THE LANDSCAPE FOR IMPACT INVESTING IN WEST AFRICA

Understanding the current status, trends, opportunities, and challenges
ACKNOWLEDGMENTS

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www.theimpactprogramme.org.uk

This report was made possible through the generous contributions of many individuals, both within and outside West Africa. In particular, we would like to thank all the interviewees that gave generously of their time, expertise, company and data during the course of this study. Your insights were tremendously helpful in bringing a measure of clarity to an unwieldy topic. Further, we would like to thank the GIIN Advisory Team for invaluable input, debate, and guidance during the preparation of this report. Finally, we would like to thank Jessica Johnson and Aida Ndiaye for valuable assistance in research and data collection.

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<tr>
<th>Acronym</th>
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<tr>
<td>ADEPME</td>
<td>Agence de Développement et d’Encadrement des Petites et Moyennes Enterprises</td>
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<tr>
<td>AfDB</td>
<td>African Development Bank</td>
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<td>AMSCO</td>
<td>African Management Services Company</td>
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<td>APC</td>
<td>All Progressives Congress</td>
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<td>APIX</td>
<td>Agence de Promotion des Investissements et des Grands Travaux</td>
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<tr>
<td>AUM</td>
<td>Assets Under Management</td>
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<tr>
<td>BCEAO</td>
<td>Banque Centrale des États de l’Afrique de l’Ouest</td>
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<td>BIO</td>
<td>Belgian Investment Company for Developing Countries</td>
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<td>BMN</td>
<td>Bureau de Mise à Niveau</td>
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<td>BOAD</td>
<td>Banque Ouest Africaine de Développement</td>
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<td>BoP</td>
<td>Base of the Pyramid</td>
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<tr>
<td>CACS</td>
<td>Commercial Agriculture Credit Scheme</td>
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<tr>
<td>CNCAS</td>
<td>Caisse Nationale de Crédit Agricole du Sénégal</td>
</tr>
<tr>
<td>CTIC</td>
<td>Conseil en Technologies de l’Information et de la Communication</td>
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<tr>
<td>DEG</td>
<td>German Investment and Development Corporation</td>
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<tr>
<td>DFI</td>
<td>Development Finance Institution</td>
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<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
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<tr>
<td>ESG</td>
<td>Environment, Social, and Governance</td>
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<td>FCFA</td>
<td>Franc Communauté Financière Africaine</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FinTech</td>
<td>Financial Technology</td>
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<td>FMO</td>
<td>Netherlands Development Finance Company</td>
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<td>FONGIP</td>
<td>Fonds de Garantie des Investissements Prioritaires</td>
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<td>FONSIS</td>
<td>Fonds Souverain d’Investissement Stratégiques</td>
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<td>GAIN</td>
<td>Ghana Angel Investor Network</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GIIN</td>
<td>Global Impact Investing Network</td>
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<td>GIMPA</td>
<td>Ghana Institute of Management and Public Administration</td>
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<td>GIPC</td>
<td>Ghana Investment Promotion Center</td>
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<td>GVEP</td>
<td>Global Village Energy Partnership</td>
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<td>HDI</td>
<td>Human Development Index</td>
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<td>HNWI</td>
<td>High-Net-Worth Individuals</td>
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<td>HR</td>
<td>Human Resources</td>
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<td>I&amp;P</td>
<td>Investisseurs et Partenaires</td>
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<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
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<td>IEA</td>
<td>International Energy Agency</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IFU</td>
<td>Danish Investment Fund for Developing Countries</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IPO</td>
<td>Initial Public Offering</td>
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<tr>
<td>IPRES</td>
<td>Institution de Prévoyance Retraite du Sénégal</td>
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<tr>
<td>IRR</td>
<td>Internal Rate of Return</td>
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<tr>
<td>LAN</td>
<td>Lagos Angel Network</td>
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<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
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<tr>
<td>MEST</td>
<td>Meltwater Entrepreneurial School of Technology</td>
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<tr>
<td>MFI</td>
<td>Microfinance Institution</td>
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<tr>
<td>MIS</td>
<td>Management Information System</td>
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<tr>
<td>NFSP</td>
<td>National Food Security Program</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
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<tr>
<td>OHADA</td>
<td>Organization for the Harmonization of Business Law in Africa</td>
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<tr>
<td>OIC</td>
<td>Organization of the Islamic Conference</td>
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<tr>
<td>OPIC</td>
<td>Overseas Private Investment Corporation</td>
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<tr>
<td>PE</td>
<td>Private Equity</td>
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<td>PSE</td>
<td>Plan Sénégal Emergent</td>
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<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
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<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprise</td>
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<tr>
<td>SMEDAN</td>
<td>Small and Medium Enterprises Development Agency of Nigeria</td>
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<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
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<tr>
<td>TA</td>
<td>Technical Assistance</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
</tr>
<tr>
<td>VC</td>
<td>Venture Capital</td>
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<tr>
<td>WAEMU</td>
<td>West African Economic and Monetary Union</td>
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OBJECTIVES, DEFINITIONS, AND METHODOLOGY

ABOUT THIS REPORT

This report provides much-needed information on the impact investing market in West Africa. It contains four chapters—one outlining regional findings and three outlining specific findings in Nigeria, Ghana, and Senegal—each organized into four sections:

1. “Overview” provides a high-level outline of the political, economic, and investment climate of the region or country.

2. “Supply” outlines findings related to the volume of impact investing capital deployed to date—broken down by sector, instrument, and deal size. It describes the key barriers and opportunities identified by impact investors interviewed for this study and outlines impact measurement and reporting practices.

