This review is a showcase of the outstanding models and practices that make up the innovative finance ecosystem across Africa.

As this space has evolved over the past decade, there have been many breakthroughs in the design and implementation of innovative finance, and in advancing social innovation. During the five years of the Bertha Centre’s existence, the Innovative Finance Initiative has worked with social finance experts across the world and partnered with government, enterprises, and investors to research, incubate and test promising innovative finance models and vehicles across Africa.

The Bertha Centre for Social Innovation and Entrepreneurship is a specialised unit at the UCT Graduate School of Business. Established in partnership with the Bertha Foundation in 2011, it has become a leading academic centre dedicated to advancing social innovation and entrepreneurship. One of the priority areas of the centre’s work is innovative finance.

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INTRODUCTION TO INNOVATIVE FINANCE

INNOVATIVE FINANCING IS AN APPROACH TO FUNDING ENTERPRISES AND INTERVENTIONS THAT OPTIMISES POSITIVE SOCIAL, ENVIRONMENTAL AND FINANCIAL IMPACT. IT USES ALL AVAILABLE FINANCIAL AND PHILANTHROPIC TOOLS TO SUPPORT THE GROWTH OF THESE ENTERPRISES, INTERVENTIONS AND ENTREPRENEURS AND, WHEN THE EXISTING TOOLS DON’T WORK, IT CREATES NEW ONES.

At the Bertha Centre for Social Innovation and Entrepreneurship, we believe that a market where capital is allocated on the basis of optimising financial impact has the power to catalyse and scale social impact, align public and private stakeholder incentives and more effectively distribute capital across the philanthropic, mainstream and governmental spectrum.

The movement towards aligning markets around social, environmental and financial impact has grown significantly in the past decade, spurred on by very public failures of these markets. The worldwide financial crisis of the late 2000s showed us just how mispriced securities were and undermined financial institutions globally, and, while Dambisa Moyo’s 2009 Dead Aid was not the first critique of development spend, it was a powerful one that used data to highlight the failure and misappropriation of billions and billions of dollars in Africa. Furthermore, the COP 21 in Paris highlighted the real and present danger of climate change despite decades and decades of denial and obfuscation by global corporations.

At the same time that these failures were becoming public, new types of business models were making headlines as companies began seeing the Base of the Pyramid (BOP) as consumers, and not just government beneficiaries. This spurred social entrepreneurs to begin building businesses around addressing social issues and forward thinking foundations to begin incorporating financial sustainability into their operations and those of their grantees.

As the number of public and private actors that believe in this type of optimisation grow and the amount of capital committed increases, it is becoming more and more apparent that our current financial instruments will not be adequate for this system shift. We should not be surprised that we need new tools for this new conception of what a market is. Just as we do not expect the fast growing companies of the 21st century to use the same models of delivery of their 20th century predecessors, we can’t expect the traditional structures of debt, equity and grants to facilitate an efficient flow of capital designed for funders that have distinct risk, return and impact requirements flowing into innovative business models and partnerships.

Not limited to just Debt, Equity and Grants – the Innovative Finance movement has created instruments like Trade Credits for Rural SMEs, an Outcomes Based Impact Investing Fund of Funds, Quasi-Equity for NGOs, an Outcomes Based Impact Investing Fund of Funds, Quasi-Equity for NGOs, Social Impact Insurance and many more. These instruments are designed not to treat impact as a side effect but as a core component of capital allocation by changing the cost of capital and return, screening out potential participants, enabling outcomes to trigger payments and putting monetary value to outcomes that were previously not valued.
WE SEE FOUR KEY ISSUES IN OUR CURRENT MARKET THAT CREATE THE IMPERATIVE FOR DESIGNING INNOVATIVE FINANCING MECHANISMS:

**Impact Measurement**

One of the reasons that traditional structures will not suffice is that they often treat impact measurement as either a nice to have (debt and equity) or a post project calculation (grants), and not as an integrated part of the strategy of the company or as a key component of how capital is allocated and is priced. It is essential for us to embed best practices, such as impact measurement, into the actual flow of capital in order to understand if we are optimising our impact.

**Mismatch**

At the Bertha Centre, we host dozens of events each year for investors and for entrepreneurs in Africa. The message from investors continues to be that there are not enough investable deals, while entrepreneurs continually lament the lack of risk capital available in the market. How can both of these assertions be true? The issue, in addition to distribution, as discussed below, is the mismatch between the principles that investors use to find and assess potential deals and the state of readiness of many organisations. Additionally, there is a mismatch in investors’ investment expectations and the pricing many investees are willing to give. Finally, is a mismatch in the type of capital available and what investees are looking for. In Africa, traditional equity deals are more difficult due to entrepreneurs’ unwillingness to sell ownership, the lack of potential exits and the time needed to achieve an exit.

**Distribution**

If you do start believing that the needs of the early stage market look more like US$30,000 working capital loans or US$100,000 equity investments with an equal amount of technical assistance, it is easy to see how distribution becomes a major issue. As in traditional finance, the distribution of impact capital needs strong intermediaries, especially when it comes to match-making between impact investors and enterprises as well as investment readiness support in order to develop high-quality investment opportunities. Innovative service providers and entrepreneurs that operate on a market-competitive basis are emerging on the continent, often as impact-driven deals where projects can be smaller and less profit-driven. There is a need for the industry to discuss the long-term application of blended capital for these kinds of businesses.

**Life Cycle Support**

But the idea, of course, is not to continue to give out US$30,000 loans and US$100,000 equity investments in perpetuity. The issue of scale comes up continually in the innovative finance world. Life Cycle Support is one thing that is significantly missing in the African market. By this we mean working with organisations from the early stage grants through to late stage equity; i.e. providing the type of capital that they need at different stages of their growth.

This doesn’t need to be one funder; instead, this can be a coordinated effort on the part of multiple funders. Unfortunately, however, we are in a race that type of coordination in the current market.

So, how do we use Innovative Finance to address the needs of all stakeholders?

Our Innovative Finance Initiative adopts an eco-system approach to building the innovative finance market. We collaborate on innovative financing from around the world and Africa, and distribute it freely to stakeholders across the market. We educate private and public stakeholders through courses, workshops, events and conferences. And finally, we create opportunities for collaboration between public and private, government and NGOs, philanthropists and traditional financiers through the development of innovative financing products and multi-stakeholder partnerships.
INNOVATIVE FINANCE AND DESIGN THINKING

Welcome to the world of Innovative Finance – it’s a crazy ride but you’ll be in good company!

To create Innovative Finance vehicles and mechanisms, we mix design thinking with market and data analysis, financial acumen and a lot of creativity. Our team believes that finance can be used as a pull-factor for innovation and impact, and that design thinking is essential to the process of creating Innovative Finance products, which could result in shifting the entire world of finance as we currently know it.

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The magnitude of the challenges that Africa faces far outweighs the public and philanthropic resources allocated to those challenges. At current investment levels (public and private) in sectors related to the United Nations’ Sustainable Development Goals (SDGs) in developing countries, there is an annual funding shortfall of US$2.5-trillion. There is, therefore, great potential in using innovative financing approaches to catalyse more private capital towards investing in social issues.

Designing innovative finance instruments is rarely a linear process and progress very rarely occurs in tandem. It is inherently difficult to lay out a detailed workplan for innovation as we do not know which issues will come to the fore, what challenges are present in those issues, what resources are available and what opportunities innovative financing mechanisms present to reach the outcomes valued by the stakeholders. As a result any detailed plan with step-by-step directions would be subject to significant changes.

Also called Human Centred Design, Design Thinking began as a new idea in academia nearly 50 years ago, morphing over the decades to become a hot topic in the world of industrial design.

From there it invaded the mainstream business world and now is beginning to be used in the development sphere. Several of the key concepts of design thinking include encouraging experimentation and wide ranging ideation, the notion of “failing fast”, user led processes of creation and a strong sense of innovation throughout any process.

Design thinking offers a structured framework for understanding and pursuing innovation in ways that contribute to organic growth and add real value to your customers. Creativity is central to the design process. The design thinking cycle involves observation to discover unmet needs within the context and constraints of a particular situation, framing the opportunity and scope of innovation, generating creative ideas, testing and refining solutions. Design thinking minimizes the uncertainty and risk of innovation by engaging customers or users through a series of prototypes to learn, test and refine concepts.

Our teams use these principals every day in designing, co-opting and merging models for business models and financing that meet the needs of all stakeholders involved and include impact as a key component of capital allocation and growth. This allows us to be a part of a global movement that is re-imagining what finance is and can be.

There is a real need to develop a local impact-focused, social investment market in Sub-Saharan Africa that will operate independently as well as partner with international investors. In our experience, despite the vast opportunities for social and economic impact across the continent, the regional market for impact investing is relatively immature with underdeveloped market infrastructure. This translates into inefficiencies and high cost structures for investments, which can impede capital distribution across asset classes. In light of the breadth of these issues, we have taken an ecosystem approach to our market-building mission and developed strategies to address both the demand and supply sides.

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The term impact investing was formally created in 2007, at The Rockefeller Foundation’s Bellagio Center, putting a name to investments made with the intention of generating both financial return and social and/or environmental impact. Estimated at US$60 billion in 2015 by JPMorgan, predictions of growth vary from US$400 billion and US$1-trillion worldwide in the next five years. Twenty-two percent of global-impact enterprises located are found in Sub-Saharan Africa, meaning much of the opportunity lies on this continent.

The rise of the impact investing industry has resulted in a host of new investment products and initiatives, yet there is still a considerable lack of understanding about impact investing, and a lack of substantive information advising investors how to implement an effective impact investment strategy, most particularly in Africa. One of the most enduring misconceptions about impact investment has been that it is a trade-off, where financial returns are sacrificed in favour of social return. This is rooted less in fact than in fear. The industry is starting to collect quantitative data providing evidence that a company can be for-profit and for-purpose, without making long-term sacrifices to either goal.

A study conducted by the Global Impact Investing Network and JPMorgan showed that 27% of 143 investors said the social impact of their investment had outperformed their expectations. Financially, their impact investments had not outperformed their expectations but only 9% were disappointed with the returns. The investors indicated they would invest a further US$32 billion this year in impact investments, up 16% from 2014. As it points out, the real growth rate is probably even faster, considering that as many financial institutions are only now entering the market.

However, impact investors have diverse returns expectations, and are, to varying degrees, comfortable taking on more risk than mainstream investors. The impact investing category spans different types of capital providers; from early stage seed funders providing high risk capital over a long time horizon, to investors expecting more market-rate returns over a shorter term in large investments. Increasingly, these investors come in at different stages and complement each other in setting up funds as well as the structuring of deals.
The Bottom of the Pyramid (BOP) targets companies that serve technology industries and financial services and companies primarily operating in previously underserved communities. This includes smallholder agriculture, affordable housing and other social or environmental issues in communities and the casual-based informal retail sector. Other examples include Alllife Insurance and Zoona. More mature businesses are benefitting too. Examples of these include TUIH, the Kayasa Fund and CareCross (recently acquired by MMI). Key to the strategy of educating impact is understanding impact opportunities in impact sectors. Successful impact investors see the vast need for financial inclusion, more efficient credit and existing social entrepreneurs that know and understand the underlying issues in communities and have found innovative business models to meet often latent demand for quality services and products. In the following section we examine several of these impact areas to understand the opportunity that exists in Africa.

