avpa AFRICAN VENTURE PHILANTHROPY ALLIANCE

THE LANDSCAPE FOR SOCIAL INVESTMENTS IN WEST AFRICA

RECOMMENDATIONS

intellecap AAVISHKAAR GROUP

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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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RECOMMENDATIONS FOR FOSTERING THE SOCIAL INVESTMENT INDUSTRY

1.1 KEY RECOMMENDATION FOR FOSTERING SOCIAL INVESTMENT INDUSTRY

The section outlines the key recommendations on interventions needed to boost the social investment industry. These are grouped into three elements; recommendations to catalyse diverse and innovative pool of social capital, recommendations to empower organisations delivering social change, and recommendations to develop enabling environment and infrastructure

Table 1: Summary of Key Recommendations

	Recommendations For SI Stakeholders	Priority Level
Recommendations to catalyze diverse and innovative pool of social capital	Enhancing the supply and use of catalytic capital in the region	High
	Enhancing collaboration with the government	High
	Promoting education and awareness of social investment practices	High
	Developing social impact bonds to solve key development challenges	Medium
	Driving shared value collaboration	High
Recommendations to empower organizations delivering social change (demand side players)	Leveraging alternative funding models for NGOs/CSOs	Medium
	Establishment of a technical assistance toolkit and on-site training for NGOs	Medium
	Developing interventions to support human resources (HR) needs of enterprises	Medium
Recommendations to develop enabling environment and infrastructure	Data building and development of knowledge tools	High
	Focused mobilization and deployment of philanthropy funds	High
	Enhancing support for the sustainability of ecosystem support organizations (ESOs)	Medium
	Improving the legal and regulatory frameworks	Medium
	Enhancing impact measurement and management	Medium

1.1.1 RECOMMENDATIONS TO CATALYZE DIVERSE AND INNOVATIVE POOL OF SOCIAL CAPITAL

- **Enhancing the supply and use of catalytic capital in the region:** Catalytic capital in the form of grants, debt, equity, and hybrid models plays a crucial role in seeding, scaling, and sustaining social enterprises. While currently, the demand and supply of catalytic capital in the region has not been fully quantified, several indicators suggest that supply falls short of demand.
    - *First,* over 90% of the investors interviewed indicated that they target market-rate returns, signaling a limited supply of below market-rate capital;
    - *Secondly,* the type and number of investors willing and able to provide such capital are limited;
    - *Thirdly,* a significant proportion of funding continues to be deployed to the same enterprises, an indication of low levels of funds dedicated to growing and scaling of new business models; and
    - *Fourthly,* this research identified significant gaps in the supply of funding at the pre-seed, seed and series C stages.

Several catalytic capital interventions such as AECF, and Catalyst Fund exist in the region. Such initiatives have demonstrated early success with Catalyst Fund 1 unlocking close to US$77Mn in follow on capital while AECF's Connect program has helped facilitate more than US$ 45Mn in follow on capital. Mobilization of catalytic capital from various social investors, particularly locally-based, remains critical to enable impact at scale and enhance financing for local entrepreneurs. 'Local' corporate and family foundations and other local grant makers in the region are particularly better positioned to catalyse more impact investment, especially for the missing middle segment. Greater impact can be realised with targeted support from donors and international foundations through innovative use of their capital. Donors and foundations can use their capital to provide credit or first loss default guarantees to cover the downside risk for commercial lenders – this would ensure more debt capital flowing to early-stage businesses as well as missing middle. Alternatively, they can also assist in developing structures for receivables-based financing instead of collateral-based financing – a major roadblock again for MSMEs in the region.