3. “Demand” describes the characteristics of impact investment recipients, as well as their needs for, and the perceived barriers to, accessing capital.

4. “Ecosystem” describes the regulatory environment for impact investing and the key actors involved in enterprise and investor support.

In addition to our primary countries of Nigeria, Ghana and Senegal, information on four additional countries is included in boxes throughout the regional chapter (Sierra Leone, Cote d’Ivoire, Togo, and Benin).

The Landscape for Impact Investing in West Africa is the third in a series of regional market landscaping studies published by the Global Impact Investing Network (GIIN) that seek to address the lack of data available on impact investing in emerging economies. The first such report focused on South Asia, the second examined East Africa, while a forthcoming report will examine Southern Africa.
Definitions

SUPPLY SIDE

The GIIN defines impact investments as “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.”1 Additionally, impact investors are defined as those having the following three characteristics:

1. **Expectation of financial return:** Expectation of a positive financial return over the life of the investment.

2. **Intention to create impact:** Stated intention to create positive social or environmental impact.

3. **Commitment to measure impact:** Commitment to measure and track social and/or environmental impact.

Impact investments are made across a large variety of sectors and investment instruments. A broad range of investor types are active in the impact investing sector in West Africa, including development finance institutions (DFIs),2 foundations, family offices, banks, institutional investors, and fund managers.

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A NOTE ON DFI PORTFOLIOS

The definition of impact investing used in this study is based on investor intent to create positive impact. However, the authors recognize that intent can manifest itself in a range of different investment strategies. In particular, due to the unique nature and large size of DFIs, the authors of this report analyzed their activity separately from the activity of other types of impact investors (“non-DFI”), and present this separate analysis when appropriate. (As this report focuses on private sector development, finance provided directly to governments by DFIs is excluded.)

While there is value in attempting to segment DFI portfolios into “impact investments” and “other” types of investments, doing so was not feasible for this study. In the case of DFIs, there is continued evolution in how they are thinking about their portfolios. Some consider everything they do to be impact investing while others have begun to segment their activities into buckets. However, most do not publicly indicate which of their investments they consider impact investments and, given that there are many ways to achieve social and/or environmental impact, it would be inappropriate for the research team to segment portfolios for this study. Instead, we segment our analysis so readers are able to more easily interpret numbers in context.

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2 DFIs are defined as government-backed financial institutions that provide finance to the private (and in some cases public) sector for investments that promote development.
Impact investors invest both directly into enterprises and projects and indirectly through financial intermediaries (e.g., fund managers). To avoid double counting, since an unknown proportion of indirect investment acts as a source of direct investment, and due to severe data limitations on the nature of indirect investments, this report focuses on direct investments. Indirect investments are, however, discussed in more detail in Section 2 of this chapter.

Only capital deployed has been considered for inclusion in this study. Funds that have been committed but not yet deployed have been excluded from the data. All references to “capital deployed” and “impact capital” refer to impact investment unless otherwise stipulated. Available data fall within the period 2005 to mid-2015; all references to “capital deployed to date” refer to this period.

DEMAND FOR IMPACT INVESTING CAPITAL

Impact investors target a range of enterprises, both large and small. DFIs tend to favor larger enterprises due to their ability to absorb the large amounts of capital DFIs are able to provide. This section focuses on two aspects of the demand landscape: social enterprises and the broader landscape of SMEs, the latter of which account for 90% of all businesses in the region.

For the purposes of this report, social enterprises are defined as those that:

• articulate a core objective of generating a positive social or environmental impact, and

• seek to grow to financial viability and sustainability.

The precise definition of small and medium-sized enterprises varies by country, but typically refers to enterprises with fewer than 250 employees. Interviewees did not specify revenue or employee numbers when discussing SMEs. Note that many social enterprises are also SMEs.

Both social enterprises and SMEs with no explicit social impact objectives are potential recipients of impact capital due to their role in creating employment and providing goods and services to underserved populations; however, they face significantly greater obstacles to accessing finance and driving growth than do large enterprises. The experiences of these enterprises therefore illustrate the main obstacles to accessing and deploying impact capital.

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Social enterprises in West Africa are almost exclusively SMEs.

ECOSYSTEM ACTORS

For the purposes of this report, actors in the impact investing ecosystem are defined as those that are active in either investor or enterprise support. These include the following types of organizations:

- Incubators/accelerators
- Technical assistance providers (including advisory service providers)
- Credit ratings services
- Industry associations and networks
- Research institutions
- Business plan competitions

Methodology

This research relies on more than 50 in-person and telephonic interviews with impact investors, ecosystem actors, entrepreneurs, and business managers operating in West Africa. In-person interviews were conducted in the primary focus countries of Nigeria, Ghana, and Senegal, while telephonic interviews were used with those either situated outside of the region or operating across other West African countries. A full list of interviewees is provided in the annex.

To supplement interview insights and ensure wide data coverage, desk research was conducted on impact investment portfolios and investment dynamics using academic studies, publicly available datasets, previous Dalberg projects, DFI and investor reports, government reports, and enterprise websites/publicity materials. In total, the data presented include transactions made by 13 DFIs and 27 non-DFI impact investors.

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5 Incubators and accelerators help SMEs establish themselves and grow through a combination of business development services (e.g., mentoring, coaching, and training in accounts management), funding, and access to physical space and/or machinery. Incubators usually focus on seed- and early-stage SMEs, while accelerators usually focus on growth-stage SMEs.