**WHAT IS IMPACT INVESTING?**

Impact investments are "investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return".

According to the Global Impact Investing Network (GIIN), impact investments check four boxes:

1. The investor must have the intention to make a positive social or environmental impact.
2. The investment is made with the expectation of generating returns on capital.
3. The range of possible returns is wide and investments are not limited to a particular asset class.
4. The investor must be committed to measuring and reporting on the impact created by their investment.

Impact investments are part of a larger movement toward responsible investing and ensure that investments made into social enterprises, community development finance institutions, and microfinance institutions are not limited to a particular asset class. The investment is made with the expectation of generating returns on capital.

**WHAT INVESTMENTS PRIORITISE WHAT AND HOW IMPACT INVESTMENT FITS INTO THE TREE**

<table>
<thead>
<tr>
<th>ASSET OWNERS</th>
<th>ASSET MANAGERS</th>
<th>DEMAND-SIDE ACTORS</th>
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<tr>
<td>Retail investors</td>
<td>Banks</td>
<td>Community development finance institutions</td>
<td>Cooperatives</td>
</tr>
<tr>
<td>Foundations</td>
<td>Corporations</td>
<td>Impact investment fund</td>
<td>Microfinance providers</td>
</tr>
</tbody>
</table>

**ESG RISK MANAGEMENT**

ESG risks integrated into analysis of all holdings, as a component of investment management. Ongoing engagement influences holdings behaviour.

**AN INVESTMENT FAMILY PORTRAIT**

WHERE INVESTMENTS PRIORITISE WHAT AND HOW IMPACT INVESTMENT FITS INTO THE TREE

**THE MATURE**

Impact investment product awarded at pitch competitions. Focus on one or a few areas where social or environmental need creates commercial growth opportunities or market-rate trade-offs.

**THE Nativ**

Impact arising from an ESG factor. Negative and positive screening of ESG risks is used as a Portfolio to influence social or environmental performance of holdings. Focus on one or a few areas where social or environmental need creates commercial growth opportunities or market-rate trade-offs.

**IMPACT FIRST**

Impact arising from a social or environmental factor and not a financial one. Focus on one or a few areas where social or environmental need creates commercial growth opportunities or market-rate trade-offs.

**PHILANTHROPY**

Social enterprise investing in a variety of forms with a range of return motivations. Investor support/ engagement is common.
African countries are currently experiencing a demand for affordable housing that far outstrips supply. The housing crisis is a result of several demographic shifts creating a deficit in the housing sector, which is expected to worsen in coming years. It is forecasted that in Africa, the average densities will increase from 34 persons per square kilometre in 2010 to 79 persons per square kilometre in 2050. This rapid urbanisation, in conjunction with inadequate urban government policies, socio-economic inequalities, and low urban institutional capacities, has caused a proliferation of urban slums. Other demographic forces contributing to housing shortages are population and income growth. The African population is relatively young, with the average age being 19.7 in 2012, expected to increase to 25.4 in 2050. This young demographic is expected to drive the demand for housing even higher and to create the need for subsets such as student housing. In addition, African incomes are rising as a significant portion of the population is emerging from poverty with first-time access to consistent disposable income. This emerging “middle-class” is also driving demand for affordable, high-quality housing.

In order for this crisis to be adequately addressed, African cities need to have realistic and sustainable national urban development policies as well as urban management capacities, better distribution of urban populations and greater access to urban livelihood opportunities. In response, African governments have been promoting new urban developments and creating satellite cities to reduce the pressure on metropolitan areas. Strong partnerships with the private sector, including private investors, are also critical to ensuring that the housing crisis is adequately addressed in the years to come.

In 2014, the total urban African population was 450 million, which is expected to rise to 1.3 billion in 2050. By 2050, African urban dwellers will account for 20.2% of the world’s urban dwellers. An opportunity coming out of the affordable housing crisis in African markets is a range of potential investment created across the investment spectrum. There is a primary need of housing stock, and the secondary needs of the housing market such as materials and services companies, as well as training for skilled labor. Finally, there is the need for mortgage and home equity finance, to provide opportunities for homebuyers to purchase properties and unlock home equity.

Real estate development in the African market requires collaboration with governments and the public sector. Governments facilitate property rights, land tenure, registration, titling, and the financing for infrastructure development. Innovative government schemes, designed to facilitate and support the growth of affordable housing, are beginning to emerge. These include simplification of bureaucratic procedures, standardizing policies and procedures, and creating subsidy schemes for low-income families to assist them with housing finance.
**Overview**

International Housing Solutions (IHS) is an institutional real estate manager investing in the acquisition and development of residential and supporting commercial real estate in South Africa and Sub-Saharan Africa.

IHS’s investments provide access to affordable title housing to low- and moderate-income individuals in order to relieve the affordable housing deficit in the region.

IHS provides property developers with equity to finance affordable housing projects at a lower cost, enabling them to pass the lower costs on to their clients. This offers a two-fold positive impact: access to shelter and economic stimulation.

**Business and Impact Model**

IHS facilitates the construction of affordable housing developments through the collaboration of financial institutions, real estate developers, private capital groups and local government authorities. The investment strategy of IHS consists of three options: equity investment in new construction of free-standing or sectional title alongside property developers with subsequent offering of the units for sale; property acquisition of turnkey or rental rehabilitation projects with units sold or rented out; or minority equity investment in operating companies along the housing value chain. Revenues raised through sales and rentals provide capital return and annuity income into the main fund through a special purpose vehicle (SPV) or trust account until the exit point, when funds are distributed to the investors.

**Investment**

IHS’s South African Workforce Housing Fund (SAWHF) is a fully committed US$240 million fund that mobilised both private sector and development finance investment in the development of about 26,500 affordable housing units in South Africa. The largest of these investments, the Fleurhof Project, consisted of a US$10 million private equity investment, yielding about 10,100 units. The SAWHF will close in 2018 and has, to date, realised a very healthy return of 23.3% (weighted average internal rate of return of for all exited deals based on amount of equity invested). A second fund of US$ 300-400 million is currently being raised. This fund will cover not only South Africa (about 85%) but other Sub-Saharan countries (about 15%) such as Ghana, Zambia, Botswana, and Mauritius. It also includes an innovative “green facility” which focuses on the efficient use of energy, water and building materials in accordance with the International Finance Corporation’s EDGE Green Buildings standard—in order to be EDGE certified, a house must achieve 20% savings in these three areas.

*Photographer: Lindi van Niekerk, 2015*
Education is an investment that can reduce poverty, eliminate gender inequality and foster peace for a sustainable society. The issues in providing universal access to education are diverse and include lack of access and weak utilisation, such as low enrolment rates, high dropout rates, and gender disparities, as well as school quality issues, such as lack of infrastructure and resources and quality of teachers. Socio-economic issues also contribute to educational outcomes, including inadequate nutrition, poor health and poverty that prevent uptake of education opportunities.

Due to high birth-rates, Sub-Saharan Africa has exhibited the world’s highest growth rate in the primary school-age population, with an increase from 110 million to 148 million between 2000 and 2012. Due to the size of this increase, the building of schools by government and aid organisations has been insufficient to meet the surge in demand. Also of concern is that the progress made in the number of children who attend school has not been equitable for the poorest of the poor and young girls. Beyond the access issues, challenges in the quality of education stem from large class sizes, limited access to educational resources and poor infrastructure. In most Sub-Saharan African countries, there are more than 50 pupils per class for Grade 1, rising to between 80-100 pupils per class in many areas.

The scope and magnitude of these issues means that substantial investments through the education value chain, and innovative interventions around access and quality, are required from both public and private sources.

Traditionally, universal education has been seen as a public good that should be provided by governmental institutions. However, there is still a lack of capacity and resources to meet the growing need for education. Furthermore, entrenched interests unique to the public education sector oftentimes makes innovation within the system very difficult. The opportunity, therefore, exists for private capital to act as a catalyst to strengthen educational capacity and innovation, especially in teaching and learning methods as well as in monitoring outcomes. Household expenditure on education is also significant: in low-income countries where public education systems are limited, parents have shown themselves willing to invest substantial portions of their disposable income on education.

Investment opportunities for private investors include investments in service provision, human capital, technology and services, and the education ecosystem itself. Multiple channels exist, such as direct investment into companies with innovative business models or investments through intermediaries who support education providers.
Overview
Prodigy Finance provides borderless postgraduate student loans to international students to attend a top school. The company has disbursed US$190 million in loans to over 5500 students from 115 countries. Investors include alumni, impact investors, and other entities that have a commitment to supporting students completing their postgraduate studies while still earning a financial return.

Business and Impact Model
A community of alumni, institutional investors and qualified private investors collectively fund these student loans. 75% of the students come from emerging markets and 82% don’t have alternative sources of financing available. Prodigy provides loans to students on affordable terms, including moderate interest rates, no collateral, and a 1–2-year grace period. The student borrowers gain access to higher education that they might not otherwise have been able to finance, and the investing community earns a financial and social return through their investment in the education of future leaders.

Investment
In 2014, Prodigy Finance launched a US$25 million Education Note in partnership with the Credit Suisse (CS) Impact Investing and Microfinance team. The US$25 million Higher Education Note (HEN) affords exposure to a diversified portfolio of bonds, issued by Prodigy Finance and composed of high-quality loans to Masters students. The HEN has a 12-year maturity, with quarterly repayments composed of interest and the amortizing principal. CS provides a secondary market (option to exit) and has set a 2% cumulative residual value as first-loss protection. Credit Suisse has developed the note, in partnership with Prodigy Finance and the Credit Suisse Foundation. CS is a global bank involved in impact investing since 2002, currently managing US$3 billion in assets across innovative financial vehicles and a variety of sectors, including microfinance, education, agriculture, and nature conservation.

PRODIGY FINANCE IS THE STUDENT-LOANS UNDERWRITER, WITH A STRONG TRACK RECORD IN HIGHER EDUCATION SINCE 2007 AND A SOLID RISK-MANAGEMENT PROCESS IN PLACE (>99% PERFORMING LOANS).
Africa’s health system is burdened by its ongoing battle with communicable diseases that other regions of the world have largely eradicated, whilst at the same time dealing with an increase in the prevalence of lifestyle and chronic diseases. As country governments struggle to provide basic sanitation, clean water and adequate nutrition, the growing need for services that cater to a burgeoning middle class are straining already overburdened health systems.

Two-thirds of the disease burden in the African region is caused by communicable diseases. According to the World Health Organisation (WHO), Africa accounts for 60% of the global malaria burden and 66% of the global HIV/AIDS burden.

Over the last decade, several countries in the African region, alongside multinational partnerships, developmental agencies and NGOs, have made concerted efforts to improve health outcomes, in particular through the implementation of measures to help meet the Millennium Development Goals (MDGs). The period since 1990 has seen a dramatic increase in child survival rates, reductions in the maternal death rate, and steady improvement in the access to lifesaving anti-retrovirals and rollout of HIV prevention strategies, which have contributed largely to the decline of HIV incidence in many African countries.