Example 1: *Catalytic Capital Consortium, launched in 2019 by MacArthur Foundation, in partnership with the Omidyar Network and the Rockefeller Foundation, is an investment, learning, and market development initiative seeking to mobilize catalytic capital. As part of its commitment, MacArthur will deploy up to US$ 150Mn on a matching basis to funds or intermediaries that demonstrate the powerful use of catalytic capital across sectors and geographies. The foundation's initial investment was a US$ 30Mn to expand and accelerate the Rockefeller Foundation's Zero Gap initiative, a collaborative investment with the foundation, which also invested an additional US$ 30Mn into the initiative. This investment aims to catalyse at least $1 billion in new capital to help meet the SDGs.*

Example 2: *RSF Social Finance, based in the United States, offers a platform for individuals and institutions (including foundations and family offices) to invest and/or donate funds to social enterprises. RSF uses an "integrated capital" approach to lending, where they bring together different forms of financial capital and non-financial resources to reach and support impact enterprises that might not otherwise qualify for funding.*

- **Enhancing collaboration with the government:** The governments' role in the social investment space in the region has been evolving with the governments, particularly in Ghana and Nigeria, playing a pivotal role in funding the SME and agriculture sectors through guarantees and low-cost debt. Social investors working in these sectors, thus, can collaborate with the government to scale up interventions. Government funds can also be leveraged to de-risk investments in other sectors outlined in countries' national development plans.

- **Promoting education and awareness of social investment practices:** The past decade has witnessed a revolution in ecosystem development and education on impact investing with frequent gatherings held to discuss advancement in the sector. On the other hand, awareness of the innovative methodologies and practice of venture philanthropy, particularly amongst the philanthropy community and corporates, remains significantly low. More engagement, thus, is needed to engage and educate these players and guide them in aligning and revising their strategies as well as creating shared value collaboration amongst the philanthropists. Structured events on social investments should also be organized in the region, bringing together different players, including social enterprises, investors, and philanthropists. Additionally, there is also a need to introduce innovative finance and social investment training programs in regional universities training institutions.

  Example: *The Bertha Centre for Social Innovation and Entrepreneurship (Bertha Centre) at the University of Cape Town Graduate School of Business (GSB) was established in 2011 as the first academic center in Africa dedicated to research, teaching, dialogue, and support of social innovations that positively change and challenge rules, policies, technologies, structures, beliefs, and institutions. At present, the center engages in the private sector and public-private partnerships (PPP) in education, health, innovative financing mechanisms, poverty and inequality in Africa. The center creates an environment for multidisciplinary teams to find new and future-focused practical solutions for market or social challenges in Africa, and local and civil-led solutions, among others.*

- **Developing social impact bonds to solve key development challenges:** Social Impact Bonds and Development Impact Bonds (SIBs/DIBS) are considered to be significant investment models that can drive funding into social sectors such as education, health, and youth employment. Evidence of such models in the region is, however, limited, with only a few SIBs in the design and early implementation phases identified. The region can learn from countries such as South Africa, Cameroon, and India, where such models have been implemented in recent years. Foundations based in the region, governments, and donors can be leveraged to pay for the outcomes of the SIB, attracting more funding for development challenges from commercial investors.

  Example: *Bonds for Job South Africa SIB, launched in 2018, seeks to accelerate the transitions of excluded South African youth into growth sectors of the economy through alternative methods of skilling and training. The bond targets to support 6,000 youths over 2 years. It is implemented by Harambee Youth Employment Accelerator, which is tasked with training and placing youths in the workplace. The Hollard Insurance Company Limited, Standard Bank Tutuwa Community Foundation, Brimstone Legacy Fund in partnership with Nedbank & Old Mutual, Clientele Limited, Oppenheimer*

Generations Foundation Limited are the investors to the bond while the outcome payers include Allan Gray Orbis Foundation Endowment, First Rand Empowerment Foundation, Gauteng Provincial Government (Local government), The National Treasury Jobs Fund, Yellowwoods.

