INVESTMENT CLIMATE REFORM FACILITY

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SUPPORTING INVESTMENT IN INCLUSIVE BUSINESS AND SOCIAL ENTERPRISES

BEST PRACTICE FOR POLICYMAKERS AND INVESTORS IN ACP COUNTRIES

ICREPORT
August 2021

Implemented by

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EXECUTIVE SUMMARY

Mobilising private capital to deliver social and environmental benefits in African, Caribbean and Pacific countries is vital if the Sustainable Development Goals are to be met. 'Impact investment', an approach to investing whereby positive social and/or environmental impact is sought alongside financial return, has much to offer in this respect. More and more capital is seemingly being deployed in this way, both across ACP countries and globally, but questions remain about its scale and impact. Part of the problem is that the loose, all-encompassing definition of impact investment belies an overly narrow framing of what in practice are deemed investable opportunities. How to maximise the impact of impact investment in ACP countries, and where other tools and supports are needed to address financing gaps and help more businesses scale, is the focus of this paper.

This report focuses on trends in the supply of impact capital, especially finance that is offered with an expectation of both financial return and positive social and/or environmental impact. It follows a companion report on the demand for finance from social enterprises and inclusive businesses in ACP countries. In line with the aims of the ICR Facility, this report makes a number of recommendations to build ecosystems in ACP countries that support greater and more varied private sector investment in inclusive businesses and social enterprises. It is aimed at policymakers, investors, donors, and other institutions which influence the business environment and investment climate and have an interest in sustainable development. The report is part of the ICR Facility's series of Knowledge Products on innovative finance solutions. Other ICReports in this series explore Crowdfunding, Prêts d'honneurs and Start Up Acts[1].

[1] For more info on the facility and to access the Knowledge Hub: https://www.icr-facility.eu/

KEY FINDINGS

Around two thirds of impact investors seek market rate returns and one third seek below market rate returns. Those focused on emerging markets are less satisfied with their financial returns than those in developed markets.

Investment in social enterprises and inclusive businesses can deliver the impact sought by impact investors but for various reasons is less able or likely to deliver expected financial returns.

Average impact investment ticket sizes amongst Development Finance Institutions (DFIs) and Strategic Financial Management (SFMs) are too high for many social enterprises. This has created a ‘missing middle’ where early growth stage social enterprises and inclusive businesses cannot access the level of finance they need, even as they target vital impact for communities.

Social enterprises and inclusive businesses face challenges in the type and structure of typical impact investments, which rarely provide the low-cost and long-term loans that are needed. Equity investment potentially provides an alternative, but many social enterprises are not prepared to sell ownership stakes and investors are dissuaded by a lack of exit options in emerging economies.

Impact investment is concentrated in particular countries, and this does not simply reflect areas of greatest population and developmental need. The ease of doing business in a country is also an important factor as it impacts the risk which expected financial returns are exposed to.

Impact investment is concentrated in certain sectors. This may be less linked to opportunities for greatest social and environmental impact than to risk perceptions and high ticket sizes.

This paper offers recommendations and examples of best practice that can help to broaden the scope of impact investment and make finance more accessible for a greater range of social enterprises and inclusive businesses in ACP countries. These range from improving the prevailing market conditions for business and investment as a whole, to deploying grant funding to support the development of investable social enterprises, to improving the range of returnable finance that is available to such businesses. Collaboration across the spectrum of capital, between the public and private sectors, and from international to local scales, is vital.

APPROACH

The report is organised around three parts and focuses, to the degree possible, on the experiences of ACP regions.

Part 1 introduces impact investment and explores the extent to which it is meeting the finance needs of social enterprises and inclusive businesses and where it sits in the spectrum of capital.

Part 2 describes how impact investment is structured and delivered, and where it is concentrated. It enumerates the drivers in, and limitations to, the deployment of impact investment.

Part 3 offers recommendations and examples of best practice on how these limitations can be addressed to ensure that private sector investment meets the wide-ranging needs of inclusive businesses and social enterprises in ACP countries.

PART 1: BACKGROUND

This report focuses on trends in the supply of impact capital, especially finance that is offered with an expectation of both financial return and positive social and/or environmental impact. It follows a companion report on the demand for finance from social enterprises and inclusive businesses in ACP countries. This paper begins with a focus on impact investment because, definitionally, it should be suitable to the needs of many inclusive businesses and social enterprises[2].

One of the areas than can be attractive for impact investors is to channel finance towards social enterprises and inclusive businesses. These two related business categories offer investors alternative approaches to balancing impact, risk and return. To date, however, impact investments have largely been structured for more private, profit-orientated business models which are focussed exclusively on profit making alone. The heightened risk of investing in social enterprises that are driven by impact over profit, that may be only in the early stages of proving their commercial viability, and that are often working in challenging markets, mean that the smaller, longer-term, and lower-cost impact investments that many such businesses demand are not readily available. In keeping with trends in the wider business landscape, but with vital social and environmental impact potentially missed as a result, this has led to what has been regarded in social financial investment terms the ‘missing middle’ with regards to lack of medium size and accessible investments, as a barrier for many social enterprises with a viable business model is they cannot access the finance they need to scale.

The average size of social investment has started to decrease over past number of years, for example the UK in 2013 average social investment deal size was reported to be £264k[3], then £108k in 2015 and £144k in 2016[4]. Yet despite this downward trend in terms of size of investments made – historically, anecdotal evidence suggests, many investors have favoured bigger, more commercially established businesses and certain geographies and sectors – the prevalence or not of investable inclusive businesses and social enterprises is inextricably tied to the business environments and sectors in which they operate. Some countries offer more and ‘safer’ investment opportunities than others while certain sectors are better able to absorb large investments and more likely to deliver the expected (high) returns. Thus, in addition to the missing middle, there are also geographic and sectoral gaps in impact investment.

[2] https://www.icr-facility.eu/knowledge-hub/social-enterprise-and-inclusive-business-1

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/277861/Background_analysis_on_the_UK_social_investment_market.pdf

[4] https://bigsocietycapital.com/latest/size-and-composition-uk-social-investment-market-2016-update/