Key to improving African health outcomes is strengthening its systems. African health systems are plagued by poor infrastructure, a shortage of skilled professionals and geographic and socio-economic inequalities. Healthcare provision in Africa is also challenged by the geographic dispersion of the population, and the breadth of services required to care for a rapidly growing population.

Sub Saharan Africa, with 24% of the global disease burden only accounts for 1% of global health expenditure at US$5.6 trillion per year.

The sheer magnitude of the health challenge in Africa has led to the realisation that improving healthcare outcomes will require the collaboration of both the public and private sectors. Investments in health lead to higher productivity, which can be translated into expanded economic growth and greater opportunities. Health outcomes are positively correlated to expenditure, however, public and donor financing for healthcare in Africa cannot adequately support health care provision. This gap in financing provides an opportunity for private investment that can meet Africa’s healthcare needs. In healthcare in particular, there is opportunity and appetite to engage in public-private partnerships that can shore up public resources to meet healthcare demand.

The biggest opportunities in Sub Saharan Africa exist in direct healthcare provision, including building and improving the sector’s physical assets. Service provision also requires investment into human resources and the purchase of pharmaceutical and medical supplies. While provision of health services accounts for half the investment opportunities, the remaining opportunities will be in insurance, pharmaceutical manufacturing, distribution and retail, and training. Healthcare in Africa is also ripe for innovation that capitalizes on resource scarcity, because it allows for new methods and technologies to be adopted more quickly. These innovations can take many forms, where mobile technology is used to provide health services; risk pooling where micro-insurance providers can tailor products to lower-income markets; and service provision, where services are re-engineered to achieve quality yet affordable healthcare.

**FAST facts**

**HEALTH SECTOR IN SUB SAHHARAN AFRICA**

<table>
<thead>
<tr>
<th>Average life expectancy</th>
<th>58 (compared with global average of 70)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult mortality rate</td>
<td>320 / 1000 (compared with global average of 156/1000)</td>
</tr>
<tr>
<td>Infant mortality</td>
<td>63 / 1000 (compared with global average of 35/1000)</td>
</tr>
<tr>
<td>Births attended by a skilled health professional (%)</td>
<td>~50% (compared to 74% globally)</td>
</tr>
<tr>
<td>No. of hospital beds</td>
<td>10 / 1000 (compared with global average of 30/1000)</td>
</tr>
<tr>
<td>No. of physicians</td>
<td>2 / 1000 (compared with global average of 115)</td>
</tr>
<tr>
<td>Public expenditure on health per capita</td>
<td>$101 (compared to $1,173 per capita globally)</td>
</tr>
</tbody>
</table>

**III. ACCESS TO HEALTH**

**Sub Saharan Africa**

**WHO, AFRICA ACCOUNTS FOR 60% OF THE GLOBAL MALARIA BURDEN AND 66% OF THE GLOBAL HIV/AIDS BURDEN.**

Photographer: Ben Midwood, 2011
Overview
GiftedMom is the first mobile health platform in Central Africa, empowering rural women with the information and support to improve maternal and child health. In Cameroon, where only one in five pregnant women see a physician during pregnancy, GiftedMom’s platform acts as a gateway between pregnant women and mothers and specialists, medical advice and services.

Business and Impact Model
GiftedMom’s services include follow-up of pregnant women, antenatal care SMS notification, tracking of vaccinations, teen health and sex education, family planning, and contraception, and mobilising community health workers. GiftedMom’s revenue stream is through the sale of its automated SMS scheduling platform, as well as provision of data collection services and analytics solutions to NGOs working in maternal and infant health. Women register for GiftedMom services by texting a code or a health question, which triggers sign-up and a reply from a doctor. GiftedMom charges a one-off fee of US$1 per user, which covers the costs of the short code number. GiftedMom is also developing voice technology to provide services to the 17% of Cameroonian women who are illiterate.

GIFTEDMOM IS CURRENTLY IMPACTING OVER 3,000 PREGNANT WOMEN AND MOTHERS AND IS TARGETING 5 MILLION WOMEN ACROSS AFRICA BY 2018.

GiftedMom has trained and engaged over 200 medical students and community workers, and will reach 500 by the end of 2015, with the ultimate goal of training 30,000 students and health workers in the next two years.

Investment
GiftedMom received investment from ALN Ventures, a private equity fund founded by Alain Nteff, who is also the founder of GiftedMom. The program takes the form of a 9-month incubation program that includes a 2-week intensive business building workshop, a US$20,000 cash injection and a showcase at the annual African Leadership Network conference. The aim is to provide portfolio companies with the financing, skills, mentorship, network, exposure and support necessary to grow their businesses and receive larger scale financing.

The ALN relationship has been instrumental in helping to build a formal board of directors who ensure good governance, develop a sound business model and pitch decks, as well as obtain legal assistance and early stage financing.

The world is facing a crisis in terms of water availability and quality. Due to the transboundary nature of this resource, conflicts between countries over shared water resources are also beginning to occur and become geopolitically significant. Water is one of our most precious resources, yet one of the least valued in investment terms. As countries develop, water consumption patterns shift, and demand rises in relation to industrial capacity and changing lifestyles. By 2025, 70% of the world’s population will be living in water-stressed countries, spending up to 6 hours per day collecting often-contaminated water from local sources. In 2012, 2.5 billion people globally did not have access to improved sanitation services. In the African context, more than 800 million Africans do not have access to safe sanitation facilities. Inadequate sanitation is the second largest cause of disease in the world. Water resources development needs to continue; whilst water treatment to potable quality standards and the roll-out of improved sanitation services needs to be prioritised.

In emerging markets, underinvestment has plagued the water and sanitation industry, and critical upgrading of infrastructure, outside of efficient technologies, and expansion of system architecture has languished. However, over the last decade, increased privatization and new business models within the sector have opened up opportunities for institutional and individual investors. In Africa alone, the United Nations estimates that US$190 billion in public investment is needed to provide universal access to safe drinking water and basic sanitation.

The current global market for water is estimated at US$360 billion with an annual growth rate of 4-5%.

IV. WATER, HYGIENE, AND SANITATION

WASH FACTS

<table>
<thead>
<tr>
<th>WASH FACTS</th>
<th>AFRICA</th>
<th>SAHARAN AFRICA</th>
<th>IN SUB-SAHARAN AFRICA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population without access to safe drinking water:</td>
<td>40%</td>
<td>41%</td>
<td>39%</td>
</tr>
<tr>
<td>Population without access to improved sanitation facilities:</td>
<td>69%</td>
<td>76%</td>
<td>64%</td>
</tr>
<tr>
<td>% of the population spending 1 hour or more per round trip to collect water:</td>
<td>25%</td>
<td>16%</td>
<td>33%</td>
</tr>
<tr>
<td>Number of hours/year spent collecting water:</td>
<td>400 BILLION</td>
<td>320 BILLION</td>
<td>360 BILLION</td>
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<td>GIFTEDMOM</td>
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Overview
Sanergy provides a sustainable, dignified sanitation solution in informal settlements throughout Nairobi. Sanergy designs and manufactures low-cost, high-quality Fresh Life Toilets (FLTs) with easily manageable waste cartridges. Waste cartridges from the sanitation units are collected by Sanergy on a regular basis and transported to a centralised facility for treatment and re-use. Waste is then recycled and used to produce organic fertilizer and insect-based animal feed, which are both in short supply in Kenya.

Business and Impact Model
Sanergy operates through a franchise network of Fresh Life Operators (FLOs) who maintain and operate the FLTs across Nairobi. The FLOs are micro-entrepreneurs who purchase the FLTs with interest-free loans available through Sanergy’s partnership with Kiva, an online microlending program.

Investment
Sanergy’s end-to-end solution integrates the entire value chain to provide a sustainable solution. Residents can pay per single use of the FLTs or for weekly or monthly subscriptions. Rates are competitive relative to other sanitation services offered in the informal settlements while the quality of the FLTs is of a much higher hygiene standard.

Acumen has also provided technical assistance grants that have helped Sanergy to undertake important market research for parts of their model, such as the branding and marketing of fertilizer. Acumen has built a network of corporate partners, such as Dow and SAP, who have provided networks, insights, mentors and leadership courses. In addition, based on the success of their pilot program, team Sanergy raised $5 million in venture capital and in grants from the Bill & Melinda Gates Foundation, among other development organizations.

AFRICA HAS AN ESTIMATED US$190 BILLION NEED FOR PUBLIC INVESTMENT TO PROVIDE UNIVERSAL ACCESS TO SAFE DRINKING WATER AND BASIC SANITATION

Investment opportunities can be divided into those that increase efficiency of water use and those that ensure access to safe water and adequate sanitation services. Investments in greater efficiency focus on addressing the agricultural sector as the largest user of water supplies. Investments in improved water provision either concentrate on the expansion of infrastructure with the aim of moving more households onto centralized systems, or distribution of “off-grid” solutions. Equally important is ensuring that investment is coupled with technical assistance and community education so that infrastructure and services are appropriately utilized and maintained. Private investment in WASH also requires financial and business models that ensure that incentives are aligned and returns gained.

THE INVESTMENT IS INTENDED TO GROW OPERATIONS TO THOUSANDS OF TOILETS, SERVICING HUNDREDS OF THOUSANDS OF CUSTOMERS DAILY.
Energy is crucial for economic and social development, yet over 1.2 billion people still lack access to electricity worldwide. Only seven Sub Saharan African countries have electricity access rates greater than 50%, and the rest of the region has access rates of just 20% on average. Demand for power continues to outstrip availability and the situation is expected to worsen due to significant population growth, which is expected to double by 2050.

In Africa, 600 million people lack access to electricity which is half of the global population.

Countries with less than 80% access to energy have consistently lower GDP per capita. Electricity consumption and economic growth are also highly correlated, and development without a step change in consumption rates is considered impossible. Most of Sub Saharan Africa’s electricity is fossil-fuel produced, an expensive method of generating power which also has adverse effects on the environment. Furthermore, in many countries outside of South Africa, the commercial, industrial and residential sectors rely on diesel-powered generators, which is four times more costly than grid power. This high cost of energy makes Sub Saharan Africa’s industries far less competitive than they could be with access to cheaper power. Despite the challenges of the current energy crisis, the region boasts tremendous capacity for power generation, and much of it is in the form of renewable energy. The vast majority of this potential comes from solar (with a staggering 11 TW in capacity), with substantial contributions from wind and hydro. Natural gas is also a large potential source of energy, which, although also non-renewable, provides fewer greenhouse gases than coal or oil.

It is estimated that by 2040, the demand for electricity in Sub Saharan Africa will have increased four times from 2010 consumption levels.