- **Driving shared value collaboration:** Investors are often unable to align their objectives, making it hard to collaborate. Thus, there is a need for shared value collaboration amongst investors to deliver more investments for the sector. Such collaborations can be created by leveraging third-party entities that can articulate the objectives of each investor and develop synergies. Sector-specific coalitions that incorporate investors across the continuum of capital, for example, could help bring together multiple investors fromacross the philanthropic and impact investment fields, leveraging different strengths to mobilize funding for the SDGs

  Example: *Africa Grantmakers Affinity Group (AGAG) convenes and connects various funders focused on promoting social development in Africa to build a network of grantmakers engaged in sustainable development. The group aims to drive collaboration and partnerships between the different funders through frequent gatherings and engagements.*

> *"We need to be able to develop a win-win situation for better collaboration; being more strategic, defining what each partner wants and what they can receive from the other partner".*
>
> *Corporate Foundation in Nigeria*

- **Developing a blueprint to harness local sources of capital and diaspora funds:** In addition to faith-based institutions and individual philanthropists, SACCOs, MFIs, and informal investor clubs also play a huge role in supplying social investment. These categories, however, remain overlooked with their potential not fully exploited. Furthermore, despite a large number of diaspora funds into the region, the potential for structured deployment of diaspora funds has not been fully used, with only a few diaspora bonds issued mainly for infrastructure projects. Thus, develop a blueprint for harnessing these sources of capital is needed.

1.1.2 RECOMMENDATIONS TO EMPOWER ORGANIZATIONS DELIVERING SOCIAL CHANGE (DEMAND-SIDE PLAYERS)

- **Leveraging alternative funding models for NGOs/CSOs:** With the declining donor funding to NGOs/CSOs, new and innovative models need to be leveraged to raise and attract more funding to support NGO/CSO activities. Several funding models can be explored leveraging internal sources (models such as consultancy fees, asset building, event organization, membership fee, among others) and external sources (models such as crowdfunding, microfinance, incubation, social/green bonds, among others).

  Example: *The Moroccan Centre for Innovation and Social Entrepreneurship (MCISE), founded in 2012, is a non-profit organization to support entrepreneurial and innovative solutions to social challenges in Morocco. Through their Dare Inc. Programme, MCISE select innovative projects and support them with seed funding. In return, they generate revenue in two ways – they can either get back 2% of the profits generated by the social enterprise over a 5 years or get 5% equity participation from supported companies that have reached maturity.*

- **Establishment of a technical assistance toolkit and on-site training for NGOs:** One of the critical challenges facing NGOs is the inadequate skills in areas including strategy, financial management, program management, among others. Most of the funders mainly focus on program funding with a minimal amount allocated to provide technical assistance to the NGOs. Most NGO support organizations also rely on funding from international sources to finance the services offered to NGOs (some who are unable to pay for such services). As such, development of a readily accessible toolkit providing information and training on various operational areas can help improve the capacities of the NGOs. Such a toolkit can be developed by TA providers and shared through a virtual platform. An ideal toolkit will address the issues and gaps that are very specific to the NGOs in the region. Additionally, TA providers can leverage the toolkit to provide on-site training to the NGOs at their convenience.

  Example: *NGOConnect.net, an initiative of the Strengthening Civil Society Globally (SCS Global), seeks to enhance the accessibility of technical assistance support to civil society organizations by developing and deploying easily accessible toolkits and manuals.*

- **Developing interventions to support human resources (HR) needs of enterprises:** Since many social enterprises face challenges in human resources, key players, e.g., corporates, and sector experts, can be leveraged to provide handholding and mentorship support to the enterprises. Corporates, for example, can volunteer to provide their staff for a few months for a secondment in the enterprises. Furthermore, commercial enterprises and corporations can be leveraged for cross-learning and building of skills.

  Example: *Social Starters, based in the UK, focuses on providing linkage between corporates and professionals to social enterprises for provision of support in specific areas, including strategy design and implementation, program management, among others. The company seeks for funding support from various players, including corporates.*

Example: Africa Management Institute (AMI), founded in 2014, AMI offers training programs to equip the leadership and management teams of SMEs. AMI adopts a blended learning approach that leverages interactive virtual workshops, online learning platforms, team-based activities, on-the-job practice, and real-time feedback to equip the leaders and managers with various skills.