DEFINING SOCIAL ENTERPRISES AND INCLUSIVE BUSINESSES

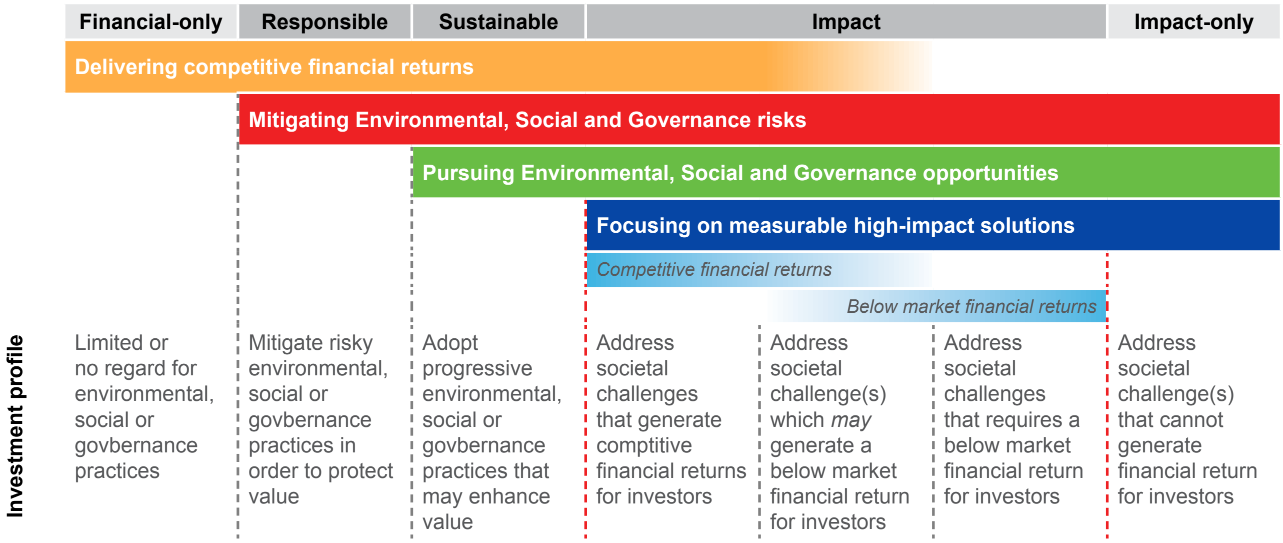
Based on the European Commission definition, “A social enterprise is an operator in the social economy whose *main objective is to have a social impact rather than make a profit* for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and *uses its profits primarily to achieve social objectives*. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities” [5]

The G20 defines inclusive business as a private sector approach that provides “goods, services, and livelihoods *on a commercially viable basis*, either at scale or scalable, to people living at the base of the economic pyramid making them part of the value chain of companies´ core business as suppliers, distributors, retailers, or customers.” [6]

As Figure 1 below shows, impact investment can be seen as distinct from ‘responsible’ and ‘sustainable’ investment based on its more active pursuit of measurable high-impact solutions to social and environmental challenges. Within the impact investment space, there is allowance for seeking either competitive financial returns or below market financial returns. This suggests a degree of flexibility in the shapes and sizes of businesses that are invested in, and the models by which they deliver positive impact.

Impact investment is a burgeoning field. While discussions continue about what should and should not be included under its banner, and the danger of ‘impact washing’,[7] GIIN valued the global impact investment market at US$715 billion in 2020, representing a notable increase from $502 billion in 2018 and $114 billion in 2017. This is still just a fraction of total global assets under management (AUM)[8] and there are **questions about the scale of impact investment and its potential to deliver the change that is needed**. Is it reaching the communities and businesses that need it in a form they can use? Are there particular forms of impact investment or other financing and funding models that deserve greater attention if the demands of social enterprises and inclusive businesses are to be met?

Figure 1: Spectrum of Capital


Financial-only
Responsible
Sustainable
Impact
Impact-only
Delivering competitive financial returns
Mitigating Environmental, Social and Governance risks
Pursuing Environmental, Social and Governance opportunities
Focusing on measurable high-impact solutions
Competitive financial returns
Below market financial returns
Investment profile
Limited or no regard for environmental, social or govbernance practices
Mitigate risky environmental, social or govbernance practices in order to protect value
Adopt progressive environmental, social or govbernance practices that may enhance value
Address societal challenges that generate comptitive financial returns for investors
Address societal challenge(s) which *may* generate a below market financial return for investors
Address societal challenges that requires a below market financial return for investors
Address societal challenge(s) that cannot generate financial return for investors

Source: Bridges Fund Management[9]

[5] https://ec.europa.eu/growth/sectors/social-economy/enterprises_en

[6] https://www.inclusivebusiness.net/sites/default/files/inline-files/G20%2BInclusive%2BBusiness%2BFramework_Final.pdf

[7] Where companies use the label and its appeal to suggest they are achieving more impact than they are.

[8] US$89 trillion in 2019 - https://image-src.bcg.com/Images/BCG-Global-Asset-Management-2020-May-2020-r_tcm9-247209.pdf

[9] https://www.bridgesfundmanagement.com/wp-content/uploads/2017/08/Bridges-Spectrum-of-Capital-print.pdf

Gaps in impact investment result from the interplay of factors on both the demand and supply sides. On the demand side, as described in the companion report, there are five dimensions that can compromise access to finance for social enterprises and inclusive businesses: 1) legal forms, 2) income and mission alignment, 3) age, size, growth and income trajectory, 4) target communities and 5) leadership. This report considers the following three supply-side factors that channel impact investment towards certain businesses in ACP countries and not others, even when vital social and environmental impact may be missed as a result: 1) return expectations and risk perceptions; 2) finance mechanisms and ticket sizes; and 3) sectors and geographies of investment.[10] These interrelated factors provide the structure for Part 2 and inform the recommendations in Part 3.

Where data exists specific to ACP regions, it is more comprehensive for African than Caribbean and Pacific countries.[11] Where data specific to ACP countries does not exist, this paper draws on data relating to impact investments in emerging markets more broadly. It is also worth noting that many of the sources consulted capture information from a self-selected sample of impact investors.[12]

For the most part, reference to impact investment in this report should be seen to incorporate forms of venture philanthropy that entail some level of returnable finance. A more specific examination of venture philanthropy is provided only once the limitations of impact investment in practice become clear.

PART 2: IMPACT INVESTMENT TRENDS IN THE ACP REGIONS

WHO ARE THE IMPACT INVESTORS?

The Global Impact Investing Network (GIIN) provides an annual snapshot of impact investment and has done much to define and grow the field. Based on input from nearly 300 of the world's leading impact investors in 2020, almost 70% of respondents believe the field is growing steadily.[13] Globally GIIN distinguishes between nine impact investor types, with the distribution as set out in Table 1:

Table 1: Global impact investor types based on GIIN 2020 Annual Survey[14]

Organisation type	No. of respondents
Asset manager: for profit (including fund managers and investment managers)	149
Asset manager: not for profit (including fund managers and investment managers)	40
Development finance institution (government-backed institution investing in the private sector)	14
Diversified financial institution (including banks and credit unions)	8
Family office (private wealth management advisory firms)	12
Foundation	40
Insurance company	3
Pension fund / retirement fund	5
Other organisation types	23

[10] In some ways these map to factors explored on the demand side. There is not the data available to consider the legal forms nor the leadership profiles of enterprises invested in but the companion report suggests that these factors may also play a role in the distribution of finance to social enterprises and inclusive businesses.

[11] The data for Africa has been aided by the comprehensive reports conducted by the African Venture Philanthropy Association, published in November 2020. Data for Caribbean and Pacific countries are often hidden in regional data for Latin America and Oceania.