Energy is also made through the development of companies and investment in renewable energy sources, which will likely provide the most balanced approach to ensure supply, access, and affordability for all Africans. People living off the grid in Sub-Saharan African spend over USD 15 billion annually on lighting and mobile charging. For those living off-grid, people need diesel-powered generators, and households to access full electricity service. Aside from industrial consumption, which accounts for half of energy usage in Africa, residential connection presents huge challenges. Rural, disparate populations make connection to the national grid prohibitively expensive. Distributed, off-grid, renewable sources for households, schools and small businesses in rural areas may be among the most cost-effective and easily penetrable solutions for overcoming the lack of access for the hardest-to-reach populations.

Finally, large-scale cooperation between governments, regional bodies and private sector players is needed to produce the best outcomes in the energy sector, including environmental impact, investment opportunities in renewables and clean technology generally aim to either increase the production of power or solve the distribution challenge. The bulk of investment will likely come in the form of mega-projects which will create the infrastructure for power generation and distribution. Some international bodies, including the United Nations and the International Energy Agency, are promoting an integrated African supergrid, which would promote sustainable energy and reduce costs by up to 30% in some countries. Investment in grid capacity is usually done with private-sector financing via models such as public-private partnerships and contracts with independent power producers. South Africa’s Renewable Energy Independent Power Producer Programme is a recent example of a successful partnership between government and the private sector to roll-out renewable energy projects.

Beyond production lies the challenge of distribution. Being able to connect to high-voltage power from the main grid is the critical link for industry and households to access full electricity service. Aside from industrial consumption, which accounts for half of energy usage in Africa, residential connection
M-KOPA SOLAR

Overview
M-KOPA Solar is on a mission to make high quality energy accessible to everyone. The company develops, manufactures, and finances off-grid solar solutions that make solar power affordable for low-income households. In the markets where M-KOPA operates, the majority of households rely on kerosene for lighting without access to the national electricity grid. Kerosene is harmful to health and the environment, with a high risk of fire. M-KOPA offers a low-cost alternative that provides clean, reliable energy for lighting and powering homes.

Business and Impact Model
M-KOPA sells solar products to low-income households on a pay-per-use installment plan. M-KOPA’s proprietary platform, which requires no installation, combines GSM technology with a solar power kit to allow installment and “pay-as-you-use” financing. The latest product design, the M-KOPA III, has an 8-watt solar panel, a battery, two LED lights with switches, a torch, a USB phone charger and a portable, solar-powered radio. Customers acquire solar systems for a small deposit (about US$35) and then purchase daily usage “credits” for US$0.45, or less than the price of traditional kerosene lighting. After one year of payments, customers own their solar systems outright and they can use the system for free or upgrade to more power. M-KOPA distributes its product through a network of 1,500 direct sales agents, supported by 85 customer service centers. Repayment rates are 95 percent, and a study in 2014 revealed that 97 percent of households using M-KOPA’s solar system reported that they were saving money compared to the previous use of kerosene.

Investment
In 2014, Commercial Bank of Africa fronted a US$10 million commercial-grade syndicated debt facility as part of a US$20 million funding round. This investment marked the first time that a commercial loan was secured through mobile money provider M-PESA receivables and unique in that the loan book consisted of low-income borrowers, many without bank accounts. Lenders included the Bill and Melinda Gates Foundation, LGT Venture Philanthropy, Imprint Capital and the Netri Foundation. The funding was part of an expansion to reach one million homes by 2018. To date, M-KOPA has raised ~USD $45 million in total equity funding and debt financing.

As of July 2016, M-KOPA has connected over 400,000 homes to affordable solar power. This allows M-KOPA’s customers to enjoy 50 million hours of kerosene-free lighting per month.

Agriculture is one of the oldest industries in the world and perhaps one of the easiest to understand: investment in agriculture is, in many ways, a simple economic case of supply and demand. As the world population continues to grow, there is increasing demand for food. At the same time, arable land is decreasing as the world population becomes more urbanized. Food demand thus increases at a faster pace than population growth, since dietary patterns shift as incomes increase. Demand for certain crops have also increased due to advances in biofuel technology.

Therefore, investments in agriculture of ten follow the pattern of investing in increased capacity for food production, or in the services and technology that increase food production. However, there are unique risks associated with agricultural investment. Short-term investments are subject to weather, commodity prices, environmental considerations, and dietary fads; long-term investments, particularly those in emerging markets, are subject to political risk if land ownership is under dispute.

According to the United Nations Food and Agriculture Organisation (FAO), investing in agriculture “is one of the most important and effective strategies for economic growth and poverty reduction in rural areas” and “GDP growth in agriculture...is twice as effective in reducing poverty as growth originating in other sectors.” However, investing in agriculture with a lens toward basic livelihoods is as much a question of how as how much.

Investment in agricultural productivity adds to food security in a variety of ways: increased food availability leads to lower prices, contributing to food accessibility by consumers, who then supplement with greater variety and better nutrition. Increases in world food stocks reduce susceptibility to supply shocks, and create greater stability worldwide.

Agriculture is also a fundamental source of employment, particularly in developing countries. As of 2009, agriculture employed over one billion people worldwide and these workers were far more likely to be poor, female and unskilled. Therefore, agricultural investment is a large driver of rural employment, which in turn generates further demand for goods and services in rural communities.
However, not all agricultural investment is beneficial to communities. In the last 10 years, increasing foreign direct investment has focused on acquiring prime agricultural land in poor countries to secure natural resources for export. This type of investment has been criticised in particular for decreasing the food security of local communities, relying on imported labour and technology, and not contributing to the sustainability of local economies. Investing in agriculture, therefore, needs to take into account both global and local perspectives, and provisions need to be put in place to ensure that livelihoods, particularly of rural and subsistence farmers, are secure.

“AGRICULTURE IS ALSO A FUNDAMENTAL SOURCE OF EMPLOYMENT, PARTICULARLY IN DEVELOPING COUNTRIES.”
The Vehicle

Trade credit financing for rural small and medium enterprises (SMEs) involves lending against purchase agreements between buyers and suppliers, thereby providing working capital that is well-timed to the harvest cycle.

Investees that need this kind of financing include cooperatives and private enterprises that aggregate small holder farmers and connect them to markets.

Smallholder organisations very often fall into what is known as the “missing middle”—too large for microfinance, but too small for traditional bank loans. There is significant social and environmental upside to investing in these businesses given the role they play in supporting rural communities, which make up 75% of the world’s poor (those living under US$2 a day). The World Bank estimates that growth in the agriculture sector is twice as effective at reducing poverty as growth in other sectors. These businesses provide stable access to markets, promote sustainable agricultural practices, build infrastructure and offer social services.

Root Capital is a non-profit agricultural lender that provides financing and capacity building to small, growing agricultural businesses operating in poor rural areas of Africa, Asia, and Latin America. The firm envisions a thriving financial market serving agricultural businesses that generate long-term social, economic and environmental sustainability for small-scale farmers and their communities around the world.

One Acre Fund is a non-profit institution that provides financing as well training and education to smallholder farmers in Eastern Africa. The organisation provides a complete set of services including asset-based financing, training on agricultural techniques, and market facilitation to maximize profits from harvest sales.

The next big thing for innovative finance is creating responsible and impact investing products for retail investors beyond high net worth individuals. There is a great opportunity to enable the average African’s retirement and savings to impact their communities.

**Impact Themes and Business Models**

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  - **Annie Patton**, Innovative Finance Lead
  - **Dr. Sue de Witt**, Senior Project Manager
  - **Stephanie Craig**, Impact Bond Intern
  - **Katusha de Villiers**, Senior Project Manager
  - **Tine Fisker Henrikson**, Senior Project Manager
  - **Tseanke Ngoepe**, Impact Investment Analyst

**CASE STUDY**

**USE OF TRADE CREDIT FOR RURAL SMES/ ROOT CAPITAL**

**The Vehicle**

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**Innovating Finance**

**Hear from Some of the Team**

**Annie Patton**, Innovative Finance Lead

“I think the “next big thing” is going to be the de-risking aspect of Innovative Finance. There is so much potential beyond guarantee funds and first loss facilities - the sky is the limit for what we can co-create with funders and fundees. It will be about understanding the real risk / return / impact sensitivities of funders and carving out pieces of funding that fit those preferences.”

**Dr. Sue de Witt**, Senior Project Manager

“I am inspired by the example of people working in really difficult and deprived circumstances, and yet finding the internal capacity and empathy to care for their communities.”

**Stephanie Craig**, Impact Bond Intern

“I am inspired by the opportunity to wake up every day, challenge the status quo and actively work towards addressing Africa’s pressing social issues by overcoming inefficiencies in the market system. I am hopeful about the possibility of using practical, commercial solutions to bring about the sustainable development of South Africa so desperately needs and I am grateful to have a chance to be part of the change.”

**Katusha de Villiers**, Senior Project Manager

“One of the most exciting things about working in the innovative finance space, and within social innovation in general, is having a front-row seat to seeing how smart problem-solvers are inspired, and challenged, and encouraged by one another in practical ways to come up with creative solutions to pressing needs.”

**Tine Fisker Henrikson**, Senior Project Manager

“One of the next frontiers in impact investing and innovative finance is the opportunity for ordinary investors to partake. Whether that’s through impact investing funds for social enterprises in your local community, through listed impact investing funds, or through online lending platforms focused on high impact enterprises. It’s exciting to be working with change-makers making the happen on a daily basis.”

**Tseanke Ngoepe**, Impact Investment Analyst

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In its purest form, debt is money loaned to an organisation. Just like a normal bank loan made to a business or individual, the investor aims to get their money back plus interest. Small and medium-sized enterprises (SMEs) and entrepreneurs are often heavily reliant on traditional debt to fulfill their start-up, cash flow and investment needs. However, organisations that prioritize social impact can be considered less attractive to traditional banks or investors due to their return expectations and risk requirements.

Difficulties predicting future cash flow from sales, the level of return on investment per product or service sold, a lack of customer credit history and, in many cases, the informal economy within which these businesses often operate, mean they struggle to access finance. Alternatives to straight debt financing are emerging to better fill the “financing gap” that social impact organisations and other innovative SMEs face when trying to raise debt finance for their projects. As investors start to think more creatively, it becomes apparent that there are many variations on traditional loan terms that can be used to enable social impact organisations to access debt.

For example, investors can play with repayment timelines and interest rates. If an organisation is able, they would get a normal loan with a standard interest rate. However, loans could be set up with longer timelines or lower interest rates, or indeed, no interest rates at all. The latter make a loan favourable to the organisation, meaning the investor prioritises social return (impact) as well as financial return (profit).

Loans may also be guaranteed if made by another institution, such as a local bank. This means that if the organisation getting the loan can’t repay, the investor guarantees that they will pay it back. This happens because organisations that prioritise social return as well as financial return are generally perceived as riskier, and risky debt is more expensive. A guarantee reduces the risk, making the loan cheaper to the organisation. Reducing financing costs allows more money to go towards supporting impact objectives.

