureaucracy and long timings to seal investment deals is also an important set-back for investors.

[56] https://www.cfr.org/blog/electricity-distribution-holding-nigeria-back
[57] https://www.ceicdata.com/en/indicator/nigeria/bank-lending-rate

Mitigating Factors for Identified Challenges

i) Informing investors about Nigeria's government plan to diversify the economy and particularly the focus on agriculture development, which is becoming an important focus for many impact investors due to the high potential impact on world hunger and poverty reduction.

ii) Despite the ease of doing business, Nigeria is still badly rated compared to other countries like Kenya and South Africa, there have been some significant improvements in the last years, as efforts are being made around access to electricity, trading policies and the requirements to start a business, as shown by the World Bank's Doing Business index.[58]

iii) On the forex challenges, investors have come-up with creative solutions that help overcome or reduce the exchange rate risks and the forex availability issue. Some interviewees mentioned instruments like:

    i. <u>Back-to back loans</u>: agreements made between a local bank, the international investor and the investee, whereby the international creditor grants a loan in foreign currency, like USD, that is deposited in the local bank and used as collateral to get the local bank to grant the loan in local currency. This strategy covers the risk for international investors in countries where access to foreign currency is difficult or where covering for forex risk is too expensive, but investors assumes the exchange rate risk.

    ii. <u>Indexed loans</u>: loans with payments that change periodically and linked to a change in a specific index, like inflation, forex rates, etc. In the context of impact investment, some investors mentioned them as a way to avoid forwarding the forex risk to the investee. The investor sends a loan in foreign currency, changes it to local currency and then receives it back in local currency, taking on the exchange risk and to the degree of the agreed rate changes.

    iii. <u>Repayment of loans by international importers of goods</u>, for export crops and products: some investors mentioned to have signed loans whereby the investee will receive hard currency to produce and sell to importers, who will be responsible to repay the investor directly and in hard currency.

[58] https://www.doingbusiness.org/en/data/exploreeconomies/nigeria

6. Key Linkages for GIZ with Impact Investing Stakeholders in Nigeria

Based on the key findings from this study, this section includes the key linkages that the author recommends the NICOP project to engage with to build relationships within the ecosystem, share experiences and information, and explore potential partnerships to maximise the impact of NICOP. Although not all of the recommended linkages have been interviewed, recommendations are based on the following criteria: strategic fit with NICOP value chains, geographical focus and target beneficiaries, the relevance of the stakeholder's mission with regards to NICOP's objectives, the level of innovation and disruption of stakeholder's approach towards building competitiveness, their previous investing or operating experience in Nigeria, and their potential interest in connecting with NICOP. For more detailed and contact information please review the Annexes 1, 2, 3 & 4.

Supply Side (Impact Investors)

Acumen Resilience Agricultural Fund (ARAF): a new fund by Acumen focused on reducing SHF's vulnerability to climate change by investing into agribusinesses that enhance SHF's resilience. It is relevant to GIZ because:

- Sector focus on agribusinesses that support SMEs
- Has blended finance incorporated into the fund structure and T.A.
- Is fundraising now, will start investing in Q4 2019

Alitheia Capital: a local investor focused on supporting local SMEs and MFIs. Both of the available funds are relevant for NICOP:

- IDF Fund: for investments into gender balanced SMEs / for creative industries like fashion
- Umunthu Fund: for businesses focused on financial solutions

Blue Orchard InsuResillience Fund: experienced impact investor with recent focus on insurance, financial access and impact bonds.

- Sector focus: climate education
- Blended finance incorporated by KfW
- Insurance is a key challenge for the agriculture sector

GAWA Capital: a Spanish impact investing firm focused on MFIs and agribusinesses. The new fund HURUMA is still raising capital and sourcing for deal opportunities. The interest for NICOP in this stakeholder includes:

- Funding support to agribusiness
- Connecting GAWA to potential investees (first time Nigeria investment) and other investors and stakeholders in Nigeria
- blended capital resources for T.A. facilities which they normally outsource.

Global Innovation Fund (GIF): an experienced global investor that offers support to SMEs worldwide, sector agnostic and very experienced at impact management. Has invested into local social businesses Paga and BabbanGona.