[12]

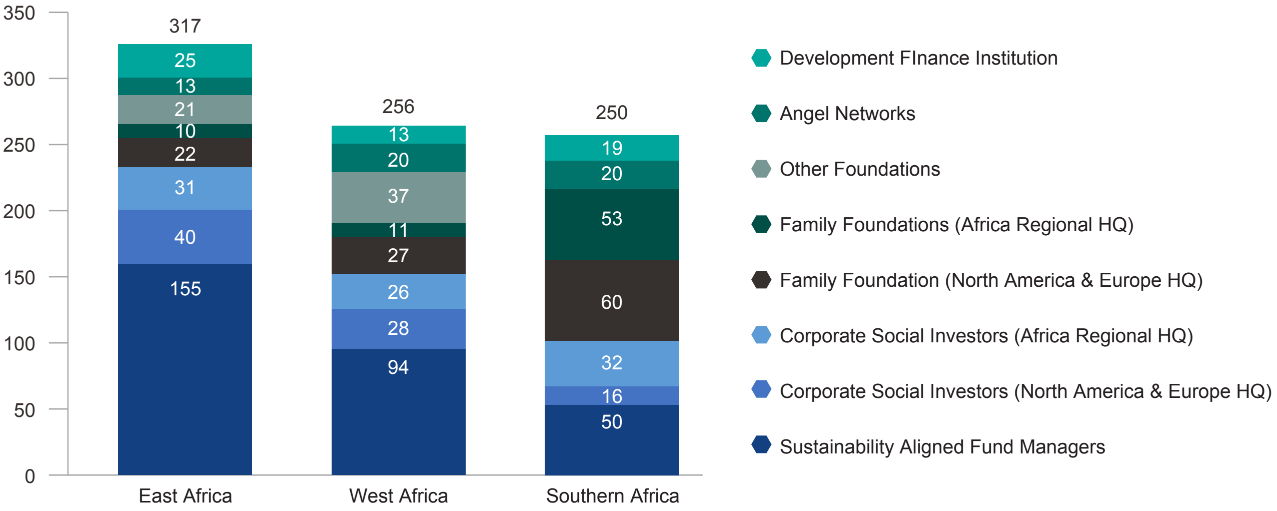
[13] Respondents to the GIIN survey are deemed eligible by virtue of their managing at least $10 million in impact investing assets and/or having made at least five impact investments.

[14] https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf

61% of the respondents were exclusively impact investors. 'Small investors', defined as managing less than USD 100 million in impact investing assets, accounted for 53% of the respondent sample. In total 126 of the 294 impact investors studied allocate at least 75% of their current impact investment assets under management (AUM) to emerging markets (EMs) but just 61 impact investors are headquartered in EMs.[15] Some 59% of impact investing assets are directed to EMs.

In terms of ACP geographies, 43% of GIIN respondents had impact investments in SSA, 35% in Latin America and the Caribbean, and 8% in Oceania. SSA accounted for 21% of total AUM but this dips to 11% if three large outliers are excluded. Headquarters for EM-based impact investors in the GIIN survey include South Africa, Nigeria, Ghana, Tanzania, Kenya, and Cayman Islands. The African Venture Philanthropy Association (AVPA) offers further breakdown of investor types across SSA (see Figure 2) although it is worth noting that their categorisation of social investors includes venture philanthropists and socially-responsible investors as well as impact investors.[16]

Figure 2. Overview of key social investors in SSA



Source: AVPA SSA Social Investment Comparative Analysis[17]

RETURN EXPECTATIONS AND RISK PERCEPTIONS

What sets impact investments apart from mainstream investments is that they purposefully seek positive social and environmental impact. As with mainstream investment, however, **expectations of financial return and perceptions of risk** relating to that return remain key (and often defining) influences. These **affect where impact investment is directed, how it is packaged, and for whom it is available**. Many impact investors, while concerned with the impact of their investments, are still seeking market-level financial returns. Among the impact investors responding to GIIN's 2020 survey[18], 67% seek market-rate returns (88% amongst large investors and 57% amongst small investors), whereas 33% seek below-market-rate returns (70% of these are small investors).[19]

The return expectations do not markedly differ between investors focused on developed markets (DM) and **those focused on EMs**, but the latter **are less satisfied with their returns**.[20] Nearly 20% of EM-focused investors reported their funds underperforming financially, compared to just 7% of DM-focused investors, and 29% of EM-focused investors see the 'inability to demonstrate financial results' as a top

[15] The GIIN categorises both SSA and Latin America and the Caribbean as emerging markets. Pacific countries are included within GIIN's Oceania designation which is categorised as a developed market.

[16] https://avpa.africa/wp-content/uploads/2020/11/AVPA_SSA-Summary_09-11-20.pdf

[17] https://avpa.africa/wp-content/uploads/2020/11/AVPA_SSA-Summary_09-11-20.pdf

[18] https://thegiin.org/research/publication/impinv-survey-2020

[19] Within this,18% are closer to market rate, whereas 15% are closer to capital preservation.

[20] The influence of the Covid-19 pandemic is unlikely to have significantly impacted the GIIN findings with survey responses gathered from February – April 2020 when the full economic impact was yet to be realised.

challenge compared to 19% of DM-focused investors. **EM-focused investors also reported greater challenges in sourcing 'appropriate capital across the risk/return spectrum'** compared to DM-focused investors (60% versus 51%)[21].

Investment in social enterprises is one way of achieving positive social or environmental impact, but social enterprises are often unable or less likely to deliver the market-rate returns that 67% of impact investors seek. As set out by *fi-compass*[22], many social enterprises will prefer using any surplus income to maximise their impact rather than distributing it to shareholders. In more developed ecosystems social enterprises often take a legal form that specifically restricts their use of profits in this way. While such a form may allow them to retain access to grant funding and public finance, legally limiting the profit distribution of social enterprises may deter commercial investors from supplying finance, either because they are seen to be 'higher risk' or because their legal forms is deemed prohibitive for investors.

Irrespective of their stance on profit distribution, the commitment of a social enterprise to delivering a social and/or environmental mission, and working with what are often low-income communities, can mean that potential income and financial returns are compromised. **Even for investors expecting below-market returns, social enterprises may not be seen to offer the assurances of financial return needed**, especially if they do not have an asset base against which to secure the investment. Greater risk, in spite of potential impact, translates to more costly finance that is out of reach for most social enterprises.

Currently, **impact investors' dissatisfaction with financial performance, challenges in sourcing appropriate capital, and perceptions of risk and return linked to their business form mean that many social enterprises in ACP countries that are unable to access mainstream finance will face similar challenges in seeking impact investment.** As with other businesses, the greatest barriers are faced by social enterprises that are small,[23] without collateral,[24] and on a shallow growth trajectory. Many investors seeking impact will be drawn to more established and commercially oriented businesses with a strong impact narrative[25] such as inclusive businesses.[26]

From a demand-side perspective, it is worth noting that many social enterprises can and do access finance from mainstream banks – and often without the additional burden of reporting their social and environmental impact. But where there is unmet demand for finance among social enterprises and inclusive businesses, and the potential for positive social and environmental benefits, impact investors and other providers of impact-oriented support could be doing more to fill the gaps. If the 'impact' edge of their investment agenda is to be anything more than a token gesture, shouldn't impact investors endeavour to offer something different than their mainstream counterparts.

THE MITIGATING RISK OF IMPACT INVESTMENT

Perceptions of risk combined with high, often market-level return expectations mean that certain businesses, such as certain forms and stages of social enterprise, are less favourable for impact investment even when they are well-placed to deliver social and environmental impact. This has led to a situation where most impact investment does not offer anything substantially different to social enterprises and inclusive businesses from traditional mainstream investment and therefore gaps in access to finance amongst social enterprises persist.

Part of the solution lies in attributing greater value to impact so that it genuinely sits alongside financial factors in investment decisions.[27] This depends on improving both the measurement and reporting of impact data across the board. If the cost of negative externalities and the value of positive social and environmental outcomes can be fully accounted for, especially over the long-term, then this will drive more investment towards areas of greatest positive impact.