1.1.3 RECOMMENDATIONS TO DEVELOP ENABLING ENVIRONMENT AND INFRASTRUCTURE

- **Data building and development of knowledge tools:** One of the critical limitations for the social investment space across all the focus countries is inadequate latest data and knowledge availability. Notably, the disparate sources of data on philanthropy, corporate social investments, venture philanthropy, and impact investments make it difficult to drive collaboration. Furthermore, key challenges have been identified in building pipeline and identifying co-investment opportunities for different social investors. Continuous research on the sector can provide data-backed evidence on success models, identifying additional opportunities for strategic interventions amongst key social investors. Information gathered can further be leveraged to set up performance benchmarks related to outcomes that can contextualize different investment strategies. A data portal that brings together different types of investors would enable more collaboration along the continuum of capital and can be leveraged to collect data on the different investors.

  Example: Asia Venture Philanthropy Network (AVPN) deal share platform seeks to bridge the gap between supply and demand for social investments in Asia. The platform displays funding and collaboration opportunities for its members (providers of financial and non-financial capital). AVPA is also in the process of launching the deal share platform for Africa.

  Example: European Venture Philanthropy Association (EVPA) knowledge center conducts regular research, data, and insights gathering and documentation of impactful stories

- **Focused mobilization and deployment of philanthropy funds:** Currently, most philanthropic organizations deploy funds individually and in an ad-hoc manner. There is a need for support organizations in the form of "philanthropy advisors/managers" that can mobilize and deploy such funds in line with the objectives of the philanthropists. Such players can also be leveraged to raise awareness on venture philanthropy practice and ensuring a balanced portfolio between philanthropy and venture philanthropy for the philanthropists. Besides, they can advise on co-investment opportunities for philanthropists and promote engagement between them and impact investors to drive the development of blended finance funds.

  Example: FNB Philanthropy Centre in South Africa was set up to provide support and guidance to individual and institutional philanthropists on the execution of their philanthropy agenda. To date, FNB Philanthropy Rand 11Bn (approximately US$ 583Mn) as assets under management (AUM), about 70% of this directed towards education and youth development programmes. Currently, the centre supports over 200 clients, including corporate, SMEs, individuals etc.

- **Enhancing support for the sustainability of ecosystem support organizations (ESOs):** ESOs capacity to deliver various services, including incubation and capacity building, remain limited in the region due to barriers such as talent attraction and retention, impact measurement, the efficiency of internal operations, and time/budget to develop, test and enhance products and services. Furthermore, support to businesses outside the main cities in Nigeria (Lagos) and Ghana (Accra) is almost non-existent. Ecosystem support in other countries like Senegal, Liberia, Sierra Leone, and Ivory Coast is growing, albeit at a slow rate. Current funding sources for the ESOs are also limited and unsustainable. Regional foundations, donors, as well as international foundations, could allocate additional funding to ensure the sustainability of the ESOs, e.g., through subsidizing ESOs services. ESOs could also be used to deploy seed/grants to enterprises on behalf of philanthropists. Funds can also be used to build the capacity of the ESOs e.g. through training of their staff.

  Example: NextGen Ecosystem Builders Program is a management-training program launched by Village Capital and Africa Management Institute (AMI) and funded by the Dutch Good Growth Fund (DGGF). The program aims to build the capacities of mid-level managers who lead programs or departments and are responsible for the successful implementation of services/programs for entrepreneurs.

> *"A good number of entrepreneur support organisations (incubators/accelerators) are available; however, they lack financial resources to invest in early stage companies to drive growth of the enterprises".*
>
> *SFM in Ivory Coast*

- **Improving the legal and regulatory frameworks:** Governments in the region need to put in place critical supply, demand, and ecosystem level regulations that boost the performance of a sector. Proposed rules and policies include:
  - *Start-up Act:* A start-up act such as the one developed by Senegal has the potential to further innovation and entrepreneurship, outlining legal conditions for registering social enterprises as well as tax policies and incentives to promote the growth of the industry.

- *CSI policies and laws:* Governments should put in favorable policies to motivate corporate giving, leveraging on best practices, and learnings from countries such as India and South Africa that have successfully implemented such policies.

- *Tax incentives for philanthropy:* There is a need to enhance the accessibility of information on tax incentives applicable to philanthropy. Furthermore, the process of applying for tax exemption needs to be streamlined and simplified, e.g., through an online application.