Traditional debt financing has further been influenced by the emergence of microfinancing, or the provision of financial services to individuals who are either operating at a low-income level or do not have access to traditional banking services; by venture debt, or financing provided by specialized banks or non-bank lenders; and by guarantee funds that provide some sort of contingent indemnity against loss. After all, when an organisation’s primary goal is effectuating social impact, it needs to be able to rely on a financial system that understands the intangibility associated with such “risky” operations and encourages innovative investment in projects that have the potential to create sustainable economic growth in emerging economies, improve access to health and education, and positively impact job creation and poverty alleviation.
Microfinance and other financial inclusion services

According to a recent study by McKinsey & Company, “80% of Sub-Saharan Africa’s adult population doesn’t use formal banks or semiformal microfinance institutions to save or borrow money—the highest such proportion in the world.”

While most adults cited lack of revenue as the primary hurdle, cost, distance and documentation were also frequently mentioned as barriers to formal accounts. Yet, accessing financial services is critical to integrate low-income people into the formal economy. Accessing financial services is a primary form of savings among a large percentage of the bottom of the pyramid population. This includes South Africa, where it is estimated that half of the black population belongs to a type of stickel and Ghana, where 80% is the traditional lending system. Inclusive finance has yet to prove its effectiveness in alleviating poverty, but it has come to be seen as a critical tool in mobilising other developmental services that can lift people out of poverty. In the 1970’s, when Muhammad Yunus started loaning small amounts to the Bangladeshi men and women he met near Chittagong University, he recognised that there was a financial opportunity as well as the social impact opportunity presented by allowing these BOP consumers to access credit.

In many countries these member-owned organisations, which often resemble lending circles or rotational savings and credit associations (ROSCAs), are a primary form of savings among a large percentage of the bottom of the pyramid population. This includes South Africa, where it is estimated that half of the black population belongs to a type of stickel and Ghana, where 80% is the traditional lending system. Inclusive finance has yet to prove its effectiveness in alleviating poverty, but it has come to be seen as a critical tool in mobilising other developmental services that can lift people out of poverty.

The term “inclusive finance” comprises a wide range of products and services. These include microfinance and microcredit as well as savings, insurance and fund transfers. Microfinance providers also include a diverse set of players, including informal financial services providers, member-owned organisations, NGOs, and formal financial institutions. Microfinance relies upon the lowering of risks and costs associated with administering small transactions. Ways in which this is done include the combining of purchases or provision of training and capacity building alongside the financing of an income generating asset. The application of mobile technology, through mobile payments and transfers, branchless banking, and administrative support, has begun to revolutionise the sector, resulting in the “brick and mortar” costs that have traditionally been associated with financial services.

Since then, microfinance and related inclusive financial services have been at the forefront of social development. By taking traditional processes and adapting them for BOP consumers, microfinance pioneers extended an established service to a new market and new participants. The term “microfinance” comprises a wide range of products and services. These include microcredit as well as savings, insurance and fund transfers. Microfinance providers also include a diverse set of players, including informal financial services providers, member-owned organisations, NGOs, and formal financial institutions. Microfinance relies upon the lowering of risks and costs associated with administering small transactions. Ways in which this is done include the combining of purchases or provision of training and capacity building alongside the financing of an income generating asset. The application of mobile technology, through mobile payments and transfers, branchless banking, and administrative support, has begun to revolutionise the sector, resulting in the “brick and mortar” costs that have traditionally been associated with financial services.

40% of Africans own a mobile phone, and Africa leads in the development of mobile banking services, with 64 million subscribers using mobile payment services.

Africa is a growth market for microfinance investment. Growing by 46% (2009) compared to a global growth of 22%.

Foreign investment in African inclusive finance institutions is growing, although for the sector to become and remain truly robust, it is necessary for there to be an infusion of private investment. Microfinance companies in Sub-Saharan Africa rely heavily on short-term deposits to fund operations, and institutions find it difficult to finance growth. Investment in African inclusive finance space can be challenging, as markets are generally smaller than in other regions and it is difficult for investors to meet their thresholds. Additionally, lack of infrastructure and a weak regulatory environment is a barrier for foreign investors. However, the potential for inclusive innovative financing solutions remains positive. The sector is ripe for innovation and private investment can be a potentially catalytic force as it is used to mobilise great investment through private sector funders.

In Sub-Saharan Africa, microfinance serves a growing population, boasting an estimated 16.5 million depositors and 6.5 million borrowers.

In the social impact opportunity presented by allowing these BOP consumers to access credit.

Photographer: Lindi van Niekerk, 2015

According to a recent study by McKinsey & Company, “80% of Sub-Saharan Africa’s adult population doesn’t use formal banks or semiformal microfinance institutions to save or borrow money—the highest such proportion in the world.”

While most adults cited lack of revenue as the primary hurdle, cost, distance and documentation were also frequently mentioned as barriers to formal accounts. Yet, accessing financial services is critical to integrate low-income people into the formal economy. Accessing financial services is a primary form of savings among a large percentage of the bottom of the pyramid population. This includes South Africa, where it is estimated that half of the black population belongs to a type of stickel and Ghana, where 80% is the traditional lending system. Inclusive finance has yet to prove its effectiveness in alleviating poverty, but it has come to be seen as a critical tool in mobilising other developmental services that can lift people out of poverty. In the 1970’s, when Muhammad Yunus started loaning small amounts to the Bangladeshi men and women he met near Chittagong University, he recognised that there was a financial opportunity as well as the social impact opportunity presented by allowing these BOP consumers to access credit.

In many countries these member-owned organisations, which often resemble lending circles or rotational savings and credit associations (ROSCAs), are a primary form of savings among a large percentage of the bottom of the pyramid population. This includes South Africa, where it is estimated that half of the black population belongs to a type of stickel and Ghana, where 80% is the traditional lending system. Inclusive finance has yet to prove its effectiveness in alleviating poverty, but it has come to be seen as a critical tool in mobilising other developmental services that can lift people out of poverty. In the 1970’s, when Muhammad Yunus started loaning small amounts to the Bangladeshi men and women he met near Chittagong University, he recognised that there was a financial opportunity as well as the social impact opportunity presented by allowing these BOP consumers to access credit.

The term “inclusive finance” comprises a wide range of products and services. These include microfinance and microcredit as well as savings, insurance and fund transfers. Microfinance providers also include a diverse set of players, including informal financial services providers, member-owned organisations, NGOs, and formal financial institutions. Microfinance relies upon the lowering of risks and costs associated with administering small transactions. Ways in which this is done include the combining of purchases or provision of training and capacity building alongside the financing of an income generating asset. The application of mobile technology, through mobile payments and transfers, branchless banking, and administrative support, has begun to revolutionise the sector, resulting in the “brick and mortar” costs that have traditionally been associated with financial services.

Since then, microfinance and related inclusive financial services have been at the forefront of social development. By taking traditional processes and adapting them for BOP consumers, microfinance pioneers extended an established service to a new market and new participants. The term “microfinance” comprises a wide range of products and services. These include microcredit as well as savings, insurance and fund transfers. Microfinance providers also include a diverse set of players, including informal financial services providers, member-owned organisations, NGOs, and formal financial institutions. Microfinance relies upon the lowering of risks and costs associated with administering small transactions. Ways in which this is done include the combining of purchases or provision of training and capacity building alongside the financing of an income generating asset. The application of mobile technology, through mobile payments and transfers, branchless banking, and administrative support, has begun to revolutionise the sector, resulting in the “brick and mortar” costs that have traditionally been associated with financial services.

40% of Africans own a mobile phone, and Africa leads in the development of mobile banking services, with 64 million subscribers using mobile payment services.

Africa is a growth market for microfinance investment. Growing by 46% (2009) compared to a global growth of 22%.

Foreign investment in African inclusive finance institutions is growing, although for the sector to become and remain truly robust, it is necessary for there to be an infusion of private investment. Microfinance companies in Sub-Saharan Africa rely heavily on short-term deposits to fund operations, and institutions find it difficult to finance growth. Investment in African inclusive finance space can be challenging, as markets are generally smaller than in other regions and it is difficult for investors to meet their thresholds. Additionally, lack of infrastructure and a weak regulatory environment is a barrier for foreign investors. However, the potential for inclusive innovative financing solutions remains positive. The sector is ripe for innovation and private investment can be a potentially catalytic force as it is used to mobilise great investment through private sector funders.

In Sub-Saharan Africa, microfinance serves a growing population, boasting an estimated 16.5 million depositors and 6.5 million borrowers.

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Venture debt

Venture debt is an extension of the venture capital (VC) ecosystem, and is a form of debt financing that is provided to venture-backed companies that struggle to access traditional debt financing.

A complement to equity financing, venture debt is generally structured as a three-year term loan (or series of loans), with warrants for company stock. Overall, venture debt is a form of "risk capital" that is less costly than equity when structured appropriately. This instrument is highly desirable in developing markets where start-ups lack access to affordable debt options. Venture debt allows for a sustainable impact on innovation, job creation and growth.

Venture debt extends the financial runway for early stage businesses in India, enabling them to hit their milestones and improve the quality of care they provide and reach more patients. And we are regularly innovating to obtain financing to scale operations.

One project to receive OPIC's $4,750,000 loan facility under the PI program is Pamiga S. A., which provides small loans to smallholder African farmers from Mali to Togo, so that they can purchase irrigation equipment to extend the growing season, increase yields and earn more income.

Five years ago, Pamiga started a micro-loan pilot program and found that by giving farmers the tools necessary to properly irrigate their crops – things like basic ground piping systems – they could use water more efficiently and continue to grow during the dry season. Increased access to irrigation equipment has not only increased the total volumes of food the farmers can produce but has enabled them to sell their food at higher prices than they would get during the rainy season when regional crops flood the local markets. Farmers have also used their other micro loans to expand their fields so they can increase their outputs.

Pamiga found that by giving farmers small loans to smallholder African farmers from Mali to Togo, so that they can purchase irrigation equipment to extend the growing season, increase yields and earn more income.

One project to receive OPIC's $4,750,000 loan facility to Pamiga through the PI program is expected to support more than 500 projects and $11 billion of investment in Africa. And we are regularly innovating our processes and products to better support some of the projects that will have a positive impact on people's lives.

In recent years, OPIC's Social Enterprise Finance team started noticing that some of the most promising applications for financing were coming from businesses that were smaller and younger than the typical OPIC client but nonetheless showed real promise for introducing a groundbreaking innovation that could make a significant, positive impact in people's lives.

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In simple terms, equity is ownership. Through an equity investment, the business raises funding by trading ownership for capital or other assets. The appeal for the investor is that if the company makes a profit, then so too does anyone with a portion of equity. The investor can also sell their shares later for profit. This type of financing is key for social impact focused companies that seek long-term investment, which is important when the goal is to sustain innovation, value creation and growth.

Equity finance refers to all financial resources that are provided to firms in return for an ownership interest. Equity investors participate in the entrepreneurial risk, as no security is provided by the investee company, and the investment return is entirely determined by the success of the firm. Not all equity is created equal, with different priorities going to different investors when time comes to pay dividends, depending on how the deals were set up. Investors may sell their shares in the firm, if a market exists, or they may get a share of the proceeds if the firm is sold. The main categories of equity finance are private equity and public equity. Whereas public equity comes from companies that are traded in some form of stock exchange, private equity investors provide capital to unlisted companies. Also, while public equity investors are not generally involved in the management of the company, private equity financiers provide advice or assist the owners or managers in the development of the firm.