Another solution lies in asset managers better managing the expectations of investors, so they are more aware of likely returns. There is also a need to attract more investment from a wider range of capital providers. Angel investors have a higher risk appetite for investing in early-stage enterprises, for example, while crowdfunding can be used to attract small

[21] https://thegiin.org/research/publication/impinv-survey-2020

[22] https://www.fi-compass.eu/sites/default/files/publications/Factsheet_Financial_instruments_working_with_social_entrepreneurship.pdf

[23] The average turnover of social enterprises in SSA was found to be £6,911 in one study - https://www.britishcouncil.org/sites/default/files/social_enterprise_and_job_creation_in_sub-saharan_africa_final_singlepages.pdf

[24] Social Enterprise and Sustainable Development in Africa: The AfricaCom 20 edition, p.80

[25] E.g. see the Impact Investors' Foundation 2019 report on impact investment in Nigeria and Ghana - https://thegiin.org/assets/IIF%20Study%20on%20Impact%20Investing%20Full%20Report.pdf

[26] These do include many social enterprises but not all. For a useful comparison of the terms see - https://www.adb.org/sites/default/files/project-documents/46240/46240-001-tacr-en.pdf

[27] See the Impact Weighted Accounts Initiative for example.

investments from a wide pool of individuals. In ACP countries, diasporas – already the source of substantial remittances – are important potential sources for more structured impact investment that could meet demand among inclusive businesses and social enterprises.

Public and philanthropic capital is often used to mitigate risk and promote private investment where positive impact can be achieved. So-called 'blended finance' acts as catalytic capital that subsidises the returns or protects against losses (e.g. through first loss default guarantees) for investors who, without such support, would be dissuaded from investing. Convergence, a global network of investors involved in blended finance transactions, has found Sub-Saharan Africa to be the most frequently targeted region in such transactions (44%).[28] In March 2021, the ICR Facility organized a training on Blending and Grant Financing for employees of the Development Bank of Zambia (DBZ). The training was facilitated by Convergence Blended Finance for DBZ staff members from senior management, the investment department and risk management who support investments into business innovations (to find out more, please see Blended Finance – a powerful tool for DFIs | ICR Facility (icr-facility.eu)).

INVESTMENT TICKET SIZES AND TERMS

There is limited data on the types of businesses that receive impact investment in ACP countries, and on the terms of typical impact investments. However, social enterprises and inclusive businesses often claim that typical investment packages are not suited to their needs, especially those at early growth stage looking to establish their long-term financial sustainability. As with wider business trends, frequent reference is made to a **'missing middle' where such enterprises are too big for microfinance and informal local investors, and too small for corporate banks, private equity firms and Development Finance Institutions (DFIs).**

Much of the challenge relates to investment size. In a Siemens-GIZ study on social enterprises in Africa,[29] the value of the average missing middle of investment sought by social enterprises was set at USD 30,000-250,000. The 2020 AVPA-Intellecap report on social investment across Africa finds the average transactions of Sustainability Aligned Fund Managers (SFMs) to be $4.1 million in West Africa, $6.4 million in Southern Africa and $6.7 million in East Africa. It notes an 'increasing number of SFM deals recorded at the pre-seed and seed level' but '**a consistent decline in the number of deals in the US$ 0.5-1Mn ticket sizes** across all the regions'.[30] Furthermore, in terms of overall value, it is DFIs rather than SFMs that continue to dominate the impact investment space in Africa. Many DFIs have financial sustainability within their mandate which will discourage their investment in risky businesses while their average ticket sizes range from USD 21m in East Africa to USD 32.1m in West Africa.[31]

"… most funds – even those that talk about fighting poverty – bypass the more difficult, longer-term, and less financially lucrative investments that directly benefit the poor, and instead gravitate toward the easier, quicker, and more financially lucrative opportunities that target broader segments of society."[32]

Clearly there is continued need for the large-scale infrastructure and energy projects that are vital to social and environmental impact. Some argue that even larger ticket sizes are needed to fully unlock large-scale global impact capital and to address the infrastructural needs of emerging economies.[33] However, additionally **it is social enterprises and inclusive businesses that are specifically targeting low-income and marginalised communities, working in less financially appealing markets to ensure that no one is left behind.**[34] **Their financing needs must also be met** to enhance progress against the SDGs and this is not always achieved through large investments interventions.[35] Large ticket sizes are, at least partially, a result of the transaction costs of due diligence which make it less appealing to invest lots of smaller amounts in lots of smaller companies than a few bigger amounts in several larger companies.[36] Possible solutions for reducing impact investment ticket sizes the

[28] https://www.convergence.finance/blended-finance#regions

[29] https://www.siemens-stiftung.org/wp-content/uploads/2020/10/studie-socialenterprisesasjobcreatorsinafrica-part1-siemensstiftung.pdf

[30] https://avpa.africa/wp-content/uploads/2020/11/AVPA_SSA-Summary_09-11-20.pdf - The figures are more variable for the continent's family foundations. Average amounts may have been skewed by larger investments.

[31] https://avpa.africa/wp-content/uploads/2020/11/AVPA_SSA-Summary_09-11-20.pdf

[32] https://ssir.org/articles/entry/closing_the_pioneer_gap#

[33] https://www.ft.com/content/18752b94-c8d1-11e9-a1f4-3669401ba76f

[34] For example, the British Council report on social enterprise and job creation in SSA found that 44% of social enterprises in the region aim to improve a particular community compared to 10% of profit-first businesses while 35% specifically aim to support vulnerable people compared to 7% of profit-first businesses. See https://www.britishcouncil.org/sites/default/files/social_enterprise_and_job_creation_in_sub-saharan_africa_final_singlepages.pdf

[35] Furthermore, entrepreneurs are frequently posited as the engine of growth for emerging economies and SMEs making up 91% of formalised businesses in South Africa for example

[36] The data from Africa appear to back this up. In East Africa, 10 businesses in the region attracted over 69% of the total funding by SFMs. This was 72% in West and 67% in Southern Africa. The

sharing of due diligence data or pooling of due diligence costs between impact investors, and greater disbursement of impact investment through local intermediaries.[37]

Aside from investment sizes, the terms on which they are offered, such as **loan periods and interest rates, tend also to be misaligned with the needs of many social enterprises**. Social enterprises are often testing new business models or filling in because of market or government failure. Precisely because they are operating in challenging markets, **such projects will require longer time horizons** to reach financial sustainability and offer a return on investment lower than other enterprises. Given small and uncertain profit margins **they will also require low-cost finance** but as noted above, the perception that social enterprises are higher risk and often incur higher costs than their larger commercial counterparts, means that investing in social enterprises will more often *increase* the cost of taking on impact investment. This is especially the case if loans are unsecured which can be a distinguishing factor in the offers from impact investors compared to mainstream banks.

Equity finance presents an alternative option, offering what tend to be longer timescales (e.g. 5-7 years) and with acceptance of greater risk. While many social enterprises prefer to retain ownership as a means to protect their social mission, there is evidence of **increasing demand for equity finance**. As far back as 2014, research that focused on Colombia, Mexico, Kenya and South Africa found that 20% of *non-profit* social enterprises had applied for equity funding, suggesting a proliferation of for-profit legal forms in the non-profit sector.[38] **However, the lack of exit options even in the wider investment space** in emerging markets (such as on a public exchange platform or via a private trade),[39] still presents challenges. These are heightened for impact investors with some suggesting that investments must be stretched to upwards of 10 years for exit options to be realised.[40] In the GIIN study, 60% of EM-focused investors found the lack of exit opportunities a challenge compared to 34% of DM-focused investors.[41]

The detail of investment products will need to respond to the needs and preferences of individual social enterprises and inclusive businesses, but there is broadly demand for more flexible, patient capital available in smaller amounts and not dissuaded by high levels of risk. This will likely include variations of debt, equity and hybrid financing underpinned by collaboration between multiple public and private investors and funders. Without such finance to address the medium size and more accessible investments and support early stage social enterprises, there will not be the pipeline of enterprises that are better placed to absorb larger investments and meet impact investor expectations down the line.

