Impact Investing Worldwide: A Global Scan

Impact Investing: Building the Field, Measuring Success
Karim Harji
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Alisa Hotel, Accra
Financing Social & Environmental Issues: Capital needed at scale across sectors

Capital Seeking Opportunities: Blended impact and financial returns

Figure 33: Change of allocation planned over the next year, by geography
Ranking by number of respondents who chose "increase"

Business Models with Impact:
Social enterprises with improved outcomes, scale
"Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return."

- Global Impact Investing Network
## Impact Investing Ecosystem

### Demand

<table>
<thead>
<tr>
<th>Impact-seeking purchasers</th>
<th>Impact-driven organisations</th>
<th>Forms of finance</th>
<th>Channels of impact capital</th>
<th>Sources of impact capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government procurement of services</td>
<td>Grant-reliant organisations (e.g. charities)</td>
<td>Secured loans</td>
<td>Social banks</td>
<td>Government/EU investment</td>
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<tr>
<td>Government as commissioners of outcomes</td>
<td>Grant-funded organisations with trading activities</td>
<td>Unsecured loans</td>
<td>Community development finance institutions</td>
<td>Social investment wholesaler</td>
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<tr>
<td>Foundations as commissioners of outcomes</td>
<td>Social enterprises/profit-constrained organisations</td>
<td>Charity bonds</td>
<td>Impact investment fund managers</td>
<td>Charitable trusts and foundations</td>
</tr>
<tr>
<td>Socially minded consumers of goods and services</td>
<td>Profit with purpose businesses</td>
<td>Social impact bonds</td>
<td>Impact investment intermediaries</td>
<td>Local funds</td>
</tr>
<tr>
<td>Socially minded corporate purchasers of goods and services</td>
<td>Businesses setting significant outcomes objectives</td>
<td>Quasi equity</td>
<td>Crowd-funding platforms</td>
<td>Institutional investors &amp; banks</td>
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<td></td>
<td></td>
<td>Equity</td>
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<td>Corporates</td>
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<td>Grants</td>
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<td>High net worth individuals</td>
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<td>Mass retail</td>
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Source: G8 (2014) Invisible Heart of Markets
## Situating Impact Investing

<table>
<thead>
<tr>
<th>Traditional</th>
<th>Responsible Investing (RI)</th>
<th>Socially Responsible Investing (SRI)</th>
<th>Thematic</th>
<th>Impact-first</th>
<th>Venture Philanthropy</th>
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<tbody>
<tr>
<td><strong>Competitive Returns</strong></td>
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<td><strong>ESG Risk Management</strong></td>
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<tr>
<td><strong>High Impact Solutions</strong></td>
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</table>

- **Traditional:** Limited or no focus on ESG factors of underlying investment analysis and execution.
- **Responsible Investing (RI):** ESG risks integrated into analysis of all holdings, as a component of financial risk management. Shareholder engagement is used to influence behaviour of holdings.
- **Socially Responsible Investing (SRI):** Negative and positive screening of ESG risks is used to align a portfolio to specific values. Shareholder engagement is used to influence behaviour of holdings.
- **Thematic:** Focus on one or more issue areas where social or environmental need creates commercial growth opportunity for market-rate returns.
- **Impact-first:** Focus on one or more issue areas where social or environmental need may require some financial trade-off.
- **Venture Philanthropy:** Social enterprise funding in a variety of forms, with a range of return possibilities. Investor involvement/support is common.

Diverse Ecosystem

<table>
<thead>
<tr>
<th>Deal size range (USD)</th>
<th>Typical financial products</th>
<th>Typical sectors</th>
<th>Example providers in Southern Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 500K</td>
<td>Debt, small equity stakes</td>
<td>ICT, Agriculture, Health, Energy</td>
<td>Small VC and debt-finance funds targeting early stage businesses, domestic DFIs</td>
</tr>
<tr>
<td>500K – 1M</td>
<td>Equity, debt, quasi-equity, convertibles</td>
<td>Agriculture, Financial Services, Health, Energy</td>
<td>Private equity funds, VC funds, and foundations targeting social businesses with some track record</td>
</tr>
<tr>
<td>1M – 5M</td>
<td>Equity, debt, quasi-equity, convertibles</td>
<td>Agriculture, Financial Services, Health, Energy</td>
<td>Larger impact funds and foundations</td>
</tr>
<tr>
<td>5M – 10M</td>
<td>Equity, debt, quasi-equity, guarantees</td>
<td>Financial Services, Energy</td>
<td>Smaller national DFIs and large impact funds</td>
</tr>
<tr>
<td>10M – 50M</td>
<td>Equity, debt, quasi-equity, guarantees</td>
<td>Financial Services, Infrastructure, Manufacturing</td>
<td>Regional and national DFIs</td>
</tr>
<tr>
<td>Over 50M</td>
<td>Debt, guarantees</td>
<td>Financial Services, Infrastructure, Energy</td>
<td>Large regional and national DFIs</td>
</tr>
</tbody>
</table>