6 Cote d’Ivoire, Liberia, Sierra Leone, Benin, Burkina Faso, Cape Verde, The Gambia, Guinea, Guinea Bissau, Mali, Niger, and Togo.
1. COUNTRY OVERVIEW

Brief Historical and Political Context

In March of 2015, Nigeria’s first democratic transfer of political power took place with the election of the All Progressives Congress (APC), led by Muhammadu Buhari. This affirms the progress that Nigeria has made since transitioning from military rule in 1999 and is symbolic of its shift from a relatively marginal regional actor into Africa’s largest economy.

Nigeria has experienced rapid growth over the past decade and has made concerted steps towards liberalization and modernization of its key sectors. For example, recent privatization initiatives in the energy sector have seen the national power utility split into 20 entities across the generation, transmission, and distribution of electricity. Elsewhere, proactive state policies have seen considerable resources channeled into the development of agricultural markets—the National Food Security Program (NFSP) of 2008, for example, aims to improve storage, processing, and access to markets for several priority crops7 while the Agricultural Transformation Agenda of 2011 is driving reforms in the distribution of fertilizer subsidies.8

Despite its impressive growth, Nigeria remains a difficult market in which to operate, with chronic infrastructure shortages and the high cost of living representing large challenges for both foreign and domestic businesses, as well as a relatively protracted period of uncertainty deriving from delays in the government in appointing new ministers and defining new policies. Regional political volatility and security issues, most notably from the continued threat of terrorist group Boko Haram in the northern regions, further complicate the investment and operating environment.

For investors willing to bear with its risks and challenges, Nigeria holds enormous promise. Its sheer size and strong growth prospects position it well to continue its role as a leading economic powerhouse on the African continent. Moreover, the large proportion of its citizens underserved by basic goods and services provide a wide variety of opportunities for both financial and social/environmental impact. Human capital potential is yet another positive factor, both for unskilled and semi-skilled jobs, as well as skilled labor particularly in small and medium enterprises.

Economic Performance and Structure

GROSS DOMESTIC PRODUCT (GDP) INDICATORS

In 2014, Nigeria rebased its economy to account for key sectors that had previously been excluded in GDP calculations. With a newly estimated GDP of USD 569 billion, Nigeria accounts for almost 80% of West Africa’s GDP and has surpassed South Africa as the largest economy in Africa.

The economy is dominated by the services sector—financial services, real estate, and trade in particular—though agriculture and industry also represent significant shares (Figure 1). Economic performance has been strong over the last decade, with GDP growth consistently in excess of 5% since 2003. Importantly, the country has been able to diversify away from its reliance on oil production; while real growth in the oil sector has been negative since 2012, non-oil real growth has surged, reaching 8.2% in 2012 and 6.2% in 2014.

FIGURE 1. NIGERIAN GDP CONTRIBUTION BY SECTOR, 2010-2014


Investment Climate and Drivers of Foreign Direct Investment (FDI)

TRENDS IN FDI

Nigeria’s recent economic success has been due in part to its ability to attract significant FDI inflows. FDI has grown at an average rate of 16% over the past decade, though it declined steadily between 2011 and 2013. In 2013 Nigeria received 15% of sub-Saharan Africa’s FDI inflows—second behind South Africa.\(^{12}\) The oil sector, which has traditionally driven inflows of FDI from European nations and the United States, has stalled since 2008. This is largely due to uncertainty regarding the outcome of the Petroleum Industry Bill, which seeks to significantly overhaul the ownership and regulatory structure of the country’s oil industry.\(^{13}\) FDI is currently driven mainly by the manufacturing and services sectors.\(^{14}\)

INFLATION AND EXCHANGE RATES

Nigeria’s cost of lending is high by international standards, but low when compared to other countries in West Africa, largely owing to its more developed financial sector. In July 2015, 90-day and 180-day treasury bill rates were 10.3% and 13.5%,\(^{15}\) respectively, while average rates for Ghanaian treasury bills, by contrast, were 27%.\(^{16}\)

Inflation rates, having historically been stable but high relative to other countries in West Africa, have begun to decline. While they were consistently above 10% prior to 2013, they fell to 9% in 2013 and stabilized at approximately 8% in 2014. They are expected to remain at around 8% in the short to medium term, though the recent depreciation\(^{17}\) of the local currency, the naira, may push them up, given Nigeria’s reliance on imports.

Ease of Doing Business

Although Nigeria’s large market holds much potential for investors, it is among the most difficult countries in the world in which to operate. Congested and poorly maintained infrastructure, an inefficient civil service and bureaucracy, and high levels

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\(^{14}\) Ibid.


\(^{17}\) By 22% against the US dollar in 2015, largely due to reduced earnings from crude oil exports.
of corruption hamper growth, while the high living and operational costs place a significant burden on businesses.

Nigeria ranks 170 out of 189 countries on the 2014 World Bank Doing Business index.\textsuperscript{18} Despite improving from 175 in 2013, its rank remains poor compared to the West African average of 152. This unimpressive performance is largely driven by delays in getting electricity (an average 260-day wait for new connectivity) and problems dealing with construction permits, registering property, and paying taxes.\textsuperscript{19}

In terms of corruption, Transparency International gives Nigeria a score of 27/100 in its Corruption Perceptions Index, which translates into a rank of 136 out of 175 countries.\textsuperscript{20}

On the whole, the costs of doing business in Nigeria—both financially and in terms of the time and effort required to operate effectively—are very high even relative to other countries in the region. Despite the fact that Nigeria is the largest economy in Africa, it is difficult for new investors to enter the market.