SECTORS OF INVESTMENTS AND GEOGRAPHIES

In terms of geographies, **impact investments are concentrated by country**. While our earlier ICReport on access to finance for social enterprises and inclusive businesses[42] did not specifically explore how these businesses might face barriers as a result of operating in different countries, it did highlight target communities as a potential issue. The fact that this applies across national borders becomes very apparent from the impact investment perspective. In Africa for example,[43] impact investments are heavily concentrated in Kenya in East Africa, Nigeria in West Africa, and South Africa in Southern Africa.[44]

To some extent, as reflected in Table 2 on the following page, the distribution of impact investment relates to countries' populations (e.g. Nigeria, South Africa, and Kenya are 1st, 3rd and 5th in terms of population size across the selected countries). Once population differences are taken into account we might expect impact investment to lean towards areas of most need (as indicated by their SDG and HDI rankings).[45] This is not always the case, as the existence or otherwise of a conducive business and investment climate is also an important factor. This applies on at least two levels. First, the lack of a conducive business and investment climate can mean that there are

top 10 businesses accounted for 20%, 18% and 22% of SFM deals in East, West and Southern Africa respectively.

[37] Multi-stage disbursements may be needed in some cases. A study on finance providers for small and growing businesses in SSA found that 77% of those with capital from DFIs were funds with more than $20mill AUM - https://static1.squarespace.com/static/59d679428dd0414c16f59855/t/5f3291a6c9f2f453aa9e6125/1597149609329/Sub-Sahara+Impact+Capital+Providers_COVID-19+Survey+Review_June+2020.pdf

[38] https://www.engineeringforchange.org/wp-content/uploads/2016/02/taking-the-pulse.pdf

[39] https://www.empea.org/app/uploads/2019/11/LRB_No28_2019_Articles_WinstonStrawn.pdf

[40] https://www.routledge.com/rsc/downloads/Social_Enterprise_and_Sustainable_Development_in_Africa.pdf

[41] https://thegiin.org/assets/IIF%20Study%20on%20Impact%20Investing%20Full%20Report.pdf

[42] https://www.icr-facility.eu/fileadmin/files/downloads/icreports/icr_policy_paper_on_social_enterprises_part_1_v3.pdf

[43] https://avpa.africa/wp-content/uploads/2020/11/AVPA_SSA-Summary_09-11-20.pdf

[44] Kenya is recipient of 46% of DFI funding in East Africa; 70% of SFM funding in East Africa. Nigeria is recipient of 47% of DFI funding in West Africa, 69% of SFM funding in West Africa. South Africa is recipient of 55% of DFI funding in Southern Africa, 86% of SFM funding in Southern Africa

[45] The Sustainable Development Report (https://dashboards.sdgindex.org/rankings) orders countries by their progress towards achieving all 17 SDGs. The Human Development Index (http://hdr.undp.org/en/content/latest-human-development-index-ranking) is a UNDP measure based on people's longevity, education and income.

fewer investment ready social enterprises and inclusive businesses. Second, it can mean that prevailing conditions dissuade investment in what would otherwise be deemed investable social enterprises and inclusive businesses.

The extent to which a country offers a conducive business and investment climate can be assessed using the World Economic Forum's Global Competitiveness Report which ranks 141 countries according to 'factors and attributes that drive productivity, growth and human development'.[46]

Additional rank which cover all countries are provided by the World Bank's Ease of Doing Business index.[47] The lack of a conducive business and investment climate means that South Sudan, while occupying the lowest rank in the list for both SDGs and HDI, attracts just 17 social investors (the investment value is unavailable). Its population is fairly low at 11 million but Rwanda, with a similar population and higher SDG, HDI and Ease of Doing Business rankings attracts 118 social investors and SFM investments amounting to USD 48 million over 2015-2019.

Its low global competitiveness (126) and Ease of Doing Business (159) rankings may also go some way to explaining why Ethiopia, with the second largest population in SSA and a global HDI ranking of 173, has attracted only US$16 million in SFM investment. Mozambique has a mid-range population of 30 million combined with a HDI ranking of 181. Its global competitiveness (138) and Ease of Doing business (138) rankings would suggest that more than US$1 million of SFM capital would have been invested but this can perhaps be explained by Anglophone markets tending to offer higher interest rates than non-Anglophone counterparts.[48]

Table 2: Key impact investment data for selected countries in SSA

	No. of social investors[49]	Capital deployed by SFMs (US$, millions)	Population (millions)	SDG rank	HDI rank	GC rank	EoDB rank
Kenya	263	1,051	52.57	123	143	95	56
Uganda	172	81	44.27	142	159	115	116
Tanzania	151	30	58.01	131	163	117	141
Rwanda	118	48	12.6	132	160	100	38
Ethiopia	80	16	112.1	136	173	126	159
South Sudan	17	–	11.06	165	185	–	185
Nigeria	142	829	201	160	161	116	131
Ghana	101	191	30.42	100	138	111	118
Ivory Coast	50	121	25.72	128	162	118	110
Senegal	64	95	16.3	127	168	114	123
Sierra Leone	32	–	7.81	153	182	–	163
Liberia	30	–	4.94	162	175	–	175
South Africa	177	1,003	58.56	110	114	60	84
Zambia	23	80.1	17.86	148	146	120	85
Mozambique	11	1	30.37	140	181	137	138
Angola	20	–	31.83	149	148	136	177
Botswana	16	–	2.3	121	100	91	87
Zimbabwe	20	134.6	14.65	125	150	127	140

Aside from the business and investment climate, and level of inward investment and economic development in the country to deploy required resources, there is also a correlation in the level of demand for investment driving up the number of social investment funds. Yet, in all three regions in SSA, a substantial proportion of impact investment is still sourced internationally.[50] **It may also be that SFM data does not fully reflect the distribution of capital and that certain**

[46] http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

[47] The World Bank (https://www.doingbusiness.org/en/rankings) uses 10 indicators to assess the ease of doing business in a country including starting a business, registering property, getting credit, trading across borders, protecting minority investors.

[48] https://avpa.africa/wp-content/uploads/2020/11/1_WA_Complete-report_09-11-20.pdf

[49] This includes DFIs, SFMs, Corporate Social Investors, foundations and Angel Networks

[50] Precise data on the proportions of impact investment sourced internationally is hard to come but there are signs of continued reliance on international capital. For example, the annual GIIN survey suggests that 126 of the 294 impact investors allocate at least 75% of their current impact investment assets under management (AUM) to emerging markets (EMs) but just 61 impact investors

countries are key recipients for other forms of finance instruments and funding tools alongside the umbrella of impact investment. For example, Ethiopia tops the list for *donor activity* in East Africa (34%), and Mozambique does so in Southern Africa (38%). Meanwhile the greatest recipients of *remittances* in Southern Africa is Zimbabwe (USD 1.73 billion).