Source: Open Capital and GIIN (2016) Landscape for Impact Investing in Southern Africa
1. Impact investing has gained impressive traction and visibility across the public, private and social sectors

2. Uneven development across regions, with significant variation depending on countries (even within regions)

3. Continued emphasis on the ‘supply side’, to generate momentum, leadership and resources (e.g. foundations)

4. Funds remain a prominent channel, alongside direct investments and innovative products

5. New data on selected regions, sectors and asset classes

6. Sector-specific approaches are increasingly important

7. Constrained pipeline of opportunities (e.g. de-risked, validated)
Current Activity: Overall Trends
Current Activity: Investor Trends

• Sub-Saharan Africa as a key market, with highest growth expectations/allocations in the coming year
• Private debt & private equity dominate (asset classes)
• Mature stage, private companies dominate (lifecycle)
• Growth sectors: energy, food & agriculture, health, education, financial services (excluding microfinance)
• Challenges: lack of appropriate capital across risk/return spectrum, lack of quality opportunities with track record

Regional Trends: West Africa

• **The impact investing industry in West Africa is small, but growing**
  – 46 investors are active regionally: 14 DFIs and 32 other investors
  – Study includes direct impact investments made by 11 DFIs and 26 non-DFIs in the region totaling USD 6.8 billion between 2005 and mid-2015.
  – 7 DFIs have deployed 97% of the total impact capital in West Africa.

• **More than half of all impact capital deployed is in Nigeria and Ghana**
  – Nigeria, accounting for 80% of the region’s GDP, has received the largest amount of impact capital (29%)
  – Ghana has received nearly as large a share of impact investment (25%) despite only accounting for 5% of West Africa’s GDP, reflecting its business-friendly policies.

• **Energy, manufacturing, infrastructure, and financial services have attracted the most impact investing capital**

• **Both DFI and non-DFI investors invest most of their capital through debt, though non-DFIs use other instruments far more than DFIs**

• **The ecosystem of enterprise and investor support organizations is growing, but remains underdeveloped**

*Source: Dalberg and GIIN (2015) Landscape for Impact Investing in West Africa*
Regional Trends: East Africa

• **East Africa is one of the centers of global impact investing**
  – More than USD 9.3 billion has been disbursed in the region through by more than 1,000 direct deals
  – 155 impact investors currently manage 203 active investment vehicles in the region, and many more are considering the region for future commitments

• **Kenya is the regional hub of East African impact investing**
  – At least 48 impact fund managers have staff placed in Nairobi, which is more than three times as many local offices as in any other country in the region.
  – Almost half of the USD 9.3 billion in impact capital disbursed in East Africa has been in Kenya—more than triple the amount deployed in each of Uganda and Tanzania, the countries with the next highest amounts at around 13% and 12% respectively.

• **Throughout the region, DFIs have provided the vast majority of impact capital to date, accounting for more than 85% of disbursements.**

• **Most East African impact investors work across the region, and many look beyond East Africa to Sub-Saharan Africa and other regions of the world.**

Source: Open Capital and GIIN (2015) Landscape for Impact Investing in East Africa
Regional Trends: Southern Africa

• South Africa is the largest market, with a particularly active set of domestic South African DFIs that fund South African enterprises.
  – Over half of the USD 16.7 billion in DFI impact capital disbursed in Southern Africa is in South Africa—more than triple that deployed in both Zambia and Mozambique.
  – South African DFIs have disbursed more than USD 14.4 billion across 6,800 transactions to South African companies. Broad-based Black Economic Empowerment (BBBEE) initiatives are closely linked to domestic DFI activity within South Africa.

• The majority of impact capital has come from international DFIs and a range of non-DFI impact investors.
  – In total, non-DFI investors have closed more than 500 deals and disbursed USD 5.7 billion. However, the ten largest transactions account for over USD 3 billion of capital disbursed.
  – International DFIs have closed more than 650 deals and disbursed USD 16.7 billion.
  – Larger than either of these categories of actors alone, domestic South African DFIs have closed more than 7,500 deals and disbursed USD 17.1 billion throughout the region.

• For non-DFI investors, agriculture and financial services have seen the largest number of deals. Housing, energy, and ICT are also popular sectors.

• For DFIs, financial services and manufacturing are the most popular sectors in terms of number of transactions, though energy has the largest amount of capital disbursed.