There also exist informal sources of equity finance, which include family and friends. Indeed, for start-up companies, the amount of funds raised through these informal channels generally exceeds other types of venture financing, including in countries with a well-developed equity capital market, such as the US. Equity can be problematic for African start-ups as there are fewer options for listing on public exchanges or exiting, which is where traditional equity investors seek to make their returns. Finally, issues of ownership are often very important to African entrepreneurs and the idea of selling equity to an investor (particularly a foreign investor) is not always an attractive proposition. Therefore, traditional equity instruments need to be tweaked in order to better respond to non-traditional organisations, innovative companies, and entrepreneurs that need to take advantage of innovative social financing techniques.

Within the innovative finance sector, investors have responded to this need by diversifying their finance models. Sometimes, investors will work with quasi-equity, which refers to taking a share of the profits, but not a share of the ownership. Another model of alternative equity financing are business incubators, which aid emerging enterprises to survive the start-up phase and to develop into sustainable businesses. Finally, a cross-cutting financing model, which can be both debt and equity is patient. Patient capital refers to an investors willingness to have a long-term investment that would go beyond the traditional five to seven-year term, allowing impact enterprises a longer time horizon to grow and return capital to investors.

Quasi-equity Quasi-equity is debt that can appear as equity investments by, for instance, making use of flexible repayments.

In the social investment space, this is also often, but not exclusively, referred to as revenue-participation agreements. These are hybrid financial instruments that allow the investor or investor and investee to share the risk and reward of the enterprise more flexibly than debt. The investor obtains a right to a percentage share in the revenue of the enterprise, but does not take ownership shares. The payable amount is normally capped, either at twice the amount of the investment or at a certain time period.

The benefit of quasi-equity or a revenue-participation agreement is that the investee is not tied to a loan repayment schedule, which can be onerous on the cash flow for an early-stage social investment. Revenue participation agreements are generally considered applicable to social enterprises registered as both for-profit and NPOs, whereas equity investment is only available to for-profits. Social ventures often call for funders to increasingly explore receivable/revenue based debt, as an alternative to equity, especially because funding opportunities are limited in the space. A related quasi-equity structure is flexible ownership shares. The payable amount is normally capped, either at twice the amount of the investment or at a certain time period.

Business incubators Business incubators seek to assist entrepreneurs and early-stage enterprises to survive the start-up phase and to develop into operationally and financially self-sustaining businesses.

These accelerators generally offer access to funding, networking opportunities, business and technical assistance and access to facilities. Business incubation aims to ensure that these businesses develop into competitive and successful businesses, contributing positively to an emerging economy.

Business incubators have been in existence since the 1950’s, and it is currently estimated that there are more than 7,000 business incubators globally.
Incubators are founded and operated by diverse actors, including private businesses, development institutions, academic institutions, NPOs, government bodies and private individuals. Governments acknowledge the importance of small, medium micro-enterprises in creating sustainable economic growth in emerging economies due to the opportunities for job creation and poverty alleviation. Business incubation is a vehicle used to ensure that these businesses develop into competitive and successful businesses, which contributes positively to an emerging economy.

Notable African business incubators are South Africa’s The Innovation Hub which focuses on technology-intensive start-ups, RaizCorp, which provides business support to entrepreneurs and links them to corporate supply chains, and RLab’s Innovation Incubation who provides entrepreneurs with a shared space to develop their ideas. In Kenya, the iHub is a platform to integrate technology companies and investors while the organisation nurtures prototypes and pilot programs born from hackathons, open-design events, co-working desks, research and development, and social innovation activities. Finally, RLab’s provides an innovation incubation program for social entrepreneurs and provides seed funding for mobile and technology entrepreneurs.

Incubators seeking to run for-profit, equity-based models face considerable challenges, as sourcing fundable start-ups with exit opportunities proves difficult.

Other revenue models, including co-working spaces, technical assistance and business mentorship, can use fee revenue and donor funding to achieve sustainability. Overall, there is a strong need for further research to identify the strengths and weaknesses of various models, and ensure application of best practices across the sector.

Patient Capital

Patient capital, or long-term capital, exists in the space between venture capital and traditional philanthropy. It seeks to maximize social impact by sparking the creation of systems and markets that deliver services to the poor, by inspiring innovation and risk taking in investors and entrepreneurs.

Patient capital encourages investors to forgo short-term or quick profits in anticipation of long-term returns. It is characterized by a willingness to take on the financial risk for long-term returns, a willingness to forego maximum financial returns for social impact, and an unwillingness to sacrifice the needs of the end-user for the sake of stakeholders.

Patient capital is not a grant, but an investment in entrepreneurs who are actively engaged in market building within their communities. This means being passive recipients of aid. Many new enterprises or social impact organisations can fail by running out of time, or this can occur when investors expect a quick turnaround on returns or when lenders demand high interest rates. In contrast, patient capital allows for investment in long-term social impact and attracts investors who are driven by their mission, and who are committed to the prospect of investing in businesses, organisations, and people who can deliver social impact while also earning profits. Patient capital investment provides the space in which social entrepreneurs can work on and refine the perfect models for delivery of basic social services and goods.

In the field of social enterprise and entrepreneurship, it is oftentimes very difficult to arrive at a precise measurement for social and financial returns. It is a significant need for further research to identify the strengths and weaknesses of various social enterprises, and to determine how to plot a socially responsible exit.

Key players within the patient capital space include venture firms who fund companies with strong social missions – whether it is around poverty alleviation, health access, or access to energy – and which can deliver financial returns as well as social benefits. Social venture capitalists, nonprofit funds like the Acumen Fund, and social venture firms like Good Capital Lab that specializes in expansion capital, growth capital, and later-stage investments. The firm focuses its investments in the healthcare, education, and clean technology sectors, and prefers to invest in enterprises that create innovative, market-based solutions to inequality, poverty, and other social problems.

TO WATCH

Awwetu Project: Awwetu Project was founded in 2009 by Yusuf Pandara Rees. Awwetu identifies entrepreneurs from structurally-excluded groups in South Africa and partners with them in order to start small, medium and micro-ventures (SMMEs) with the aim to be competitive with the best in the world. Awwetu identifies promising entrepreneurs and business ideas separately, then flexibly matches people with ideas (both startups and acquisitions) and funding based on perceived capability and interest. Awwetu then pairs each venture with a professional manager and back-office support, which accelerates the entrepreneur through launch and growth.

Co-Creation Hub: Designed to be Nigeria’s first open living lab and pre-incubation space, the HUB is designed to be a multi-functional, multi-purpose space where work to catalyze creative social tech ventures take place. It functions as a place for technologists, social entrepreneurs, government, tech companies, impact investors and hackers in and around Lagos to co-create new solutions to the many social problems in Nigeria. Through partnership between citizens, social entrepreneurs, subject matter experts, businesses and public authorities, the HUB allows prototype testing of social innovations. An examples of this approach is The Social Innovation Camp Nigeria.

RLab’s Innovation Incubation: Founded by Mari Van Parker, RLab’s Living Labs Research Innovation Incubation focuses on reimagining the innovation ecosystem. The Lab is a platform to integrate technology companies and investors while the organisation nurtures prototypes and pilot programs born from hackathons, open-design events, co-working desks, research and development, and social innovation activities. Finally, RLab’s provides an innovation incubation program for social entrepreneurs and provides seed funding for mobile and technology entrepreneurs.

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The Tony Elumelu Entrepreneurship Programme (TEEP) is the flagship programme of the Tony Elumelu Foundation (TEF), which provides mentorship and seed capital to 10,000 entrepreneurs across the African continent on an annual basis. Mentorship is provided through an online portal and the entrepreneurs have access to three financing rounds, provided by the TEF. The programme is open to “young compelling businesses with strong market feasibility, clear financial models and run by capable teams.”

Grants may be characterized as traditional donations-style support, where money is given to a non-profit organisation, often for a specific project. They allow organisations to get it back, and they have no expectation of financial return (profit); instead, their only expectation is that there will be a social return or social impact. Grants can be occasionally refundable, or recoverable, and these may be thought of as no-interest loans.

However, even grants get a new spin in innovative finance, with different structures being played with to unlock funding where it has not been available before. For example, venture philanthropy utilises best practices from venture capital to grow social enterprises and organisations rather than just fund projects. Innovation life cycle funds seek to support non-profit or for-profit companies in their early stages so they can progress to later stages of funding from the same funder, and social impact bonds configure grants in different ways to focus on payment for outcomes rather than payment for activities.

### Venture Philanthropy

Venture philanthropy supports social ventures with both financial and technical support. These social ventures often have viable, self-generated income streams (whether they are profitable yet or not), but can also be more traditional NPOs/NGOs.

The fundamental objective of venture philanthropy is to achieve high social return, create eco-system change and enable NPOs and social enterprises to become sustainable. Venture philanthropists use a variety of instruments to support their projects including grant, equity, and debt. They generally only look for a return on their capital on a smaller subset of their portfolio, often extensively using grants and significant technical assistance to support their portfolio companies.

Three key characteristics from the venture philanthropy model include high engagement, organisational capacity-building, and multi-year support. High engagement requires a conscious, hands-on relationship between the social enterprise and the funder while organisational capacity-building allows for a focus on building the operational capacity of the portfolio organisations by funding core operating costs rather than individual projects. Finally, the model stresses multi-year support for a limited number of organisations—usually for 3 to 5 years—and then exiting when the organisations are financially or operationally sustainable.

Venture philanthropy can also be characterized by tailored, strategic financing to ensure the most appropriate financing for each organisation, be that grants, debt or equity. In addition, a strong systems focus allows for the development of interventions that address systems and sectors, rather than individual organisations or projects. It requires investment to be performance-based, placing emphasis on good business planning, measurable outcomes, achievement of milestones, and high levels of financial accountability. This type of model also places a high premium on innovation, and a culture where capability for innovation and experimentation is encouraged. Therefore, monitoring and evaluation is key as this allows for quick adaptation, and a focus on outcomes and impacts.

### Innovation Lifecycle Grants

As seen in venture philanthropy, a wide range of soft funders provide grants or seed capital from concept to growth stage and are increasingly using the rigor of venture capital to scale social ventures. An exciting new financial structure is sitting squarely between venture philanthropy and blended finance; by using grant capital, often public funds, Innovation Lifecycle Grants fund the journey of social ventures from proof of concept to scale.

By virtue of where and how they operate, some sectors, such as off-grid energy, will continue to need grant funding and concessional capital alongside better integration into the investment cycle. This concessional capital will likely be necessary for proof of concept for early-stage ventures, as well as opening up new, untested markets. For the latter, concessional capital is used to increase the expansion pace and provide incentives to go into harder to reach, high impact areas. One of the most impactful Innovation Lifecycle Grants, is USAID’s Development Innovation Ventures (DIV).