In the Pacific, there is not the aggregated data to outline where impact investment is concentrated but Fiji and Tuvalu[51] have recently leveraged large amounts of funding from the Green Climate Fund. Similarly, in the Caribbean, there is not a systematic study but there have been examples of impact investment funds and initiatives in Jamaica[52], Bahamas[53], Dominican Republic[54], and Haiti [55].

As well as geographically, **impact investment is also concentrated by sector and not necessarily in line with areas of greatest demand**. Operating with the largest ticket sizes, DFIs are drawn to sectors able to absorb capital on a larger basis. This means that across all three regions in Africa, financial services, energy and agriculture account for 57-84% of the DFI portfolio. SFMs are similarly concentrated in these areas, somewhat in line with global data from GIIN which shows that utilities-type sectors attract more impact investment. However, GIIN data also shows that **impact investment offering returns below market rate is more targeted at sectors such as healthcare** (19% for below-market AUM; 7% for total AUM), **housing** (18% and 8%), and **education** (8% and 3%). [56] Indeed, in SSA health is the top sector for *bilateral* and *multilateral* donors accounting for 30% of funding in East Africa, 39% in West Africa and 43% in Southern Africa.

According to UNDP[57], key impact investment areas in the Pacific Islands so far have included: housing (22%); energy (16%); microfinance[58] (12%); financial services (19%); and food and agriculture (7%). Aside from housing, all the other sectors match the results for Africa.

There are similar findings from GIIN.[59] EM-focused Investors allocate a greater share of their capital to energy than DM-Focused Investors (23% of AUM versus 12%), as well as to financial services (29% versus 3%) and microfinance (12% versus 2%). GIIN suggests the sector allocation 'may reflect particular demand for access to basic services (that is, energy and finance) in emerging markets' but it is likely that these sectors because of the size of evidencable demand also present comparatively lower risk in terms of customer acquisitions, despite challenges over sustainability and scale. Are social enterprises and inclusive businesses in other sectors less appealing for impact investors? Is there unmet demand for finance?

Based on social enterprise mappings across four African countries, there is **some evidence of a mismatch between social enterprise and impact investment sectors**. The top sectors for social enterprises are services (ICT and tourism); business development services and entrepreneurship support, education; and agriculture and fisheries (Table 3).

Table 3: Top sectors of social enterprises in Sudan, Kenya, Ethiopia and Ghana

Sectors	Sudan	Kenya	Ethiopia	Ghana
Services (ICT, tourism)	14%	11%	14%	N/A
Education	5.1%	13%	5%	36%
Business development services and entrepreneurship support	12%	13%	12%	N/A
Agriculture and fisheries	11%	8%	11%	33%
Retail	11%	1%	11%	5%
Financial Services	5%	5%	5%	5%
Energy	N/A	5%	N/A	N/A

are headquartered in EMs

[51] https://www.sei.org/publications/pacific-climate-finance/

[52] The Jamaica Stock Exchange example as quoted previously

[53] IDB has an active portfolio of US$600m in Bahamas, including two investments in social investment: https://www.iadb.org/en/countries/bahamas/overview

[54] The Dominican Republic is a middle-income country with the largest economy in Central America and the Caribbean, and a report featuring multiple case studies for impact investments in the agricultural, energy and wind sectors was published in 2017: https://www.drfellowsprogram.org/reports/inversion-impacto-rd-eng.pdf

[55] There've been numerous initiatives to support social entrepreneurs access finance, including by Yunus Social Business and Transform Finance: http://transformfinance.org/briefings/2017/4/25/impact-investing-in-haiti

[56] www.thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf

[57] www.undp.org/content/dam/undp/library/Sustainable%20Development/Development%20Finance/Financing%20the%20SDGs%20in%20the%20Pacific%20Islands--Opportunities,%20Challenges%20and%20Ways%20Forward.pdf

[58] The UNDP report separates out microfinance from financial services whereas AVPA data for SSA includes microfinance within financial services.

[59] www.thegiin.org/assets/IIF%20Study%20on%20Impact%20Investing%20Full%20Report.pdf

Source: British Council state of social enterprise reports[60]

Across the four countries (three of which are in East Africa, one in West Africa), the financial services sector accounts for just 5% of social enterprises but for 37% of DFIs' and 29% SFMs' East African investments and for 29% of DFIs' and 61% of SFMs' West African investments. In Ghana agriculture and fisheries make up 33% of the number of social enterprises yet only 9% of impact investment in West Africa by DFIs and 12% by SFMs is allocated to this sector.

ALLOCATING IMPACT INVESTMENT ACROSS GEOGRAPHIES AND SECTORS

Impact investment is not always directed towards geographies where there is the greatest need and potential impact. Countries with similar populations and levels of social development may attract significantly different amounts of impact investment. In such cases, the business and investment climate and stability[61] in each country are believed to be determining factors in affecting the likelihood of expected financial returns (as well as intended impacts) being achieved, and this, in turn, affects impact investors' allocations.

Impact investment is also concentrated in certain sectors. Expectations of financial returns and large average ticket sizes amongst DFIs and SFMs play an important role here. Sectors better able to absorb large investments and offer more reliable returns attract more investment, while social enterprises and inclusive businesses delivering impact in other sectors but with substantial uncertainty for financial return may have greater challenges in accessing finance.

Concentration in these ways is not in itself a bad thing. Progress towards the SDGs is dependent on pulling in private sector capital to deliver social and environmental impact, but such capital is still tied to delivering financial returns. Unsurprisingly, investment is deployed in places and sectors that minimise transaction costs and have the greatest likelihood of meeting investors' expectations. The challenge is to ensure that capital erring more towards the impact end of the spectrum (philanthropy, remittances etc.) is used wisely to build the long-term investability of countries and sectors that are currently seen as too risky for more profit-driven impact investments.

This might mean enhancing the prevailing economic conditions to improve the ease of doing business in a particular country. It might also mean working at the level of NGOs, community groups, social enterprises and inclusive businesses to ensure there is a pipeline of organisations that are not only able to deliver positive social and environmental impact, but also absorb and manage investment in line with investor expectations.

[60] https://www.britishcouncil.org/society/social-enterprise/reports/state-social-enterprise

[61] A forthcoming paper from the ICR facility will focus on reforming business environments amid fragility and conflict.

PART 3: RECOMMENDATIONS AND BEST PRACTICE

Impact investment, as it is, does not provide the answer to the financing gap for many social enterprises and inclusive businesses in ACP countries. It is typically skewed towards larger, more profit-oriented businesses based in particular countries and sectors. Opportunities for scaling the social and environmental impact of other businesses may be missed as a result.

What can be done to ensure impact investment is allocated to a greater range of social enterprises and inclusive businesses in ACP countries? There are three related challenges here. Firstly, a lack of investable social enterprises. Secondly, an overly restrictive version of what are deemed investable social enterprises. Thirdly, a lack of financial products that meet the needs of investable social enterprises.

Meeting the investment demands of smaller, early-stage and higher risk social enterprises and inclusive businesses in ACP countries will require action on multiple fronts. These include building a more conducive investment climate, promoting greater investor collaboration, diversifying impact capital sources, minimising risks and risk perceptions, lowering transaction costs, encouraging longer time horizons, and improving impact measurement and management. These challenges will need to be addressed at various levels and by a range of different actors.