Source: Open Capital and GIIN (2016) Landscape for Impact Investing in Southern Africa
West Africa: Capital Deployed

**DFI**

- **Capital Deployed (USD Millions):**
  - 3,203
  - 1,643
  - 936
  - 474
  - 257
  - 31

- **Number of Deals:**
  - < 1m: 68
  - 1-5m: 99
  - 5-10m: 70
  - 10-20m: 69
  - 20-50m: 55
  - > 50m: 33

**Average Deal Size (USD millions):**
- < 1m: 0.5
- 1-5m: 2.6
- 5-10m: 6.8
- 10-20m: 13.6
- 20-50m: 29.9
- > 50m: 97.0

**NON-DFI**

- **Capital Deployed (USD Millions):**
  - 118
  - 28

- **Number of Deals:**
  - < 1m: 182
  - 1-5m: 66
  - 5-10m: 4

**Average Deal Size (USD millions):**
- < 1m: 0.4
- 1-5m: 1.8
- 5-10m: 7.1

Source: Dalberg and GIIN (2015) Landscape for Impact Investing in West Africa
West Africa: Total Direct Investments

**DFI**

- **Capital Deployed (USD Millions)**
  - Energy: 39.5
  - Manufacturing: 27.4
  - Infrastructure: 16.5
  - Financial Services: 11.3
  - ICT: 29.0
  - Agriculture: 6.7

- **Number of Deals**
  - Energy: 51
  - Manufacturing: 50
  - Infrastructure: 51
  - Financial Services: 53
  - ICT: 20
  - Agriculture: 72

**NON-DFI**

- **Capital Deployed (USD Millions)**
  - Financial Services: 1.4
  - Agriculture: 1.0
  - Housing: 2.5
  - ICT: 1.5
  - Health: 1.2

- **Number of Deals**
  - Financial Services: 77
  - Agriculture: 31
  - Housing: 6
  - ICT: 5
  - Health: 4

Source: Dalberg and GIIN (2015) Landscape for Impact Investing in West Africa
Current Activity: Intermediaries

Current Activity: East African Ecosystem

11 COUNTRIES
This report analyzes impact investing activity in eleven countries in East Africa.

KENYA
UGANDA
TANZANIA
RWANDA
ETHIOPIA
BURUNDI
SOUTH SUDAN
SUDAN
ERITREA
DJIBOUTI
SOMALIA

135 NON-DFI IMPACT INVESTORS
There are 135 non-DFI impact investors allocating capital in the region.

186 IMPACT CAPITAL VEHICLES
The non-DFI investors are making investments through 186 known impact capital vehicles.

NON-DFI INVESTMENTS
546
19 INDIRECT

DIRECT

49 ECOSYSTEM ORGANIZATIONS
The research team identified 49 organizations offering support services for the impact investing industry in East Africa.

20 DFIs
There are 20 development finance institutions (DFIs) making investments in the region.

DFI INVESTMENTS
429
107 INDIRECT

DIRECT

Source: Open Capital and GIIN (2015) Landscape for Impact Investing in East Africa
### Current Activity: Demand & Pipeline

<table>
<thead>
<tr>
<th>Sector</th>
<th>Kenya</th>
<th>Ethiopia</th>
<th>Uganda</th>
<th>Rwanda</th>
<th>Tanzania</th>
<th>Non-focus</th>
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<tbody>
<tr>
<td>Agriculture</td>
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<td>Renewables</td>
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<td>Aquaculture</td>
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<td>Tourism</td>
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<td>Fast-Moving Consumer Goods</td>
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<td>Urban Development</td>
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<td>Basic Services</td>
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</table>

Source: Open Capital and GIIN (2015) - Landscape for Impact Investing in East Africa
## Current Activity: Demand & Pipeline

### Table of Opportunities

<table>
<thead>
<tr>
<th>Sector</th>
<th>South Africa</th>
<th>Zambia</th>
<th>Mozambique</th>
<th>Malawi</th>
<th>Madagascar</th>
<th>Zimbabwe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agro-processing</td>
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<td>Energy</td>
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<tr>
<td>Supply chain integration</td>
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<td>Tourism</td>
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<td>Education</td>
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<td>Consumer goods</td>
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</table>

**Source:** Open Capital and GIIN (2016) *Landscape for Impact Investing in Southern Africa*
1. Investee pipeline and capacity seemingly constrained, based on investor feedback (despite financing needs)

2. Range of unmet risk capital needs - depending on lifecycle, needs, innovation, business model, customers

3. Certain sectors display significantly more activity (e.g. clean energy) and innovation (e.g. health, education)

4. High interest and activity for early-stage organizations, as illustrated by growth in incubators and accelerators

5. Emerging evidence around scalable business models, but challenges in replication/adaptation across regions
## Current Activity: Demand & Pipeline

### STAGE

<table>
<thead>
<tr>
<th>Developing the blueprint for the future business</th>
<th>Testing and refining the business model</th>
<th>Enhancing the conditions required for scaling</th>
<th>Rolling out the model to reach large numbers of customers and/or suppliers</th>
</tr>
</thead>
</table>