- *Regulatory sandboxes:* The West Africa governments can further enhance the frameworks for the adoption of regulatory sandboxes aimed at providing an environment to incubate innovations and test the products within a relaxed and regulated environment.

- **Enhancing impact measurement and management:** Impact measurement and management remain varied across social investor categories in West Africa. While DFIs and SFMs leveraged internationally recognized and accepted tools and approaches, many regional investors rely on in-house tools and techniques for impact data collection and measurement. Moreover, social investors often focus more on outputs than outcomes. Further engagement in defining, measuring, and managing impact is crucial to determine the actual impact created. There need to be a clearly defined process and approach to measuring impact amongst social investors in the region.

  Example: *European Venture Philanthropy Alliance (EVPA)'s impact measurement and management framework has developed a five-step process to measure and manage the impact that can be applied by both investors and investees.*

1.2 SCOPE FOR FUTURE RESEARCH

The limitation of data on social investments, particularly on philanthropy, venture philanthropy, and corporate sustainability programs across the region, is substantial. This inaugural report seeks to begin, in broad strokes, to develop a picture of the sector. The comprehensiveness of information across countries and investor categories also varies widely. While the information on some countries – e.g., Nigeria and Ghana – is relatively comprehensive, information gathered on the other geographies remains inadequate. Furthermore, while comprehensive information exists on private fund managers, DFIs, and international foundations, limited data are publicly available for locally headquartered social investors. This study featured insights and data collected from regional social investors through primary interviews and surveys. However, more comprehensive in-depth data collection is needed for each of the regional investor categories: foundations, family offices, corporates, faith-based organizations, and others. While the reported data were useful in identifying broad trends and regional and national differences, they also leave much scope for further research. Key areas recommended for future research include:

- Blended finance and catalytic financing mechanisms have demonstrated ways in which various players can collaborate to mobilize capital for different social causes. In-depth analysis is required to understand which structures work best in which sectors and how those can be structured to maximize impact. Blended finance has also primarily been leveraged for larger deal sizes; therefore, there is a need for research on blended and innovative finance for smaller transactions at the early stage enterprise stage.

- More analysis is required to understand the role of policies aimed at promoting corporate sustainability, benchmarking against countries that have launched such policies, e.g., South Africa and India, and providing recommendations on critical considerations for such policies in the region.

- Governments in the region were identified as key players in the social investment space. Additional analysis is required to understand priority setting by government and identify potential collaboration mechanisms with other social investors.

- Data and information on faith-based giving in the region remain inadequate and could not be comprehensively covered during this research. While the general understanding is that religious institutions are highly involved in philanthropy, the extent of these activities and impact generated is not documented. Furthermore, religious-based NGOs and CSOs also exist in the region. Thus, it will be important to understand how they operate, including their fundraising strategies, operational structures, and their inherent strengths for engaging with other social investors to solve development challenges such as healthcare in remote rural areas.

- While this research attempted to present some of the activities of West Africa based foundations, it does not in any way depict the full picture as most of the philanthropic giving in the region is kept highly private. The research faced challenges in gathering relevant information in Ghana and Ivory Coast, where philanthropic activities are not as pronounced as in Nigeria. Continuous engagement with foundations based in the region through dialogues and the development of collaboration platforms for shared value can create more collaboration amongst investors. Frequent data gathering e.g. through annual surveys, will thus be essential.

- Technical Assistance for NGOs and social enterprises has been identified as a critical requirement for enhancing their impact and sustainability, and investors are increasingly adopting various TA models. It will be important to study various TA models to understand which ones are more effective and for which sector.

- Detailed research on the different models adopted by foundations and grantmakers transitioning into impact investing is needed as well as documentation of best practices that can be leveraged in the adoption of the innovative models.

- Demand-side research was mainly desktop-based; thus, it will be important to engage with social enterprises and NGOs to understand their changing needs further.

- Key learnings from the Coalition Against COVID-19 (CACOVID)[74] approach need to be documented to draw in relevant insights on how such collaborative arrangements can be leveraged to not only respond to national disaster but also to address social challenges facing the region at scale.

[74] Coalition Against COVID – case study outlined in Annexure 3