Implementing an overarching policy framework that guides such a multifaceted approach will be key to success in ACP countries. This should be based on clear evidence of the specific challenges and goals within the relevant country, including an understanding of sectoral diversity and the investor, social enterprise and inclusive business communities. It might usefully draw on some of the recommendations that follow. These can be developed and incorporated into a national policy framework but may also be useful on a standalone basis for policymakers, investors and others who have an influence on the investment and business climate.

a. Improve business and investment climates.

Influenced by actual and perceived risk, impact investment can be stifled by the wider conditions of a country. As indicated by the WEF's Global Competitiveness Index and the World Bank's Ease of Doing Business methodology, relevant factors can be wide-ranging, including dealing with construction permits and getting electricity. Evidence should be collected that identifies the key issues holding back impact investment in a country (and its diversification to meet a range of business needs) and enables targeted action.

b. Promote greater coordination across the spectrum of capital.

Impact investors often point to a lack of a pipeline of investment ready businesses. Promoting a better understanding between investors of their different expectations and products can help to ensure better sequencing of investment for social enterprises as they move through different stages of growth and commercial viability. In an effective impact investment ecosystem, more impact-oriented capital (with less, if any, return expectations) will help to build social enterprises that meet the demands of more profit-oriented capital.

As a direct response to the issues of the missing middle, Kiva Labs: Social Enterprises 'provides working capital for social enterprises to enhance productivity, remove bottlenecks to growth, and accelerate expansion, so that the enterprises are attractive to larger, institutional follow--on funding.'[62] Kiva describe their investments as risk tolerant and impact-first with first-time loans ranging from USD 10,000 to 50,000 and second-time loans ranging from USD 50,000 to 100,000. A key objective is to enable social enterprises to scale up to a point where they can access traditional investment. Only 40% of their investees were previously able to access unsecured loans and even then interest rates were as high as 30%. To date Kiva Labs has invested USD 5.7 million across 110 loans which has enabled USD 26 million of follow-on funding from others along the spectrum of capital. The social enterprises they have supported have been based around the world including in Haiti, Sierra Leone, Nigeria and Mozambique.

[62] https://www.labs.kiva.org/

c. Use grant funding to build an investable pipeline and innovate products.

Free cash is the most sought-after funding source[63] but philanthropic capital and donations should not be going to businesses, sectors and geographies where impact investment could achieve similar impact on a more sustainable financial basis. It should instead be targeted at areas where there is long-term potential for returnable finance to deliver positive impact but an immediate need to create more favourable market conditions. Funding should, in the interim, be used to reduce risk and instability and increase the likelihood of future investments delivering expected financial returns and impact. They should also help to support the development of a pipeline of investable social enterprises and inclusive businesses that can deliver those returns and impact. Grant funding should also be used to incentivise the trialling of new financial products that are more responsive to the needs of as yet underserved businesses.

In the UK, Big Society Capital (BSC) was created using dormant banking assets and it went on to create Access Foundation for Social Investment in 2015 with a 10-year lifespan.[64] Recognising a mismatch between social investment and the needs of charities and social enterprises, Access uses grant capital to support organisations to become investment ready but also to fund innovations among investors e.g. taking a first-loss position. In their five years of operations, they have deployed close to EUR 40 million[65] to 14 social investors, which then invested in over 500 charities and social enterprises. The uniqueness of their model meant that they were able to support investors to make smaller loans – averaging around EUR 75,000, to organisations with a smaller turnover and in more deprived neighbourhoods. They have also commissioned ten evaluations of the various funded programmes[66].

d. Support investment models that address the missing middle.

To address the missing middle and enable early-stage social enterprises to work towards commercial viability, there is a need for more small, low-cost, long-term, high-risk investments. As a high-engagement and long-term approach through which an investor for impact supports a social purpose organisation (SPO) to help it maximise its societal impact, venture philanthropy offers a useful approach. The EVPA identifies tailored financing, non-financial support, and impact measurement and management as three key aspects.[67]

e. Explore options for blended finance models, combining public and private capital.

As well as helping to improve prevailing market conditions, and the pipeline of investable social enterprises, public funding can be used more directly to de-risk impact investments and crowd-in private capital where it is needed. Blended finance arrangements are wide-ranging but can include pulling in guarantors to underwrite private sector investments and setting up impact bonds by which governments or external donors pay the financial return to impact investors based on delivery of impact by a social enterprise or inclusive business;[68] Such models should enable investment that is structured for businesses, sectors, and geographies that would otherwise be too risky.

The Dutch Entrepreneurial Development Bank, FMO, set up NASIRA[69] with a Guarantee from the European Fund for Sustainable Development (EFSD)[70] of the European Commission, which encourages local banks to lend to people they would usually consider too risky by providing guarantees on the loans they make. Targeted loan recipients include migrants, women, young people or COVID-19 affected small and medium-sized enterprises (SMEs) in SSA. While the lending focus in this instance relates to the entrepreneur rather than the business they run, the same risk-sharing model could be applied to encourage lending to social enterprises and inclusive businesses.

[63] https://www.engineeringforchange.org/wp-content/uploads/2016/02/taking-the-pulse.pdf
[64] https://access-socialinvestment.org.uk/us/what-we-do/
[65] https://access-socialinvestment.org.uk/wp-content/uploads/2021/02/Quarterly-Dashboard-Q4-2020.pdf
[66] https://access-socialinvestment.org.uk/learning/research/
[67] https://evpa.eu.com/uploads/publications/EVPA_Investing_for_Impact_Toolkit_2020.pdf
[68] https://golab.bsg.ox.ac.uk/the-basics/impact-bonds
[69] https://ec.europa.eu/eu-external-investment-plan/projects/nasira-risk-sharing-facility_en
[70] https://ec.europa.eu/eu-external-investment-plan/about-plan/progress_en

f. Promote investor collaboration.

Greater institutional collaboration can help to improve outcomes and diversify impact investment. For example, impact investors should be encouraged to share intelligence to decrease due diligence transaction costs and enable a greater range of investment ticket sizes. They might also usefully channel more of their investment through local finance intermediaries that are closer to the areas of impact and potential investees and are better positioned to manage investments at smaller sizes.

> The African Venture Philanthropy Alliance has established a deal-share platform where individual social investors can share information about their investees and grantees, flag resources those organisations need to grow, and invite others to partner, support or co-invest alongside them. This supports the sharing of costs relating to due diligence, provides peer-based endorsement of social enterprises and inclusive businesses for follow-on funding, and enables coordination of funding and support across the different stages of social enterprise development. The platform is specifically targeted at deals supporting impact-driven companies, social enterprises or non-profits that are seeking any type of capital: grants, debt, equity, convertibles, blended finance, etc. and/or non-financial support such as technical assistance or professional services.[71]

g. Improve granularity and integrity of investment data.

There is a need for better data, especially for Pacific and Caribbean countries, which will help to shed light on where investment is directed, where there are gaps and how these can be addressed. Research regarding the supply side of impact capital is not always consistent (in the categorisation of sectors for example), and there is also a lack of transparency about how investments are structured, the types of businesses they end up with and their leadership profiles. As well as making research and identifying potential improvements more challenging, this lack of data can lead to impact washing and affect the credibility of impact investment as a whole.

h. Support better impact accounting.

