AFRICAN VENTURE PHILANTHROPY ALLIANCE

THE LANDSCAPE FOR SOCIAL INVESTMENTS IN WEST AFRICA

ENABLING ENVIRONMENT

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ACKNOWLEDGEMENTS

This report was commissioned by African Venture Philanthropy Alliance (AVPA) with support from the United States African Development Foundation (USADF), Social Capital Foundation, and Rockefeller Foundation.

The African Venture Philanthropy Alliance (AVPA) is a unique Pan-African network for social investors, headquartered in Nairobi and committed to building a vibrant and high impact community across Africa. AVPA is aligned with thriving networks in Europe (EVPA - HQ in Brussels with 250+ members) and Asia (AVPN - HQ in Singapore with 600+ members) to form a dynamic global force for social impact.

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The U.S. African Development Foundation (USADF) is an independent U.S. government agency established by Congress to invest in African grassroots organizations, entrepreneurs and small and medium-sized enterprises. USADF's investments promote local economic development by increasing incomes, revenues and jobs, and creating pathways to prosperity for marginalized populations and underserved communities.

Utilizing a community-led development approach, USADF provides seed capital and local project management assistance improving lives and impacting livelihoods while addressing some of Africa's biggest challenges around food insecurity, insufficient energy access, and unemployment, particularly among women and youth.

Over the last five years, throughout Africa, with an emphasis on the Horn, Sahel and Great Lakes regions, USADF has invested more than $115 million dollars directly into over 1,000 African owned and operated entities and impacted over four million lives.

Social Capital Foundation is a Dutch Foundation that partners with social impact first organisations who want to enhance sustainable economic opportunities for communities and small businesses.

SCF supports local talent potential, creativity and innovation with adequate tools, flexible funding and a knowledge network to maximize and scale impact.

The Rockefeller Foundation's mission—unchanged since 1913—is to promote the well-being of humanity throughout the world. Today the Foundation advances new frontiers of science, data, policy, and innovation to solve global challenges related to health, food, power, and economic mobility. As a science-driven philanthropy focused on building collaborative relationships with partners and grantees, The Rockefeller Foundation seeks to inspire and foster large-scale human impact that promotes the well-being of humanity by identifying and accelerating breakthrough solutions, ideas and conversations.

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AVPA would like to thank our board of directors for their continued support, in particular the following people who provided significant time and insights during the editorial process of this report: Julio Garrido-Mirapeix, Paul Carttar, and Monique Mathys.

This report was also made possible through the contributions of many individuals and institutions, both within and beyond the region. We are grateful to everyone interviewed who provided their time, expertise, and data throughout the course of this study.

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ENABLING ENVIRONMENT FOR SOCIAL INVESTMENTS IN THE REGION

1.1 OVERVIEW OF THE POLICY AND REGULATORY ENVIRONMENT FOR SOCIAL INVESTMENTS IN THE REGION

The overarching legal and regulatory frameworks for social investment in the region are still in the infant stages of development.

None of the focus countries has the policy and regulatory frameworks that explicitly define impact investing or support impact investing several years after the concept was introduced in the region. Similarly, the countries lack policies for philanthropy and charitable giving, which is currently governed under multiple laws and regulations. Venture philanthropy is also not recognised in any government frameworks, and most regulators are not familiar with the term. Besides, other than Ghana, which launched its National Corporate Social Responsibility (CSR) Policy in 2016, none of the other countries have policies in place to encourage sustainable corporate giving.

While certain policies exist under which philanthropic activities can get tax rebates or incentives, these are not clearly understood or are challenging to apply because of the associated bureaucratic conditions. The absence of a guiding framework for the sector limits deliberate incentivisation of impact/social capital particularly from philanthropists and corporate foundations based in the region. More incentivisation is required to attract philanthropic and concessional capital that accepts below-market returns.

Lack of policy and regulatory frameworks that recognise social enterprises remains a crucial challenge for the growth of the sector. Some of the countries, however, have made vital advancements.