GroFin: a private development financial institution focused in Africa and particularly in Nigeria with the Aspire Growth and Small Businesses Fund.

Inclusive Impact Investments: a Dutch firm focused on early stage and investments into agricultural SMEs and with a particular focus in Nigeria and in the agriculture sector.

Injaro Investments: a local investor from Ghana, with a West Africa Agricultural Investment Fund that supports SMEs in agriculture. Has not invested yet in Nigeria but could potentially expand if introduced to local ecosystems.

Investisseurs & Partenaires: a French investment company with 2 specific funds to support African entrepreneurs and agribusinesses, providing early and growth stage investments.

Omidyar network: a global network of innovators, entrepreneurs, advocates, etc., to address social issues. The interest for NICOP is in that through their fund, Flourish Ventures, they support financial services and digital access. They invested in Andela, Paga and Lidya, all SMEs in Nigeria.

Palladium: is the investment manager for the ROPO SIB and could be interested in learning more about NICOP's potential to offer the technical assistance services that SIB agreements require, focused on the agriculture sector.

Robert Annan Capital Partners: an investment company focused on the fashion and music value chains through their Impact Fund for African Creatives (IIFAC), which could potentially support some of the organisations in the leather and garments VC's supported by NICOP.

Sahel Capital: with experience in Nigeria for many years, their Fund for Agricultural Finance in Nigeria (FAFIN) is focused on supporting the growth of Agribusinesses and SMEs in agriculture in Nigeria, where they have made significant investments into established agribusinesses, some of them including support to the tomato value chain.

AGRA Foundation: focused on growing Africa's agriculture in the Kaduna and Niger regions and with a particular focus on gender inclusiveness and equity.

Clarmondial: focused on covering the market gap for affordable financing to agribusinesses and SMEs in the agricultural business.

Tony Elemelu Foundation: a key local stakeholder in Nigeria, very involved in supporting local entrepreneurship and an experienced local impact investor. A very relevant linkage to connect with the ecosystem and support events to raise awareness on impact investing and build confidence in the sector.

Dangote Foundation: another key local partner, involved in the commercial agribusiness, which could be a good source for market linkages for SHFs and with impact investing experience. Important partner for the local ecosystem.

Netri Foundation: experienced impact investor and in Nigeria in the agricultural sector with Baban Gona. Joins in co-investments offering some concessionary funds to prioritize social impact with capital preservation.

Rockefeller Foundation: their *YieldWise Food Waste initiative* could be an important asset to work on the waste management in the tomato vale chain.

Demand Side (SMEs)

AFEX: a commodities exchange platform that can help SHFs with financial access, commodities purchasing and exchange and credit profiling.

Afrimash: an online platform for organic farmers which can be a great way to start digitalising SHFs working on the organic market and link them to markets.

Babban Gona: ROPO SIB learnings

Esoko: offers digital tools and services for SHFs

Farmcrowdy: for crowdfunding to invest in agriculture

Hello Tractor: the Uber for farmers is a digital platform for transport intermediation between SHFs and tractor owners, covering an important need for farmers.

Kinabuti: for garments and training focused on fashion

NaFarm Foods: for tomato agro-processing businesses

Serah Kassim Fashion Brand: to support Nigerian creatives in the leather and garments sectors.

Value Seeds: this business is focused on supporting women SHFs, so this could be a good source for gender lens investing learnings.

Intermediation

BEAM: is an online platform which includes a directory of programmes using market systems approaches for development worldwide. It is a good source of information and to understand which development programs are being implemented in each country and by sectors. It might be a good way to create awareness around GIZ programs in Nigeria as well.

Co-Creation Hub: one of the biggest incubators and accelerator for social tech ventures in Nigeria. Good for SME's networking and training.

VC4A: an online platform that connects start-up entrepreneurs with knowledge, support programs, mentors and investors (90,000 members and 12,000 start-ups).

Ventures Platform Accelerator: has a fund for early stage and growth investment into SMEs.