Financial factors such as return expectations and risk perceptions often still take precedence over impact considerations, even within the impact investment industry. More consistent measurement and reporting of the long-term social and environmental impacts of investments (both positive and negative) can provide the basis for these to be incorporated in the financial accounting of businesses and investors. The SDG Impact Standards project and the Impact Management Project[72] are just two of the many initiatives working to build consensus and provide guidance in this space.

> The SDG Impact Standards address the lack of 'a clear framework for integrating impacts on SDGs into business and investment decision making.'[73] The initiative is working towards impact standards for Private Equity Funds, for Bonds and for enterprises themselves. Building some consistency and integrity across the board will help to align expectations of investors and investees, identify gaps in impact, and help to provide the basis for impact-weighted accounts[74] that ensure impact is given greater credence in investment decisions.
>
> Policy makers can also play an important role in spurring transparency and accountability in the impact of business practices and investment decisions. In New Zealand, for example, new legislation will force financial institutions to reveal the impact of their investments on climate change.[75]

[71] https://avpa.africa/deal-share/how-deal-share-works/

[72] https://impactmanagementproject.com/

[73] https://sdgimpact.undp.org/practice-standards.html

[74] https://www.hbs.edu/impact-weighted-accounts/Pages/default.aspx

[75] https://phys.org/news/2021-04-world-zealand-banks-climate-impact.html

i. Provide capacity building for asset managers.

The onus is often on social enterprises and inclusive businesses to become investment ready, but there should also be a focus on ensuring that investors are impact ready. This means equipping them with the skills to link their impact goals to the needs of social enterprises that are well-placed to deliver those goals and to develop suitable investment products. It also means supporting them to collaborate with other funders and financers across the spectrum of capital to ensure the effective sequencing of investment and support for social enterprises.

> The Equality Impact Investing project was set up to improve the equality outcomes of impact investors. Building on its seminal report – *Equality Impact Investing: From Principles to Practice* – the project now provides training to investors on applying EII principles, strategies and practices to their funding and investment portfolios. For example, to promote gender equality, strategies can include improving diversity and equality practices within the impact investment sector (e.g. ensuring women are included on investment decision-making panels), targeting investment to female entrepreneurs and leaders, giving weight to the gender sensitivity of investees' business practices (e.g. their recruitment policy, supply chain management), and targeting investment at social enterprises whose mission is focused on empowering women and girls.
>
> The course is suited to individual social impact investors and funds, private and charitable foundations, philanthropists, and infrastructure and market building organisations. It consists of two core modules focusing on theory and practice and two action-oriented learning sessions, with peer networking opportunities and dedicated one-to-one advice and support from course leaders.[76]

j. Increase sourcing of capital from across the risk/return spectrum.

There needs to be greater sourcing of investors that are prepared to accept below market rates of return and the repayment of capital. This can be supported by tapping into new investor communities such as diasporas and through the improvement of data that evidences positive impact. It could also usefully be supported by crowdfunding platforms that give potential providers of smaller investments a more direct link to investees, wherever each may be located.

k. Manage expectations of asset owners.

A significant proportion of source impact investors are dissatisfied with their financial returns, even those that are prepared for returns below the market rate. While improvements can be made to minimise the risk (e.g. recommendations b and e), and diversify sources of capital from across the risk/return spectrum (e.g. recommendation f), asset managers must also build and share a more realistic sense of likely risks and returns.

l. Engage insurance providers to offset risks.

The risk of lending to social enterprises tends to increase the cost of loans beyond the reach of many social enterprises, especially if they are lacking assets to secure the loan against. Insurers can play an important role here, offering insurance products to social enterprises and protecting lenders against loss. This may serve to encourage commercial banks, which have lower transaction costs and offer lower cost loans than many existing impact investors, to enter the impact investment field.

> The Nigeria Competitiveness Project (NiCOP)[77] has worked with Royal Exchange to expand its inclusive insurance products as part of an impact investment from Blue Orchard. Smallholder farmer cooperatives in Nigeria, previously perceived as too high-risk, were able to access the insurance products for their businesses which then enabled them to access commercial bank loans in Nigeria. Technical assistance was also provided to commercial banks and microfinance institutions, helping to reduce their perception of the cooperatives as risky loanees.

[76] https://equalityimpactinvesting.com/eii-training-programme

[77] Commissioned by GIZ, co-funded by EU, delivered by the GIZ Pro-Poor Growth and Promotion of Employment in Nigeria Programme – SEDIN. See https://www.sedin-nigeria.net/nicop

m. Tailor investment products to social and cultural contexts.

Beyond the challenges that come with running a social enterprise, the financing needs of a business may also arise from their social and cultural milieu. Without recognising and responding to these, investors will inadvertently cater only to certain social enterprises and impact for particular communities will be missed.

> Most impact investment is provided in the form of debt with fixed, and often high, interest rates. This may be unsuitable for both business reasons and cultural norms. Sharia-compliant investments, for instance, must avoid charging fixed interest on debt and instead often tie their returns to levels of profit and loss. In Sudan, the banking sector has used financial products such as “Mudarabah (passive partnership), Musharakah (active partnership), Murabaha (sale contract at a profit mark-up), and Salam (forward sale contract).[78]

About the ICR facility

The ICR Facility is co-funded by the European Union (EU) and the Organisation of African, Caribbean, and Pacific States (OACPS), under the 11th European Development Fund (EDF), together with the German Federal Ministry for Economic Cooperation and Development (BMZ) and the British Council. The ICR Facility is implemented by GIZ, the British Council, Expertise France, and SNV.

The ICR Facility supports public and private stakeholders in ACP countries to improve their investment climate and business environment via public-private dialogue. The Facility supports specific and targeted interventions at the economy-wide, sectoral, and value- chain levels with Technical Assistance for up to 90 days based on requests. It also works to strengthen national and subnational development financial institutions and compiles and shares good practices for improving the business environment and investment climate.

For more details on the ICR Facility or to submit a request for Technical Assistance, visit:

www.icr-facility.eu

[78] https://thegiin.org/assets/161025_GIIN_EastAfrica_FULL_REPORT%20(002).pdf

IMPRINT

The ICR Facility supported the production of this publication. It is co-funded by the European Union (EU), the Organisation of African, Caribbean and Pacific States (OACPS) under the 11th European Development Fund (EDF), the German Federal Ministry for Economic Cooperation and Development (BMZ) and the British Council. The ICR Facility is implemented by GIZ, the British Council, Expertise France, and SNV.

The ICR Facility supports countries and regional institutions of the Organisation of African, Caribbean and Pacific States (OACPS) in their public-private dialogue process to create a more conducive and sustainable investment climate.

The publication of this ICReport was led by the British Council. The contents of the publication are the sole responsibility of the author and do not necessarily reflect the views of the EU, OACPS, BMZ, the British Council or the other implementing partners.

PUBLISHER:
Rond-Point Robert Schuman 6 / 7th Floor 1040 Brussels – Belgium
www.icr-facility.eu

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SUGGESTED CITATION:
Dowsett, Owen and Bonnie Chiu. 2021. “Supporting investment in inclusive business and social enterprises – best practice for policymakers and investors in ACP countries.” Investment Climate Reform Facility report series, ICR Facility, Brussels.

DESIGN/LAYOUT:
Atelier Löwentor GmbH, Darmstadt / Kyrus Siu

URL LINKS:
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Brussels, August 2021

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