### KEY NEEDS

- Innovation capability
- Strategy development and business planning
- Talent networks
- Seed funding
- Operationalizing the model
- Focus on cost, value and pricing
- Learning orientation and flexibility
- Innovation capability
- Funds to facilitate market trials and refinement
- Marketing strategy and execution
- Supply chain design and implementation
- Systems and processes
- Talent and networks
- Funds for marketing, supply chain, fixed assets, inventory
- Competitive strategy
- Realizing scale efficiencies
- Risk management
- Formalization of impact standards and expectations
- Stakeholder management
- Funds to support expansion

Source: Koh, Karamchandani and Katz (2012) From Blueprint to Scale
Current Activity: Policy Framework

Current Activity: Policy Examples

![Chart showing the average unit cost of a complex housing eviction]

- **£7,000***: Average unit cost of a complex housing eviction

  - **43%**: Cost of writing off rent arrears – Local Authority and Registered Social Landlord
  - **17%**: Admin. costs of eviction (LA & RSL)
  - **6%**: Cost of re-letting property (LA & RSL)
  - **3%**: Cost of administering a homelessness application (LA)
  - **6%**: Cost of housing advice – MoJ and HM Treasury
  - **2%**: Cost of temporary accommodation (private rented) – LA and DWP

(Figures as percentage)
Current Activity: Policy Principles

1. **Clarity of purpose** reinforces strategy and policies that are integrated into existing policy and market structures, that target specific social objectives, and that clearly define the role for impact investing in achieving those objectives.

2. **Stakeholder engagement**: Effective stakeholder engagement ensures that all actors are included, manages expectations, and avoids the development of policies that are unfit for purpose.

3. **Market stewardship** entails holding a holistic vision for impact investing strategies and policies. It focuses on a balanced development of investor interest, investment opportunities, and mechanisms to deliver intended social outcomes.

4. **Institutional capacity** allows for the effective use of resources, adds value to existing policies, and creates the potential for developing innovative strategies and tools that address key social problems.

5. **Universal transparency** mandates that stated objectives are clear, and progress toward their achievement is openly measured and reported to relevant stakeholders and the public at large.

Source: London Principles, from the Impact Investing Policy Collaborative
1. Governments have played important roles, and policy can be an important enabler and/or lever
2. Impact (measurement) remains relatively under-developed relative to investments
3. Recognition of importance of investments in field-building and industry infrastructure
4. Coordination for sector-focused activities and learning
5. New players emerging e.g. corporates
6. Emerging issues have become pressing e.g. secondary markets, risk-sharing, transparency, etc.
Looking Ahead to the Next Decade

1. “Pipeline Problem” – due to lack of opportunities (# or type), investee readiness, investor expectations,...?
2. Evidence & models that optimize risk/return/impact
3. Transparency in data (exits, returns, impact)
4. Coordinating sector-focused activity, tools, data
5. Elevating impact measurement (capacity, tools)
6. Integrating investee and beneficiary perspectives
7. Regional policy drivers & enabling environment
8. Developing talent within and across the sector
Looking Ahead: Performance Data

Looking Ahead: Africa’s Diversity

Looking Ahead: Multilingual Leadership

• “The ability to ‘speak’ and operate across market sectors and silos…”

• “Beyond financial expertise, [it] requires collaboration with many different types of stakeholders (…) all on a simultaneous basis.”

• “… the characteristics listed here are unique in that they relate to the skills needed to successfully lead across [not just within] organizations.”

Competencies
• Able to Think Critically
• Able to Focus on Ends Rather That Means
• Able to See the Forest—and the Trees
• Non-ideological
• Entrepreneurial
• Financially Savvy
• Exceptionally Strong Communication
• Willing to Take Risks

“Impact investing offers incredible opportunity. The forces of entrepreneurship and innovation [...] can now be harnessed to tackle human, social and environmental issues. While [it] is gradually gathering momentum [in Africa], leadership, coordination and concerted action is required [...]. “

“Working together with private sector, public sector and social actors can truly improve lives in Africa, seizing the opportunity to tackle social and environmental challenges in new and more powerful ways. Across Africa, social entrepreneurship, innovation, capital and the power of markets can be harnessed to make long lasting impact. This is the promise and potential that impact investment offers.”

(UNDP, 2015)
1. What are the various **forms of impact investing** represented in Ghana? How is this diversity leading to new opportunities and local impact?

2. In what **sectors** is impact investing particularly well-suited? What can be learned from other sectors or regions? What can Ghana teach others?

3. What **conditions or enablers** can accelerate impact investing in Ghana? What factors would improve the quality and quantity of impact?

4. What **risks or challenges** exist? How can we mitigate or overcome them? What is needed?