2. SUPPLY OF IMPACT INVESTING CAPITAL

Estimate of Impact Capital Deployed

Unsurprisingly given its size, Nigeria leads the way in impact investing in West Africa. All in all, 28 impact investors are active in the country, including 20 non-DFI and 8 DFI investors. Identified impact investments (which include deals made by all DFIs and 12 non-DFIs) amount to USD 1.9 billion in deployed capital across 181 direct investments since 2005 (Figure 2). In addition, impact investors have deployed approximately USD 2 billion in indirect investments through funds and intermediaries. The study focuses on direct investments to avoid double counting—an unknown proportion of indirect investment acts as a source of direct investment—and due to severe data limitations on the nature of indirect investments. Indirect investments are, however, discussed in more detail in the regional chapter. In sum, they are driven almost exclusively by DFIs and focus on commercial banks, impact fund managers, and private equity funds, reflecting DFI attempts to both support impact investing and build shallow commercial banking and private equity markets.


\textsuperscript{19} Ibid.

DFIs make up an overwhelming majority of direct investment, accounting for USD 1.9 billion across 92 deals, or 96% of total capital deployed. Non-DFIs, meanwhile, account for USD 79 million across 89 deals. As expected, average deal size for the two sets of actors differs dramatically: USD 20.2 million for the relatively larger DFIs as opposed to USD 0.9 million for non-DFIs.

Still, while the impact investing sector in Nigeria outpaces other countries in the region, the community of investors is small relative to the size of the market—Ethiopia, for example, is less than a quarter the size of Nigeria in terms of GDP, but has almost triple (58) the number of non-DFI impact investors.21 We discuss potential reasons for this in more detail below.

While DFI and non-DFI investors alike target a large range of sectors, deal sizes, and instruments, there are certain common features that could be said to describe a “typical” impact investor in Nigeria. First, the investor would likely not be in Nigeria—only seven of the 28 identified impact investors had a local presence at the time of writing, due in large part to the high cost of living and operating businesses in the country (Figure 3). Second, the investor would not be from Nigeria—the research team identified only four impact investment firms founded in Nigeria.22 Third, they would invest early and patiently—with the exception of DFIs targeting larger and more mature enterprises, most impact investors target venture- to growth-stage enterprises, invest for between four and 10 years, and expect returns of between 13% and 17% Internal Rate of Return (IRR) in their equity and quasi-equity deals. Fourth, they would be hands-on; the majority of investors play an active role in supporting and guiding enterprises, DFIs through formal technical assistance and non-DFIs through informal in-kind support. Last, if they were a non-DFI investor they would most likely be a fund manager—the research team identified only two foundations and one institutional investor making direct investments.


22 Alitheia, Doreo Partners, Sahel Capital Partners, and Tony Elumelu Foundation.
Most impact investors operating in Nigeria are headquartered outside the country, and most funding for impact investors originates from foreign sources. The majority of identified DFIs involved in Nigeria are headquartered in the U.S. and Europe. While the precise breakdown of funding for many investors is sensitive information, interviews indicated that non-DFI investors rely almost exclusively on a combination of these DFIs, family foundations, and high-net-worth individuals (HNWIs) from outside the country. The Tony Elumelu Foundation—funded through the personal wealth of a Nigerian national, Tony Elumelu—was the only identified impact investor that relied significantly on local sources of capital. As will be discussed in more detail below, this is likely due to how unfamiliar and, at times, skeptical local investors are when it comes to impact investing.
DFIs focus their investments on large deals in energy, manufacturing, and information and communications technology (ICT), reflecting the country’s large needs in these areas. Non-DFI investors, meanwhile, strongly favor financial services—microfinance, in particular—through small deals of less than USD 5 million.

DFIs invest most of their capital in energy, manufacturing, and ICT, with deals in these sectors representing a combined total of approximately USD 1.3 billion or 68% of total DFI capital deployed. These investments focus on power generation; petrochemicals, bottling, paper, and agricultural inputs manufacturing; and ICT tower infrastructure. The largest number of deals are made in financial services, manufacturing, agriculture, and energy.

Considering average deal sizes, it seems that DFIs are funneling most of their capital into large enterprises that provide the power, commodities, and connectivity required for any market economy to function (Figure 4). However, they are also driving a healthy number of deals in sectors dominated by smaller enterprises (indicated by small deal sizes). In the financial services sector, for example, DFIs are investing primarily in microfinance institutions (MFIs). This finding was also supported by interview evidence: while the internal structure of DFIs makes it easier for them to push larger investments, DFIs remain excited about smaller opportunities and pursue them where possible.

### FIGURE 4: SECTOR DISTRIBUTION OF DIRECT DFI INVESTMENTS, JANUARY 2005-JULY 2015

<table>
<thead>
<tr>
<th>Sector</th>
<th>Capital Deployed (USD Millions)</th>
<th>Average Deal Size (USD millions)</th>
<th>Number of Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>48.4</td>
<td>581</td>
<td>12</td>
</tr>
<tr>
<td>Manufacture</td>
<td>33.2</td>
<td>431</td>
<td>13</td>
</tr>
<tr>
<td>ICT</td>
<td>32.6</td>
<td>261</td>
<td>8</td>
</tr>
<tr>
<td>Financial Services</td>
<td>8.6</td>
<td>180</td>
<td>21</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>29.9</td>
<td>179</td>
<td>6</td>
</tr>
<tr>
<td>Agriculture</td>
<td>7.9</td>
<td>95</td>
<td>12</td>
</tr>
<tr>
<td>Education</td>
<td>7.7</td>
<td>62</td>
<td>8</td>
</tr>
<tr>
<td>Tourism</td>
<td>5.5</td>
<td>28</td>
<td>5</td>
</tr>
<tr>
<td>Health</td>
<td>9.9</td>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td>Water and Sanitation</td>
<td>6.3</td>
<td>19</td>
<td>3</td>
</tr>
<tr>
<td>Construction/Real Estate</td>
<td>2.5</td>
<td>5</td>
<td>2</td>
</tr>
</tbody>
</table>

Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; DFI portfolio data
Non-DFI investments, in contrast, tend to be focused on financial services, ICT, and agriculture, with investments in these sectors accounting for USD 51 million or 65% of capital deployed (Figure 5). Microfinance appears frequently in financial services investments, making up approximately 50% of capital deployed in financial services, while investments in agriculture are focused on a combination of smallholder and commercial farming. Investments in ICT focus on technology as an enabler of other services—for example, tourism and mobile payment platforms—reflecting investor optimism as to the increasingly important role of technology in various aspects of Nigerian life.

Average deal sizes across sectors in the non-DFI space are, understandably, far smaller than for DFIs, which is consistent with the stated intent of many of these investors to target SMEs. The relatively small deal size in the ICT space is reflective of the many early-stage investment opportunities in this young sector. The research identified more seed- and venture-stage investments in ICT than in any other sector. Deal sizes in the agriculture sector vary widely between larger deals in agribusinesses (e.g., food processing firms) and smaller deals in smallholder farmer finance.

![FIGURE 5: SECTOR DISTRIBUTION OF DIRECT NON-DFI INVESTMENTS, JANUARY 2005-JULY 2015](image)

Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Source: Dalberg analysis; DFI portfolio data
DFIs overwhelmingly favor large deals, with deals over USD 50 million accounting for 60% of total capital deployed. Non-DFIs focus on smaller deals, with over half of all capital deployed and deals made in the USD 1-5 million range.

DFIs have deployed most of their capital through large deals that, as mentioned, focus on energy, manufacturing, and ICT. Deals of more than USD 50 million account over half of total capital deployed. Most deals are, however, considerably smaller—more than half the number of deals made are below USD 10 million (Figure 6). All DFIs engage in these smaller deals, though they take up a particularly large proportion of the portfolio of the Danish Investment Fund for Developing Countries (IFU)—only one of its identified deals was above USD 10 million.

Non-DFI capital is concentrated in the USD 1-5 million range, which accounts for almost half of capital deployed (Figure 7). By far the majority of deals, however, are less than USD 1 million, though these are almost all made by a single investor. We found no impact investments above USD 10 million for non-DFI investors. This is partly due to internal fund manager policies prohibiting investments above a certain percentage of funds under management. For investments above those thresholds, investors reported seeking co-investors in the market to spread the risk.

**FIGURE 6. DIRECT DFI INVESTMENTS BY DEAL SIZE, JANUARY 2005-JULY 2015**

<table>
<thead>
<tr>
<th>CAPITAL DEPLOYED (USD MILLIONS)</th>
<th>NUMBER OF DEALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1m</td>
<td>8</td>
</tr>
<tr>
<td>1-5m</td>
<td>21</td>
</tr>
<tr>
<td>5-10m</td>
<td>20</td>
</tr>
<tr>
<td>10-20m</td>
<td>17</td>
</tr>
<tr>
<td>20-50m</td>
<td>14</td>
</tr>
<tr>
<td>&gt; 50m</td>
<td>12</td>
</tr>
</tbody>
</table>

Average deal size (USD millions) = 8.1

Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Dalberg analysis; DFI portfolio data
**INVESTMENT INSTRUMENTS USED**

DFIs deploy almost all of their investments through debt, with large loans for energy and manufacturing projects making up a significant portion of this. Non-DFIs favor equity and quasi-equity, which reflects a hands-on approach to growing early- and growth-stage SMEs.

Nearly all DFI investments in Nigeria have been made through debt (Figure 8). The relatively small number of deals making use of either equity or quasi-equity likely reflects both the young and undeveloped private equity industry and the high burden of such investments on DFIs. Debt is less risky for DFIs investing public money, requires less active management, and provides a much clearer exit path.
FIGURE 8. DIRECT DFI INVESTMENTS BY INSTRUMENT, JANUARY 2005-JULY 2015

Non-DFIs, too, make significant use of debt, though interviewees expressed a strong preference for equity and quasi-equity instruments that allow investors to benefit from potential enterprise growth in return for absorbing risk (Figure 9). The prevalence of quasi-equity, in particular, is indicative of the high number of smaller early-, growth-, or venture-stage enterprises being funded by investors. Quasi-equity both guards against the risks associated with early-stage enterprises and allows investors to take advantage of rapid growth (debt can be converted into equity). The small share of debt instruments also reflects a focus on earlier-stage enterprises. More mature enterprises can more easily secure debt and, in Nigeria, prefer it to equity due to a fear of ‘losing control’ of their businesses (discussed in more detail below).