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**DEVELOPMENT INNOVATION VENTURES:**

- **Company Founded:**
  - **DIV Stage 1 for $100,000** grant and OPIC Africa Challenge Enterprise Fund
  - **DIV Stage 2 for $1 million grant**
  - **DIV Stage 3 for $5 million and raised $7 million in debt, $25 million in equity**

**INVESTMENT TIMELINE OF OFF-GRID ELECTRIC**

- **2011:**
  - **DIV**
  - **Company Founded**
- **2013:**
  - **DIV Stage 1 for $100,000 grant and OPIC Africa Challenge Enterprise Fund**
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**Photograph:** USAID / Irene Angwenyi, 2016.

**Photographer:**
- **Kenya: Power Africa**
- **Innovation Ventures (DIV).**
- **Photograph:**
  - **USAID in**
  - **DWEAKING OLD TOOLS: BEYOND DEBT AND EQUITY | 45**

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  - **DIV Stage 3 for $5 million and raised $7 million in debt, $25 million in equity**

**Photograph:** USAID / Irene Angwenyi, 2016.

**Photographer:**
- **Kenya: Power Africa**
- **Innovation Ventures (DIV).**
- **Photograph:**
  - **USAID in**
  - **DWEAKING OLD TOOLS: BEYOND DEBT AND EQUITY | 45**

**Venture Philanthropy**

- **Company Founded:**
  - **DIV Stage 1 for $100,000** grant and OPIC Africa Challenge Enterprise Fund
  - **DIV Stage 2 for $1 million grant**
  - **DIV Stage 3 for $5 million and raised $7 million in debt, $25 million in equity**

**INVESTMENT TIMELINE OF OFF-GRID ELECTRIC**

- **2011:**
  - **DIV**
  - **Company Founded**
- **2013:**
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Innovative Risk Management

By Ian Ross

If we are going to tweak “old tools” then let’s start with grace. I believe we can be the world’s first recorded innovative intervention in sustainable agriculture development. We go back 4766 years to 2750 BC.

According to ancient writings found on a Mesopotamian tablet, a farmer could not take care of his fields because he was drafted into the king’s army, so another farmer offered to work his fields. The two agreed to split the profit evenly. A local merchant served as the world’s first known surety (social impact insurer) by guaranteeing that the second farmer would keep his word.

We can only assume that in the absence of the surety provided by the merchant, the level of risk for the farmer about to depart in the King’s service was unacceptably high, perhaps he stood to lose his crop or even his farm. Although the second farmer was rewarded not for services rendered but by a share in the profits and so this is possibly one of the earliest, if not the first, pay for performance risk guarantees.

In today’s highly competitive and risk-averse environment, increasingly development agencies, philanthropists, financial institutions, corporate donors alike are willing to provide funding for important socially impactful endeavors, but only if and when a “merchant” or mechanism can be found to provide some form of surety or guarantee as to the outcome of performance. As in our ancient example one of the greatest impediments to implementation is an aversion to the perceived level of risk involved. This may take the form of pure financial risk as in the case of banks or financial institutions providing access to finance, or in the case of donor or development aid funding, reputational risk or simple performance risk.

All too often, as in our almost 5000-year-old example, whilst the implementers, emerging contractors, entrepreneurs, farmers or perhaps a well-respected NGO, have the track record and competence to see the project through, they have insufficient financial strength to guarantee outcomes. Whilst there are some new and exciting development mechanisms that seek to overcome this risk hurdle, such as Social Impact Bonds and other Pay for Performance mechanisms, which effectively provide the guarantee, financial risks are involved, there can be no doubt that more “merchants” are required to provide guarantees that can provide the comfort that investors and donors alike require in order to facilitate the flow of funding. It is from this need that the concept of Social Impact Insurance and HUGInsure was born.

Let’s return to our Mesopotamian example. There is an important take out in the description of the merchant providing the guarantee. The merchant is described as “local”. Why is this important? Well one reason may be that as a “local” he or she probably had some knowledge of the level and acceptability of the risk assumed, he knew the farmer and who knew perhaps he knew something about the local weather and the crops and planting seasons. By examining our merchant and his willingness to provide a guarantee we introduce an old but important element to any risk scenario and that is “Risk Management”. Here we refer to risk management in the broader sense including detailed knowledge of the environment, the project, the people, the risks and the expected outcomes.

We see a need brought about by circumstance beyond the individual or communities but it is a constant requirement, the King’s service. We see competent and willing participants (NGO’s) capable of addressing the need, but lacking the financial resources, the people, the risks and the expected outcomes.

In so many of the development opportunities that abound in this era of great social need, we see circumstances similar to those presented in our Mesopotamian example.

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In so many of the development opportunities that abound in this era of great social need, we see circumstances similar to those presented in our Mesopotamian example.
Social impact insurance

Social Impact Insurance is an insurance platform, which originated in recognition of the need for potential investors and financial institutions to measure the risk attached to social impact projects or social impact organisations.

It aims to provide risk mitigation products and services to address the challenges faced within the social impact industry, which hinders the flow of financing within the social impact value chain. It does this by: (i) enhancing their credit worthiness so as to attract more funding; (ii) accelerating or stabilising funding flows; and/or (iii) protecting people, processes and assets within these organisations against challenges that may otherwise hamper success to the detriment of society. Examples of some of the challenges experienced include the limited size of funding made available by funders due to the difficulties experienced in measuring the risk attached to a project, and the limited availability of risk mitigating products to the social impact industry.

This also allows social enterprises to insure themselves against shocks such as delayed government payments. Social impact insurance therefore acts as a catalyst to ensure the timely availability of capital for social impact projects.

Key players within the social impact insurance field include HUGinsure, which was launched in 2013 as the world’s first social impact insurance platform. Other key players in this space include government programmes, such as the USAID Development Credit Authority, which uses risk sharing methods to assist in getting local private capital available to projects which may not usually have access to funding. The United Nations launched the Pledge Guarantee for Health, another example of a public-private partnership within the social impact financing industry with a focus on the availability of health commodities.

Social impact insurance is still in its nascent, with risk sharing methods within the social impact financing industry. Examples of some of the challenges experienced include the limited size of funding made available by funders due to the difficulties experienced in measuring the risk attached to a project, and the limited availability of risk mitigating products to the social impact industry.

Social impact insurance increases the ability of funders to fund projects where the risk is unknown or exceptionally high by utilising risk mitigation tools and ultimately insurance to increase predictability of outcomes.

Social impact insurance acts as a catalyst to ensure the timely availability of capital for social impact projects.
In September 2015, political leaders from around the world agreed to focus efforts on a new set of development aims known as the Sustainable Development Goals (SDGs). The 17 SDGs set 169 targets across a host of areas, such as access to quality education, the provision of adequate healthcare and promoting gender equality. This is a significant increase in terms of numbers when compared to the Millennium Development Goals (MDGs), of which there were only 8 with 18 associated targets.

Blended finance came about in response to this issue. Blended finance is a development finance model that combines concessional loans or grants, usually provided by the public sector, with private investment. It aims to allocate the development funding constraint by de-risking investment into the sector and directing more private capital towards projects or geographies that would otherwise be perceived as too risky for traditional investors. It thus turns impactful outcomes into commercially viable ones by subsidising the critical early stage phase, and creating economic stability by strengthening the private sector and enhancing the use of aid. Whilst blended finance creates public-private partnerships that add to the much-needed pool of development finance targeting social, environmental and health related objectives, it also aims to achieve commercial sustainability and market-rate returns.

Excitement around the potential of the concept to attract private funding is driving significant amounts of money into development financing institutions (DFIs) for the creation of appropriate blended financing structures. Furthermore, blended finance is being applied in a variety of sectors. The Danish Climate Investment Fund has a US$175 million blended finance fund to support climate-related projects in the developing world and the Global Agriculture & Food Security Program, managed by the IFC, has a blended finance fund targeted at smallholder farmers & SMMEs. This fund is able to raise US$ of public funding for every US$1 of public funding invested. Gender equality is also being addressed through blended finance, with the IFC-Goldman Sachs’ Women Entrepreneurs Opportunity Facility combining public and private capital to expand financing opportunities to SMME business women. Blended finance as a practice has significant room for scalability, which will help to legitimise the approach and bring more private funders on board. However, a possible risk that must be addressed is the perception that private investors are being subsidised by donor grants, particularly if underlying projects and overall funds do not achieve targeted financial and impact returns. As blended finance gains ground, it also has the exciting potential to attract additional much-needed capital to frontier markets. Financial markets across the world have merely scratched the surface of blended finance’s potential, and this innovative financial mechanism looks set to generate significant amounts of development funding for years to come.
TO WATCH:
Thundafund:
Thundafund was founded by Patrick Schofield in South Africa in 2013 as an online channel through which creative entrepreneurs can access capital and establish an initial market for their products or services. Thundafund combines financing with business mentorship, giving businesses the support to create an online proposal that is compelling and effective. Each project offers “in-kind” rewards to financial backers, usually in the form of products or services and must reach specified milestones to achieve funding goals. Projects include UCT Upstarts and Siyafunda, a book designed for children who are learning isiZulu at primary level.

M-Changa:
Launched in Kenya in 2012, M-Changa allows users to manage crowdfunding via mobile technology. Linking into the practice of “Hararee”, the M-Changa service encourages accountability between donors and beneficiaries, by making fundraising management easy and transparent. Projects funded include GreenChar, a social enterprise that makes from revitalized agricultural wastes and distributes clean cookstoves.

StartMe:
The South African StartMe was founded in 2011, and has been designed in a way for entrepreneurs, artists, schools, and community fundraisers to utilize a crowdfunding platform to raise funding for other initiatives. Via PayFast, anyone in South Africa – or in the world – can raise funding for a project.

II. SOCIAL FUNDRAISING AND CROWDFUNDING

For as long as church bake sales and charity car washes have been around, social fundraising has permeated societies across the world in many different forms. Communities and individuals often unite around a specific cause or event, and pursue creative means of fundraising to achieve a related set of objectives.

For example, the Statue of Liberty was in fact completed through social fundraising efforts when the project ran out of money and the New York government refused to cover the shortfall. Going even further back, in 1783 Mozart engaged in social fundraising around three concerts he wanted to perform and offered to share his sheet music with donors who assisted him financially. Across Africa, rich examples of communities supporting the development of new enterprises and ideas can be found by examining the practices of savings and investments clubs, like the stickwells of South Africa and the Savings and Credit Cooperative Organisations in Kenya.

Fast forward to present day and this phenomenon has been greatly bolstered by the advent of the internet, which allows fundraising initiatives to reach larger amounts of people than ever before. The power of online social fundraising lies in the fact that it enables fundraisers to cut out middlemen, such as banking institutions, and appeal to their target audience directly.

Crowdfunding is the practice of funding a project or idea by raising capital from a large number of people, usually through online platforms. The first successful example of this, dubbed “the inception of modern day crowdfunding”, occurred in 1997 when a British rock band, Marillion, decided to fundraise for a reunion tour through America via an online donation platform. This led to the establishment of ArtistShare – an online, crowdfunding platform dedicated towards assisting artists fund their work.

Since then, numerous other platforms have emerged, as the social fundraising sector continues to grow.