In most of the countries, SEs can register either as a for-profit or as a not-for-profit company. While they can apply for tax exemptions if they register as a not-for-profit, this disadvantages them in raising debt and equity, as commercial investors (SFMs and DFIs) prefer for-profit. Limited access to such funding, thus, makes it difficult for enterprises to scale up. Nevertheless, a few advancements have been made in some of the countries in recognition of the social entrepreneurship industry. *Ghana has recently launched a Social Enterprise Policy* to promote and grow social enterprises as a means of improving livelihoods and driving social impact in the country while the *Senegal Startup Act launched in 2019*[70] seeks to drive the growth of the ecosystem. To support the early-stage start-ups, the Nigerian government has recently signed the *Finance Act* that exempts start-ups with annual revenues of ~US$ 65,000 (₦25 million) from paying taxes.

"One of the challenges that we have in Nigeria is that businesses can only register either as an NGO or a limited company – there is no provision to register as a social enterprise. While the law clearly outlines that NGOs should not pay taxes, there is a lack of understanding of how revenue-generating activities by non-profit social enterprises should be treated in terms of taxation. Establishment of a favourable framework for registering and operating a social enterprise would help boost the sector".

SFM in Nigeria

SPOTLIGHT: SENEGAL'S START UP ACT TO PROMOTE INNOVATION & ENTREPRENEUR

Senegal is the second country in Africa, after Tunisia to launch a Start-up Act. Launched in 2019, the act makes recommendations that aim to promote innovation and entrepreneurship, covering areas such tax policies, start-up financing, promotion of data collection and sharing amongst start-ups. It also outlines legal conditions for registering start-ups in the country. Alongside the act, provisions amending the general tax code were introduced in the 2020 Finance Law in parallel with the adoption of the Startup Act. These provisions exempt start-ups from certain taxes for the first three years and also give them reduction in registration fees for the creation of companies. Government is also in the process of creating a platform to register start-ups. The launch of the act creates confidence amongst both the enterprises and investors with the start-ups being able to test and refine their business models in the first three years of operations without worrying about taxes.

[70]Discussed in the text box below

Although some financial incentives for philanthropists exist in some of the countries, awareness of the same is low, and the process of applying for exemption is lengthy.

The stakeholders interviewed acknowledged that there are few tax incentives to encourage philanthropy for both the organisations making donations and the non-profits. However, awareness of these incentives and the complicated and tedious process of applying for these tax exemptions remain as crucial challenges.

> *"While tax incentives for philanthropy exist in Nigeria, most of the players are not fully aware of them while others find the process of applying for exemptions very tedious and lengthy".*
>
> *Ecosystem Support Organisation (ESO) in Nigeria*

While well-defined policy and regulations have supported social investments in certain sectors, in other sectors, they have proved to be prohibitive.

Extractive and oil and gas sectors are key GDP contributors in most countries in the region. These sectors have seen governments working with the corporates to promote sustainable business practices, which has also enhanced corporate social investments to support the communities along the value chains of the corporate's operations. In the agriculture sector, the government in Nigeria has established schemes offering low-cost finance for agribusinesses, which, according to some stakeholders interviewed, crowds out private investors. Furthermore, the Central Bank of Nigeria's conservative regulation of mobile money and banking licenses limits the growth of capital to financial technology (Fintech) companies.

Table 1: Overview of Existing 'Tax Incentives for Philanthropy/Charitable Giving' across the Focus Countries

NIGERIA	GHANA
Companies donating to organisations with charitable status enjoy tax deductions of up to 10% of their total annual profits.	Corporate entities and individuals engaging in corporate social activities to charitable organisations are tax-exempt.
Profits of any company engaged in charitable activities are exempted from income tax provided such profits are not derived from a trade or business conducted by the organisation.	The income accruing to or derived by a charitable organisation is exempted from tax. However, the exemption does not apply to income accrued or derived by the organisation e.g. sale of goods, operation of the commercial bookshop, commercial transport etc.
Any goods purchased for use in donor-funded humanitarian projects are zero-rated for VAT.	
Tax exemption for start-ups with annual revenues of ~US$ 65,000 (₦25 million) from paying taxes	

SENEGAL	LIBERIA
Charitable activities related to health and education sectors are tax-exempt.	Charitable organisations are exempted from tax for property income and income from a business that is not related to the function constituting the basis for the organisation's exemption
Companies investing at least US$ 31,479 (XOF 15 million) in the social sector (including activities related to health, education and training) are exempted from customs on imported equipment for 3 years; receive a 3-year deferral on payment of VAT; receive a reduction of 50 percent of taxable income for 5 years for up to 40 percent of the investment; and are exempted from payroll tax for up to 8 years.	