FIGURE 9. DIRECT NON-DFI INVESTMENTS BY INSTRUMENT, JANUARY 2005-JULY 2015

Note: Average deal sizes may not equal displayed capital deployed divided by deal sizes. Capital deployed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Source: Dalberg analysis; DFI portfolio data
Barriers and Opportunities

MAIN BARRIERS ENCOUNTERED TO DEPLOYING CAPITAL

As mentioned, the size of the non-DFI impact investing community in Nigeria is small relative to the size of its economy. Further, few impact investors—either DFI or non-DFI—are located within the country. Investors interviewed offered some interesting perspectives on why the industry may be struggling to gain traction. Major barriers include the following:

• **Lack of investable enterprises.** Building a pipeline of investment-ready enterprises is the most common concern for non-DFI investors, though DFIs noted this was not a major issue due to their steady supply of large projects in sectors such as energy, manufacturing, and ICT. It is difficult to identify enterprises with sufficiently robust business systems, financial accounts, and governance arrangements. Investors noted that, even where profitability and growth prospects appear strong, due diligence often uncovers large gaps in reporting and professional management that prevent deals from closing. For this reason, several investors offer technical assistance, either informally through hands-on guidance or formally through technical assistance funds.23

• **Enterprise reluctance to offer equity.** It is often difficult to convince enterprises to agree to equity investments. Target firms are rarely acquainted with venture capital (VC) / private equity (PE) investing and tend to view giving up equity as losing control of their businesses. Several investors noted that there is a need to deliver the message that “it is better to own 50% of something than 100% of nothing.”

• **Difficulty maintaining a local presence.** Due to the high costs of living and operating businesses in Nigeria, it is difficult for impact investors headquartered outside the country to maintain a local presence. This makes it challenging for investors to keep up to date with developments in sectors or regions of interest to them.

• **Difficulty finding exits.** Finding means of exiting investments is a major barrier to investment, as financial markets are shallow—for example, the value of stocks traded as a percentage of GDP is 1% in Nigeria compared to 28% in sub-Saharan Africa and 69% globally24—and few secondary markets exist for investors to recoup their investments. While we identified no exits among the impact investors interviewed, possibilities for exit currently seem to lie in owner or management buyouts. Over time, and as Nigeria’s financial markets develop, investors would like to see initial public offerings (IPOs) as a frequently used and viable means of exit.

• **Difficulty raising capital.** Fundraising was often highlighted as a significant challenge for fund managers. Interviewees placed particular emphasis on the

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23 Technical assistance funds may either be disbursed directly to enterprises to engage in capacity building or to advisory firms that assist enterprises.

difficulty of sourcing capital from domestic investors. This seems largely driven by
general skepticism of impact investing and its aims. Several interviewees noted a
strong reluctance on the part of domestic investors to be associated with the term
“impact investment,” which in their view implied a drastic compromise on financial
returns.

Part of this can be explained by the low awareness in the country of the true aims
of impact investing. Many do not see the practice as significantly different from
philanthropy. However, interviewees also raised legitimate concerns over the ability
of impact investors to generate acceptable financial returns. The industry has yet
to develop a track record of successful exits, they pointed out, and may be creating
unrealistic expectations about how close to “market returns” impact investments can
really get. While evidence of impressive returns may come as the industry develops,
there is currently skepticism over whether this will happen—especially given the risky
sectors (smallholder agriculture, for example) impact investors are involved in. This
skepticism has led to the belief, among some actors, that the country is experiencing
an “impact investing bubble.”

MAIN PERCEIVED OPPORTUNITIES FOR DEPLOYING CAPITAL

Despite the various challenges encountered by impact investors in Nigeria, there
remains considerable excitement over the country’s investment prospects. While
interviewees did mention ways in which the process of investing could be improved—
for example, through greater coordination between impact investors—their
overwhelming focus was on high-potential sectors (listed in no particular order):

• Microfinance and other financial services. Microfinance continues to be a focal
  point for impact investors with developed business models and knowledge of
  the industry. The low-income and rural populations continue to be underserved
  by existing financial institutions, leaving ample space both for the establishment
  of new microfinance entrants and the expansion of existing ones. There are also
  opportunities to further financial inclusion through expanding the services of
  commercial banks and other financial institutions to different market segments
  that do not currently have access.

• Agriculture. Agriculture, and agro-processing in particular, is widely viewed as a
  sector with high potential for social and financial return, due to its ability to drive
  job creation and increased food security, as well as its strong growth prospects.
  While the sector remains underdeveloped, with fragmented supply chains and
  limited support from commercial lenders, agricultural enterprises have the
  opportunity to benefit from high food prices, increased governmental support,
  and technical assistance from development agencies. Interviewees noted that, for
  investors willing to make the effort to understand agricultural value chains and the
  types of finance needed to strengthen them, agriculture offers exciting prospects.

• FinTech (financial technology). The success of the Lagos-based mobile money
  enterprise Paga has driven renewed confidence in the combination of technology
  and financial services—a trend buoyed by the Central Bank’s ambitious “cashless
  Nigeria” initiative, which aims to reduce the use of cash in the economy by
supporting alternative payment systems.\textsuperscript{25} Electronic payment platforms such as CashEnvoy, Quickteller, eTranzact, and ReadyCash are paving the way in providing individuals and businesses with innovative means of buying and selling both online and through mobile devices.\textsuperscript{26}

- **Infrastructure and energy.** Nigeria faces chronic infrastructure problems and energy shortages that, while presenting challenges to the country’s development, provide a large opportunity for investment. The Government of Nigeria’s recent efforts to privatize the electricity sector, which saw majority ownership of the state electricity company pass to private buyers in 2013, bode well for private investors interested in the space.\textsuperscript{27} With the aim of providing a demonstration effect to crowd in private investment, the Lagos State Electricity Board also partners with the UK Department for International Development to provide solar power for clinics and schools.\textsuperscript{28} For DFIs able to invest in large deals, investments such as those in power plants, roads, and ports represent a critical intervention to build and support the economy. For non-DFIs, smaller-scale energy solutions such as off-grid and renewable energy provide an intriguing opportunity.