7. Conclusions and Recommendations

Although the impact investing market is at an early stage of development in Nigeria, the thriving entrepreneurial sector, the growing interest of investors - attracted by success stories and other experiences in the region - and the significant social challenges to be tackled, make for a good opportunity for the NICOP project. The four-tier approach in NICOP addresses some of the most important challenges and barriers identified for all stakeholders and required for the industry to mature and be able to accomplish social and business objectives. This approach represents a combination of the role of different stakeholders in the impact investing ecosystem, like accelerators and incubators, networks and associations and some social organisations and businesses. It would be important for NICOP to prioritise some of those roles and focus on the ones where the GIZ believes it can add more value. The following recommendations are aimed for NICOP to assess the relevance of fine-tuning and/or adapting some of the strategies to ensure that NICOP adds value along the focus value chains and to the impact investing ecosystem.

i) A specific support to the development of the impact investing ecosystem in Nigeria, sponsoring and advocating for network and associations groups and partnerships, is fundamental to build awareness on impact investing. Create confidence around impact investing for public and private stakeholders to learn and to grow the market based on industry standards, best practices and storytelling.

ii) The involvement of local stakeholders will be key to enable the systemic change required to transform the way of doing business and finance towards a more sustainable approach, that considers social and environmental objectives as an essential part of businesses, together with financial returns.

iii) In terms of competitiveness for SMEs, technical skills capacity building and entrepreneurial trainings for entrepreneurs and management teams continue to be one of the top needs for SMEs, and a key selection criteria for investors. This needs to be complemented with specific trainings on new financial instruments and services available for SMEs and SHFs, and on impact measurement and management, which most impact investors will require as part of the due-diligence process.

iv) To become competitive, most SMEs and SHFs will need to be modernised, embrace digitalisation and technology. Providing this support will be fundamental to reduce operating business costs, an important challenge to doing business in Nigeria, important for the future development of businesses and people, but also to avoid them being discriminated on the basis of non-digital access.

v) Supporting SMEs with fundraising is also fundamental, not only because they require a network of contacts, connections and the financial technical support to understand which instruments are available to better meet their fund needs to invest into piloting or growing business models, but also to free entrepreneurs from the time-consuming fund-raising activities that limit their ability to focus on the actual business.

vi) On financing, SMEs will require different types of investors and instruments across the risk-return financial spectrum to cover for the different needs at different business stages. Particularly necessary are high-risk profile impact investors willing to offer early stage small ticket size investments, catalytic blended funds able to unlock the capital from risk-averse investors or even technical assistance grants. Some instruments, like SIBs, will require unusual public-private partnerships and the support of intermediate organisations, involving all stakeholders in the ecosystem. This could be an area for GIZ and NICOP to explore, offering the intermediary services required for SIBs, like technical assistance.

vii) Strengthening intermediate organisations that support and assist SHFs and SMEs remains a fundamental requirement for the overall competitiveness of the value chains. Particularly in the areas of transport of goods, storage and aggregation and insurance (for agricultural value chains), as well as quality control, consistency, design and marketing (for the leather and garments value chains).

viii) Biggest challenges for businesses in Nigeria are related to the bureaucratic processes and high cost of doing business – both internally and for exports -, electricity power cuts and changing business policies. Advocating for systemic changes in these areas would significantly boost the impact investing sector.

ix) Digitalisation will play a key role in connecting different and remote stakeholders, like the Hello Tractor online platform, or in establishing market linkages, like the AFEX Exchange commodities model, as well as in raising funds, like KIVA crowdfunding.

x) Agriculture has become a key investment sector for impact investors and will continue to grow and require additional services and support while transitioning SHFs towards more productive and efficient practices. Challenges remain in the development of intermediate organisations and the need for insurance products to increase SHF's resilience.

xi) Gender lens investing will play an essential part in boosting impact results and in the development of impact investing in all sectors, particularly in the agriculture and financial services, two of the most important in terms of % AUM. The leather and garments/fashion value chains could play an important role in terms of gender impact. Awareness on the opportunity should be raised amongst investors, who do not include specific value chains as an investment criteria or strategy.

xii) When sourcing for deals, impact investors look into the management team's skills and capabilities, the specific intention and plans in place to measure and manage impact, and the sustainability of the business - aside from the standard business model and financial standard criteria, common to all investors. The availability of a Theory of Change framework and measurable social KPIs have become an identity factor for impact investments.

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