IVORY COAST	SIERRA LEONE
The law provides for 100% duty and tax exemption for the import and export of food and non-food items by UN agencies and NGOs	Registered non-profits are exempted from tax. Incomes are tax-exempt for private foundations, corporations, community chests, funds and foundations organised and operated for religious or charitable purposes.
Specific incentives on charitable giving were not identified.	Deductions of up to 15% of the taxpayer's taxable income are made for philanthropic contributions

Source: Charities Aid Foundation – A Global Philanthropy Legal Environment Index

"The Government of Nigeria has put in place some policies that promote access to low cost financing for certain sectors e.g. the Commercial Agriculture Credit Scheme (CACS) enables agribusinesses to access low cost loans - 9% from financial institutions. This crowd outs private investors as well as investors in the sector mainly offering equity since they are not able to competitively price the debt".

Ecosystem Support Organisation (ESO) in Nigeria

The use of a regulatory innovation, known as a "regulatory sandbox", is growing in the region, particularly in the financial services sector.

A regulatory sandbox enables innovators to incubate and test their products within a relaxed and regulated environment. In West Africa, Sierra Leone and Nigeria are the pioneers in the development and implementation of regulatory sandbox frameworks. The Central Bank of Nigeria and Bank of Sierra Leone (BSL) have both set up policies defining regulatory sandboxes to facilitate the growth of innovations without suffering from over-regulation. The use of regulatory sandboxes is increasingly becoming crucial in the evolution of social enterprises, especially in heavily regulated sectors like financial services.

1.2 ECOSYSTEM SUPPORT FOR SOCIAL ENTERPRISES

This section outlines key business ecosystem support trends for social enterprise and start-ups. It also outlines the impact measurement tools and standards adopted by social investors.

1.2.1 KEY ECOSYSTEM SUPPORT TRENDS

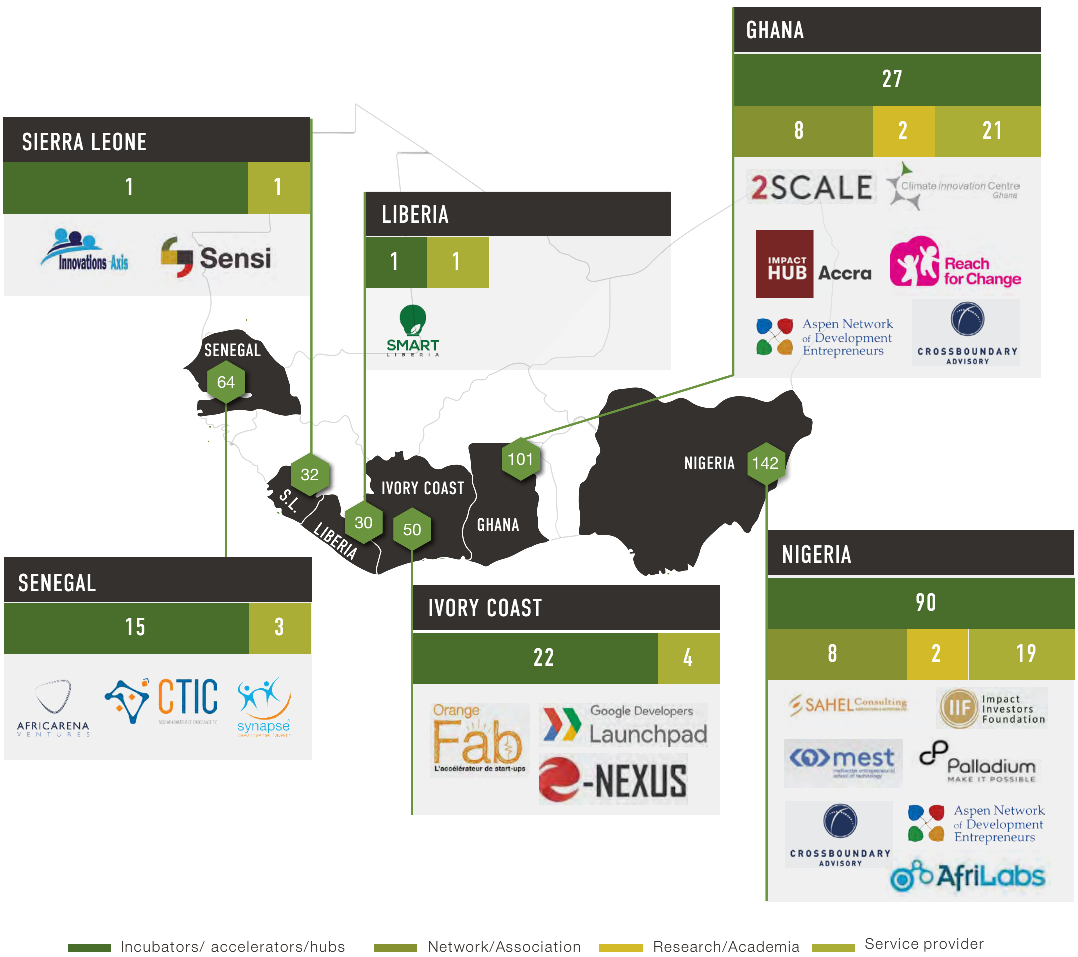
Ecosystem support providers in the region are located mainly in Nigeria and Ghana, given the thriving start-up ecosystem in these countries.