**Impact Measurement and Tracking**

Metrics used to measure social and environmental impact vary for each DFI, making it difficult to compare data between actors. Reporting is, however, relatively consistent, as data are regularly published (usually annually) in publicly available reports by each DFI. The African Development Bank, for example, publishes an Annual Development Effectiveness Review that summarizes its performance over a number of impact indicators that, since the first Review in 2011, have remained consistent over time.\textsuperscript{29}

Measurement and reporting of social and environmental impact among non-DFI impact investors, however, is more ad hoc and inconsistent. A multitude of frameworks, mostly internally defined, are applied across different industries and firms—even by the same investor. There are two primary reasons for this. First, non-DFI investors tailor their reporting to the needs of their particular investors (DFIs, for example). Second, in terms of their own impact tracking, the enterprises non-DFI actors invest in often do not have the capacity to track and report on social metrics in addition to the financial metrics investors require. At the same time, non-DFI investors lack the capacity to conduct their own impact tracking across the large variety of sectors and enterprises in which they invest. As a compromise,

\textsuperscript{25} Central Bank of Nigeria Website: http://www.cenbank.org/cashless/.


\textsuperscript{27} Brock, Joe. “Nigeria hands state power assets to private buyers,” Reuters (30/9/2013). Available at: http://www.reuters.com/article/2013/09/30/nigeria-power-privatisation-idUSL6N0HQ2AF20130930.

\textsuperscript{28} Lagos State Electricity Board Website: http://www.lseb.gov.ng/content/news/governor-fashola-kicks%E2%80%93solar-power-projects-public-schools-phcs

enterprises are often required only to report on a basic set of metrics defined through a collaborative process between enterprises and non-DFI investors. Those most commonly mentioned include number of jobs created, number of clients served, and client incomes.

In terms of broader approaches to impact tracking, some impact investors viewed measurement of social impact as duplicative for investments in social enterprises where impact is inherent to core business activities, such as they believe is the case with certain microfinance organizations. Many feel that, for those organizations that have explicit intent to create positive social/environmental impact, tracking can be limited to basic financial and operational indicators.

3. DEMAND FOR IMPACT INVESTING CAPITAL

Development Context

Nigeria is Africa’s most populous nation, with a population of 174 million set to grow to 270 million by 2030 and 440 million by 2050. These large numbers, coupled with a young population—the median age is 17.7 years—provide much potential for the country to harness its human capital for productive deployment.

Still, though classified as a lower-middle-income country, Nigeria ranks 157 out of 187 countries in the UNDP’s Human Development Index (HDI) and is classified in the “low development” category. Its score of 0.504, though better than the regional average of 0.446, is on par with the sub-Saharan African average of 0.502. Given its position as the largest economy in Africa, there is considerable room for improvement in this regard.

Types and Distribution of Demand Actors

We focus on two sets of actors in the demand landscape: social enterprises and commercial SMEs. Both are potential recipients of impact capital due to their role in creating employment and providing goods and services to underserved populations; however, they face significantly greater obstacles to accessing finance and driving growth than large enterprises. Their experiences, therefore, illustrate the main obstacles that stand in the way of channeling impact investment to where it is most needed.


Social enterprises\(^{32}\) seem ideal targets for impact investment, as they, too, focus on both social and financial returns. The number of social enterprises in Nigeria, however, remains small. Indeed, our research identified just two organizations that self-identify as social enterprises: Paga and Andela. They are both focused in the technology space and are located in Lagos, the economic center of Nigeria.

With few social enterprises in the country, commercial SMEs are a large target of impact investment due to their important role in driving economic growth and job creation. With SMEs comprising 96% of all Nigerian businesses—and given Nigeria’s strong entrepreneurial culture\(^{33}\)—investors see SMEs as key drivers of economic growth and job creation. The section below, thus, largely refers to challenges faced by these SMEs. Microfinance institutions, many of which are SMEs and/or likely to qualify as ‘social enterprises,’ are worth highlighting, as they constitute a significant target for impact investment. There are 11 identified microfinance organizations in Nigeria that seek to serve the estimated 63.7% of the adult population—approximately 59.6 million—excluded from the formal banking sector.\(^{34}\) These MFIs have a cumulative gross loan portfolio of USD 351 million spread across 1.2 million active customers, and account for 56% of all active customers and 23% of the total MFI gross loan portfolio in West Africa.\(^{35}\)

### Challenges Faced by Demand Actors in Securing Investment

Due to the small number of social enterprises in Nigeria, incubators served as the primary source of information concerning enterprise challenges and needs for this report. Through their interactions with enterprises as well as investors, these actors were well positioned to offer an overview of common themes. Interviewees identified the following critical challenges holding back progress for small enterprises in Nigeria:

- **Difficulty securing financing.** Enterprises find it difficult to access financing from commercial lenders, who often have onerous collateral requirements that enterprises cannot meet. Where financing is available, it is often too expensive for enterprises to bear. As much of the demand for financing is for working capital, this significantly hampers enterprises’ abilities to conduct their day-to-day operations.

- **Lack of available financing options.** There are very few angel investors or venture capitalists in Nigeria. Further, as mentioned, the supply of impact investors is very small given the size of the economy. This translates into a dire lack of available funding for small enterprise establishment and growth. Currently, business

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32 Defined as those that have articulated a core objective to generate a positive social or environmental impact and that seek to grow to financial viability and sustainability.


incubators (discussed in more detail below) are filling the gap, with one incubator regularly offering loans of USD 5,000 as part of its service offering.

- **Limited awareness of financing options other than commercial banks.** Interviewees indicated that when enterprises talk about access to finance, they almost exclusively refer to commercial lenders. Where alternative sources of financing such as foundations and other impact investors do exist, enterprises do not know who they are or how to go about sourcing capital from them. Part of the reason for this is that enterprises often lack the skills, networks, and time to actively seek connections with potential investors, limiting their exposure to new sources of financing.

- **Capacity gaps.** Enterprises lack robust systems to ensure accurate financial record keeping, professional management, effective governance, and product development. This makes it difficult for them to meet investor requirements—which adds to their difficulties securing financing—and to grow their businesses effectively.

- **Stigma related to social impact mission (social enterprises only).** For the few social enterprises that are attempting to establish themselves, it appears that their status as “social enterprises” makes it difficult to convince investors of their viability as investment prospects. As previously mentioned, local investors tend to view impact investing as a type of philanthropy, and assume that enterprises that seek social and environmental impact are not actively seeking financial return.

### 4. ECOSYSTEM FOR IMPACT INVESTING

#### Regulatory Environment

Interviewees highlighted two key policy-related barriers:

- **Political intervention.** In certain sectors, state incentives and policies make it difficult for private investors to operate. In agriculture, for example, interviewees pointed out that subsidies and cheap single-digit loans—such as those offered by the Commercial Agriculture Credit Scheme (CACS)—were crowding out private investors. While interviewees maintained that there remains significant potential in agriculture, state intervention makes it more difficult to realize.

- **Policy uncertainty.** Interviewees expressed concern that it was often difficult to know when existing policies or incentive structures would change, given shifting political priorities and unpredictable implementation schedules. The International Energy Agency (IEA), for example, has warned that policy uncertainty is a threat

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36 Those below 10% annual interest.
to the development of Nigeria’s renewable energy sector. Interviewees noted that infrastructure and agriculture were also significantly affected. However, some believe that with upcoming political appointments at the federal level and city levels, policy uncertainty will decrease going forward.

**Efforts to Support Development of the Impact Investment Market**

**TYPES OF ACTORS**

The investment and enterprise ecosystem in Nigeria remains very small relative to the size of the overall economy. There have, however, been some encouraging efforts over the past few years to build the sector—particularly in terms of business incubation (Figure 10).

There are six predominantly tech-focused incubators operating in Lagos; these receive a combination of private and public funding. For example, Co-creation Hub is a privately funded non-profit that explicitly focuses on incubating social enterprises, while IDEA is fully funded by the Nigerian government and offers a two-year incubation program to develop enterprises from concept stage to market entry. Both were formed in 2013 and reflect the youth of the incubator landscape.

As there is little in the way of a venture capital or angel investor industry in Nigeria, incubators have largely taken up their role—i.e., providing a combination of seed-stage capital and enterprise guidance to help businesses grow. One incubator, for example, provides up to USD 5,000 to its incubatees in exchange for a 7% equity stake, with a view to providing an additional USD 25,000 for a further 7% equity stake if the business is growing quickly. While it is too early to gauge whether incubation is proving successful in Nigeria, several interviewees, including investors, noted the importance of business incubation and expressed optimism regarding its effect on business growth.

As with other countries in the region, Nigeria has attempted to provide direct support to SMEs. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) offers training and indirect funding through financial institutions to provide loans at less than 10% annual interest. In addition, the government-sponsored YouWin! business plan competition has provided 3,900 SMEs with N 1 million-N 10 million (~USD 6,000-60,000 based on average exchange rate) grants over the past three years.

To tackle the aforementioned lack of angel investors in the country, the Lagos Angel Network (LAN) was formed in 2012 to connect investors and entrepreneurs and is actively involved with a number of incubators and accelerators. The LAN has 15 members that together have deployed approximately USD 100,000 over four deals in the country, all of which focus on early-stage technology-focused enterprises.

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Main Opportunities and Constraints

Interviewees identified the following constraints holding back progress in the impact investing ecosystem in Nigeria:

- **Sourcing entrepreneurs.** For incubators, sourcing promising, dedicated entrepreneurs has been difficult. Particularly in the technology space, many entrepreneurs with promising ideas are very young—often fresh out of university—and expect quicker success than incubators can credibly give them.

- **Lack of awareness of support programs.** While there have been concerted efforts by government to build the SME space, there remains a lack of awareness of such assistance. A recent survey found that 82% of young potential Nigerian entrepreneurs were unaware of any government-sponsored SME programs. Interviewees noted that enterprises also lack awareness of the existence of business incubation services, whether publicly or privately funded.

- **Concentration of ecosystem.** Ecosystem actors tend to be located in Lagos and concentrated in the ICT and financial services sectors. Specifically, most incubators and accelerators are located in the suburb of Yaba on mainland Lagos.

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Lagos, and target tech start-ups. A broadening of support to other sectors and geographies will be key in the short to medium term.

In addition to high-potential sectors such as agriculture and technology, the main opportunity identified by ecosystem actors involved creating greater linkages between themselves and investors. In particular, incubators stressed the match between their mandates to build more robust enterprises and investor complaints regarding the lack of investment-ready firms. A forum for investors to coordinate with a broader range of ecosystem actors would do much to identify areas of mutual interest and potential collaboration.
ABOUT THE GLOBAL IMPACT INVESTING NETWORK

The Global Impact Investing Network (GIIN®) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see www.thegiin.org.

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