There are several ecosystem players in the region supporting social investing and social entrepreneurship - more than 50%[71] of these are located in Nigeria. The concentration of the ecosystem players in the major urban areas such as Accra, Lagos, and Abuja limits the support available to the start-ups in the Tier 2 cities and rural areas.

Ecosystem support is geared mainly towards the incubation of tech-based early-stage enterprises

Innovation hubs—Incubators, accelerators, and co-working spaces—dominate the ecosystem support environment with incubators accounting for 52%[72] of allthe innovation hubs in the region. Incubators are

Figure 1: Map of Ecosystem Players



Source: Intellecap Database, incubators/accelerators/hubs data derived from AfriLabs and Brighter Bridges report on Africa innovation labs

[71] Intellecap analysis

[72] GSMA: Tech Hubs Landscape 2019

preferred and manage to get more funding in the region. This is particularly so because donors, mostly funding Ecosystem Support Organisations (ESOs) in the region, have a high focus on solving youth unemployment challenges; they prefer to support incubators, which, in turn, support early-stage businesses, usually founded by youth. Over emphasis on the incubators over accelerators limits the ability to catalyse the enterprises' growth process to an investor-ready stage. While research and advisory service providers such as Dalberg, Center for International Private Enterprise (CIPE), PwC, KPMG, and Venture Garden Group (VGG) offer technical assistance services to these later-stage businesses, the services are mostly not affordable for SMEs. As highlighted in subsequent sections, most of the investors in the region have been raising TA funds[73] to support their investees.

An ***accelerator*** is a structure that supports relatively established/ growth stage ventures to achieve scalability and self-sufficiency through 6-9-months programs that deliver bespoke advisory services, mentorship, networks, and funding (in cash or in-kind).

An ***incubator*** is a structure that supports early-stage start-ups to refine their business models and value proposition through workshops and hands-on training, networking, and investment readiness support.

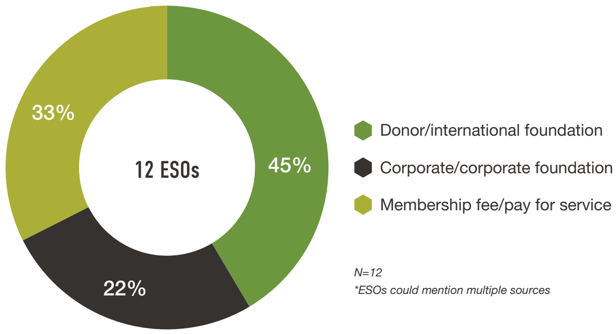
Most of the support provided to early-stage businesses is usually generic i.e., non-sector specifc.

Most of the ESOs operating in the region are sector-agnostic and thus provide generic support. There is a need for more organisations customizing support to sectors, thus being able to address key business challenges. Some sector-focused ESOs like 2SCALE (focused on agribusinesses) have emerged in recent years.

Most of the funding for the ESOs comes from donors and foundations; some ESOs are also engaging in alternative funding models to ensure financial sustainability.

Donors and international foundations have been at the forefront of funding incubators and accelerators, financing both their operations as well the programs they run. Examples include MEST funded by the Meltwater Foundation, 2SCALE funded by the Directorate General of International Cooperation of the Dutch Ministry of Foreign Affairs (DGIS/IGG) and Reach for Change in Ghana funded by GIZ. The high dependency of ESOs on donors raises questions on long-term sustainability of these support programs, as these are unable to survive once the donor withdraws their support. Furthermore, anecdotal information suggests that donors prefer to fund new incubators/accelerators rather than refunding existing ones; this has resulted in the mushrooming of many of these players in the region whose quality cannot be always guaranteed. ESOs, however, are adopting a pay-for-service and membership fee model to boost their funding. With the exceptions of few such as ANDE, most have not been successful in developing a fee-model that is affordable for enterprises. It can be attributed to the inability of enterprises to pay for such services, as well as the failure to see value in services provided by ESOs.

Figure 2: Sources of Funds for ESOs



Source: Intellecap Analysis

A higher number of early-stage investment bankers or financial intermediaries, focusing on early-stage impact are needed in the region – a need common across Africa

Early-stage businesses lack knowledge about the type of capital that is right for them as well as information on where to look for such capital i.e. appropriate funding sources. Additionally, these enterprises have limited understanding of the due diligence process and lack proper documentation (financial statements, and business plans) required for the process. On the other hand, fund managers often express finding an investable pipeline of early-stage businesses as a key challenge in deploying the capital. The transaction costs of finding such early-stage businesses are usually very high, and fund managers do not want to allocate high upfront due-diligence costs in potential future portfolios. This, in turn, leads to a larger number of co-investments into businesses already funded by other social investors, rather than surfacing of the new pipeline. Investment bankers or financial intermediaries play a crucial role in building the pipeline, making the enterprises investor-ready. 17Africa, based in South Africa, is currently putting together a toolkit for investment bankers on efficiently supporting the impact space.

Lack of such ecosystem support organisations limits the flow of capital to early-stage businesses. While incubators and accelerators can offer such services, most of the incubators and accelerators are donor-funded and lack the flexibility to deliver outside the agreed scope. Furthermore, incubators and accelerators lack connection to early-stage investors as they focus primarily on capacity building of the enterprises. Therefore, there is a need for more transaction advisors to bridge the gap that currently exists.

Several TA models are emerging based on the funding structure and the models of delivery

Significant gaps in TA for key areas like impact measurement, the theory of change, fundraising, and revenue strategies remain in the region, with an inadequate number of experienced service providers available. Most businesses require assistance in fundraising and revenue strategy. Thus, more support providers focusing on these needs are needed. Furthermore, 'measuring and managing impact' is critical for venture philanthropy and impact investing. This has seen increased efforts from investors in building the capacity of enterprises in these areas.

While BDS providers are mostly leveraged to provide TA services, some investors also leverage their staff to build the capacity of their investees. Additionally, some of the investors take a board seat, which helps them to monitor the strategic and operational direction of the business. In the agriculture sector, TA providers extended their services to include farmer-training programs. Investors mostly provide funds for TA services, although some investors have also adopted co-investment models where enterprises provide some part of the TA costs.

Figure 3: TA Funding Models in West Africa

01 Have specific budget for TA, Hire external consultants

SFMs
Foundations
INGOs

02 Have specific budget for TA, Leverage own stuff

SFMs
Foundations (including corporate)
Government Schemes

03 Co-finance TA with invester, Hire external consultants

DFIs

Source: Intellecap analysis based on primary interviews

Table 2: Summary of Social Enterprise Trends across the Focus Countries

ECOSYSTEM CATEGORY	NIGERIA	GHANA	IVORY COAST	DESCRIPTION
Incubators and early stage support				• High concentration of ESOs in Nigeria and Ghana given the thriving start-up ecosystem. However, capacity and sustainability challenges limit their effectiveness. Furthermore, the ESOs mainly operate in the main cities. • Most incubators also offer generic support/not sector-specific majorly to tech based early stage enterprises.
Accelerators and TA providers				• Limited support exists for growing ventures/SMEs with few number of affordable accelerators and TA providers operating across the countries. • A high gap has particularly been witnessed for early stage investment bankers/ financial intermediaries
Networks and platforms				There are a number of growing and well-established networking platforms in the region e.g. ANDE, Impact Investors Foundation, AfriLabs promoting impact investments and social entrepreneurship.
Knowledge and research				There is a big challenge in data access especially on philanthropy and venture philanthropy. Academic centers for teaching and researching on philanthropic activities are also almost non-existent.

High maturity levels indicated by intensity and sophistication of the activities and number of players

High activities with increasing number of players

Moderate activities and number of players witnessed

Minimal to no activities witnessed

1.2.2 IMPACT MEASUREMENT AND MANAGEMENT FOR SOCIAL INVESTMENTS IN THE REGION

While the importance of impact is acknowledged, the definition, measurement, and management of impact remain varied across the social investor categories.

Various standards, frameworks, and tools are used to collect and measure impact in the region. Key frameworks and tools used include IFC and World Bank environmental safety guidelines, Gender Assessment Methodology tool, Impact Reporting and Investment Standards (IRIS). A substantial number of investors also use internally developed tools and frameworks—most investors in the region leverage the SDG and IRIS metrics. Impact measurement methodologies vary across sectors e.g., for the microfinance sector, social performance indicators are used; for the agriculture sector, standards set by international bodies such as Fair Trade, Rainforest Alliance are used. The focus of impact measurement is also shifting from output measurement to outcome measurement.

SFMs, DFIs, and international foundations use globally standardized impact measurement tools while many regional foundations measure on-ground impact using their own metrics and tools.

DFIs leverage standard global tools and metrics such as IRIS and GIIRS, and customise to suit specific sector requirements. Similar to DFIs, SFMs also refer to internationally recognized metrics and incorporate those into their in-house impact management systems. Most of the SFMs assess the progress of the investees on a fixed frequency (quarterly, annually). For example, Grofin works on different impact indicators that are aligned with GIIN metrics; it encapsulates these into its in-house impact management system and collects impact data from its portfolio companies. Wangara Green Ventures refers to UN-SDG and IFC environmental, health, and safety (EHS) guidelines to develop its in-house impact assessment tool, and collects data from investee reports annually. A few SFMs, such as Women World Banking Asset Management and Gray Matters Capital, also include gender-lens in their impact measurement metrics. Many international foundations develop their customized metrics and procedures to measure impact. For instance, Mac Arthur Foundation does quarterly meeting with the grantees, engage impact measurement professionals, and evaluates as per the pre-defined parameters. Angel investors do not focus much on the measurement of the impact.

The usage of impact data for decision-making remains limited.

Most of the investors and businesses in the region are generally focused on impact measurement with little focus on impact management i.e. leveraging the impact data collected to make decisions for the growth of the company and the scaling of impact.

SPOTLIGHT: IFC'S ANTICIPATED IMPACT MEASUREMENT AND MONITORING (AIMM) SYSTEM

IFC's Anticipated Impact Measurement and Monitoring (AIMM) system developed in 2017 enables the funder to estimate the expected development impact of their investments, so as to set ambitious yet achievable targets, and select projects with the greatest potential for financial sustainability and development impact. In addition, the system also allows IFC to examine the systemic effects on the overall market. It looks at how a project affects stakeholders and examines the broader effects on both the economy and society.

1.3 ECOSYSTEM SUPPORT FOR NON-PROFITS AND PHILANTHROPY

The region boasts of several forums, networks, and membership organisations for social enterprises and investors, there however, exists minimal support for philanthropy.

Member organisations and networks help foster collaboration and knowledge sharing between the demand, supply, and ecosystem players in the social investing space. On the philanthropy front, however, only a few such organisations such as Ghana Philanthropy Network, Africa Grant Makers, Africa Philanthropy Forum, Africa Philanthropy Network, and African Venture Philanthropy Alliance, were identified.

Non-profits require customized support to improve their business efficiency and transition into more sustainable business models.

Unlike social enterprises that have access to more structured capacity-building support, capacity building support for non-profits remains less bespoke. It is mainly provided through classroom-based training partly - due to lack of funds. With the increasing push for the sustainability of non-profits and the need to establish innovative and sustainable models, NGOs require customized capacity building support on topics such as potential new models, prototyping of models, strategy development and implementation, and investment readiness support.

The region lacks adequate advisory service providers supporting grant makers in their transition towards venture philanthropy and impact investing.

The region lacks enough ESOs offering advisory support for strategic mobilisation and deployment of philanthropic funds. Such ESOs are needed to provide strategic support to these philanthropists, guiding them on how to leverage innovative finance structures for maximizing the impact of their grant capital. Advisory services will assist grant providers transition to venture philanthropy and impact investing approaches.

Table 3: Summary of Philanthropy Ecosystem Trends across the Focus Countries

ECOSYSTEM CATEGORY	NIGERIA	GHANA	IVORY COAST	DESCRIPTION
Philanthropy forums, networks and membership organisations				• Only a few philanthropy networks were identified across the region. These include; Ghana Philanthropy Network, Africa Grant Makers, Africa Philanthropy Forum, Africa Philanthropy, and African Venture Philanthropy Alliance
Strategic philanthropy advisors				• The region lacks philanthropy advisors/managers focused on strategically mobilizing and deploying philanthropic funds on behalf of individuals and corporates. Such ESOs are also needed to support philanthropists to leverage innovative finance structures and transition to more sustainable models.

High maturity levels indicated by intensity and sophistication of the activities and number of players

High activities with increasing number of players

Moderate activities and number of players witnessed

Minimal to no activities witnessed

SPOTLIGHT: IMPACT INVESTORS FOUNDATION (IIF) – SUPPORT FOR THE IMPACT INVESTMENT INDUSTRY

Established in 2018, IIF is a multi-sector collaboration comprising the Ford Foundation, Africa Capital Alliance, Bank of Industry and Dalberg Advisors based in Nigeria. It works and collaborates with key stakeholders, active in the impact investing space, to unlock private capital for social investments in Nigeria. In order to achieve this, the organisation focuses on three key areas: providing knowledge sharing and networking platform, capacity building of ecosystem players and policy advocacy. The organisation holds annual convening (currently planning for the 3rd one) to discuss various issues on social and impact investing.

SPOTLIGHT: GHANA PHILANTHROPY FORUM – SUPPORT FOR THE PHILANTHROPY INDUSTRY

Established in 2015, Ghana Philanthropy Forum seeks to strengthen the capacity of CSOs, NGOs, community foundations and other third sector networks in the philanthropy sector. The forum currently has 7,000 members and organises networking sessions, where participants share ideas and learn from one another. Furthermore, the network has a WhatsApp group where 4,000 members actively engaged on issues affecting their organisation and work on finding solution within the group. The key services offered by the network include advocacy for conducive legislation to support members' activities, capacity building specifically training on impact investing and philanthropy. It also runs National Philanthropy Summit annually and Philanthropy National Award.

SPOTLIGHT: AFRICA PHILANTHROPY FORUM – SUPPORT FOR THE PHILANTHROPY INDUSTRY

Incubated by the Global Philanthropy Forum, the Africa Philanthropy Forum was established in 2014 to support the development of the philanthropy industry in Africa. The forum has been working towards building a knowledge base on the philanthropy industry and has developed a toolkit to provide practical knowledge and tools to guide philanthropists in building strong giving frameworks and institutions. It also holds annual regional gatherings bringing together various philanthropists. Furthermore, the networks seek to provide seminars on various areas such as governance, measurement and evaluation. APF has established footprint across 11 countries including Ghana and Nigeria