The world’s largest funding platforms are Kickstarter and Indiegogo, along with Seedrs and Crowdfunder, all founded between 2007-2011. In Africa, crowdfunding platforms include Kiva, an international platform, and Thundafund and StartMe, both based in South Africa. These crowdfunding business models often vary in terms of repayment: some models utilise “reward” products or services as compensation, while others use interest-bearing or equity structures to compensate investors.

Consequently, the crowdfunding industry now encompasses a multi-billion dollar industry. In the United States, the Jumpstart Our Business Startups (JOBS) Act was signed into law in 2012, opening up the early stage equity marketplace to individual investors, an arena that was once only reserved for accredited (high net worth) investors. This act highlights the importance that different players, from government to business, are placing on crowdfunding platforms and how barriers to inclusion are being lowered. Major businesses are now incorporating crowdfunding into their programming, from Reddit allowing its users to crowdfund projects on its website to online giants, such as Amazon, incorporating retail versions of crowdfunding to allow multiple people to pay for items.

No longer situated solely in the realm of individual pet projects or charitable causes, social fundraising’s growth has cemented its place as a mainstream activity in the financial world. As more NGOs and corporates become aware of its power to not only generate funding but also strengthen brand awareness and customer engagement, its popularity and application continues to expand. Social Fundraising thus looks set to stay and will surely continue to evolve in line with the latest technological trends.
Peer-to-peer lending (P2P lending) is an alternative financial service that involves lending money directly to peers, or unrelated individuals, without the intermediary assistance of a bank or financial institution. As a form of social fundraising, peer-to-peer lending allows fundraisers to cut out the middleman and appeal to their target audience directly. Most peer-to-peer loans are unsecured (not backed or guaranteed by assets), meaning more people can access them, and can provide borrowers with better terms than they typically would get elsewhere.

P2P lending services normally operate in online marketplaces, which bring together lenders and borrowers. These marketplaces also provide additional services to facilitate lending, such as credit verifications, lending models and payment processing. Interest rates and repayment terms are set by various methods, including reverse auction. P2P lending companies typically charge fees on loans to generate revenue, while lenders generate income through interest.

The first notable company operating a P2P lending model was Zopa in the United Kingdom, which was founded in 2005. This was followed in 2006 by Prosper and Lending Club in the US. In Africa, P2P lenders include Prodigy Finance, RainFin, and Lendico. Zidisha is the first global P2P lender, and is managed by a nonprofit organisation in the US.

The P2P lending model continues to evolve, including the emergence of oversight by regulatory agencies. In the United States, P2P lenders have been required to register as securities, which has tightened the market to a certain degree. However, the formalisation of the practice has also allowed for an increase in liquidity for investors. Prosper and Lending Club, for example, have formed partnerships to create a secondary market for the notes associated with their loans. Additional trends in P2P lending are the entrance of traditional banks as investors and the set-up of provision funds, which safeguard lenders from borrower default.
Global remittances from individuals in foreign countries to their home communities are not a new phenomenon: by the end of 2017, they are projected to represent US$603 billion of foreign capital inflows. However, other than direct remittances sent to family members, members of the diaspora are confronted by multiple barriers in directing capital to their home countries, such as lack of information, transparency, and legal issues. There has been an increasing interest among development organisations and aid agencies in harnessing the financial resources of various global migrants to fund development needs in their countries of origin or heritage.

When referring to the African diaspora, it is important to remember that these are people living in a community outside their shared country of origin who still maintain strong ties to their homelands or ancestral communities. These complex and ever-changing communities typically manifest the strong desire to invest back home.

Diaspora funding platforms were thus developed to provide a way for the diaspora to invest impactfully in their home countries. Diaspora funding platforms were thus developed to provide a way for the diaspora to invest impactfully in their home countries. Diaspora funding platforms, typically set up as online portals, provide effective and efficient avenues to connect diaspora to investment opportunities, providing a structured, transparent and reliable way for the diaspora to invest in worthy ventures back home.

Dedicated diaspora investment platforms are still in the early stages of development and most are in pilot phase. Homestrings is the most recognised example of a publically available platform that is easily accessible to individual expats, while Ovamba (a Homestrings partner) target diaspora investors. Moreover, the Calvert Foundation is currently in the early stages of piloting its diaspora bonds in India and Latin America/Caribbean. Other supporting players include Developing Markets Associates, African Diaspora Marketplace, and the International Diaspora Engagement Alliance.

The African diaspora is a largely untapped resource for development finance purposes. Thus creating an investment vehicle for them holds great potential and is an opportunity to pool funds for (more) systemic change. The scope for diaspora investment growth is vast, with almost 140 million Africans living abroad who are able to contribute to investor-led growth within their home countries.

To Watch
Homestrings: Homestrings is a user-driven online investment platform that facilitates diaspora and other impact investing. It allows individuals and institutional investors to directly channel their capital towards initiatives in emerging markets. Homestrings has pre-selected funds, bonds and projects that meet strict selection criteria for investment. Investments target productive areas in the community of the investor’s choice and cover a range of sectors including infrastructure, health care, education, real estate, telecoms, transportation and small enterprises financing. The platform provides significant levels of transparency around what the diaspora are investing into and what their investments will be spent on.

LelapaFund: Inspired by African diaspora, the LelapaFund is dedicated to creating a niche investment platform focused on African companies and driven by the desire to tap into the potential posed by Africans living abroad who are able to contribute to investor-led growth within their home countries.

Photographer: Stuart Price, 2013. AMISOM

“THESE COMPLEX AND EVER-CHANGING COMMUNITIES TYPICALLY MANIFEST THE STRONG DESIRE TO INVEST BACK HOME.”
An outcomes based contract is an agreement between a funder and service provider whereby payments are contingent on the achievement of pre-agreed, measurable outcomes. This stands in contrast to a traditional contracting where funding is based on inputs and activities regardless of whether outcomes are achieved or not. These funders are typically governments, country donors, multilateral institutions and philanthropic foundations. The benefits would include paying only for what works which means that all stakeholders work intentionally and collaboratively toward that end. Learning is accelerated with short feedback loops and wasteful expenditure minimized. Instead of being tied to a set of inputs service providers are able to adapt their programmes according to real time data leading to bottom up innovation. It also drives down costs as providers, being assessed on the same basis, can create efficiencies within their own delivery models to outperform the competition.

THEORETICALLY, THIS SHIFT IN THINKING AND PRACTICE FROM COMPLIANCE TO PERFORMANCE SHOULD ENABLE POLICY MAKERS TO UNDERSTAND HOW MUCH SOCIAL OUTCOMES COST AND COMPARE THE COST EFFECTIVENESS OF DIFFERENT SERVICES CLAIMING TO ACHIEVE SIMILAR IMPACT.

Building on work done through the UK-based Big Society Capital, and its development of a fund of funds that has invested in social investment finance intermediaries with the goal building capacity and leveraging more capital into impact investing, the Bertha Centre and partners have designed a similar structure that has attracted its first tranche of grant funding.

The South African Government’s Jobs Fund has committed R100 million that will be distributed to three Impact Investing funds on the basis of jobs created. In other words, the recipient funds will need to invest their limited partners’ capital in order to create jobs at which time they can draw down from the grant facility. Once a track record has been established, the fund of funds is hoping to attract grant and investment capital from international development finance institutions as well as local institutional investors. In this way, public funds are used to not only de-risk investments into early growth stage businesses but also to leverage further funding looking for social returns. This would ultimately also serve to increase the co-ordination between capital committed to impact by creating hand-over mechanisms between early stage and growth capital providers.

Creating these linkages is key to the development of the impact investing industry, as it would contribute towards building a pipeline of investable social enterprises, a vital need if the industry is to continue on its growth path.

Design Process in Action

Concept: Pilot a new model for job and enterprise creation in priority areas by catalyzing private investment and strengthening SME sustainability while reducing risk to the Jobs Fund

The prototype model works as follows:

1. Design: The fund of funds supporting the prototype model would invest in different venture capital firms at different stages of development.

2. De-risk: Investing in an early stage fund would de-risk risk capital for the other funds.

3. Outcomes-based: The fund of funds would be paid as outcomes are achieved.

4. Market: The prototype model would test the ability to de-risk capital with the aim to scale up and measure impact.

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2. Impact Bonds

Impact Bonds have received an outsized amount of attention considering their contribution to results-based finance let alone development finance in general. With approximately 60 impact bonds launched in mainly developed countries, and 90 more in feasibility phase they account for less than a percent of this total spend.

They are one of the key pillars of the recent Global Social Impact Investment Steering Group particularly in view of their potential to drive significant amounts of non-traditional forms of capital into social outcomes. Currently they are used to fund predominantly employment, health, social welfare and criminal justice related outcomes but that is rapidly changing as they are being applied to problems such as the refugee crisis or climate change.

Impact Bonds are an alternate way of paying for outcomes as they are being applied to criminal justice related outcomes, education, health, social welfare and environmental problems, capital that would otherwise not have been brought into this space. The key for outcomes funders is to ensure they use these contracts to drive better results from existing services, bring together multiple stakeholders to tackle complex problems, trial new solutions or unlock savings. That outcome funder in South Africa and other middle income countries will likely be a mix of government and private donors, who are engaging with Impact Bonds in a portfolio of national, local and municipal pilots.

One of the key challenges the local market building efforts face is the lack of reliable data collection and the capacity of service providers to deliver on such contracts. The intermediation that has become a feature of Impact Bonds will be required in these early stages to help funders, service providers and investors navigate from feasibility to design right the way through the implementation.

To this end the Bertha Centre and Social Finance have been working with the Western Cape Provincial government to design a R45 million Impact Bond Fund addressing early childhood development. The fund has been set up to pay for 3 years of concept transfer to improve the achievement of education outcomes. The Bertha Centre is the first to be piloted in a developing country with a non-governmental organisation as outcomes funder, and is expected to enrol more girls in schools to improve their educational and wider outcomes, as well as improve the achievement of all students enrolled in government schools.

Impact Bond for Early Childhood Development

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WHERE DO WE GO FROM HERE?

Although groundbreaking work has been done in the innovative financing space for decades, it does seem as though we are at the beginning of a journey.

The magnitude of the issues and needs across every stratum of society can still appear overwhelming, and it seems obvious that development funding, government programs, philanthropic capital and mainstream markets cannot adequately address these issues in isolation. The great promise of Innovative Finance lies in harnessing all forms of capital to effectively address inequality, unemployment, access to basic services and renewable energy to create an inclusive economy. To fulfill this promise it will require new stakeholder partnerships of strange bedfellows, business model innovation, risk capital, failure, scale and the commitment of pioneers and traditionalists.

The Bertha Centre is committed to being a partner to organizations that are walking down this road through the creation of research and curriculum, policy and advocacy, and training. Through our work, we have adopted an ecosystem approach to building the innovative finance market. We collaborate knowledge on innovative financing from around the world and Africa, and distribute it freely to stakeholders across the market. We ideally private and public stakeholders through courses, workshops, events and conferences. And finally, we create opportunities for collaboration between public and private, government and NGOs, philanthropists and traditional financiers through the development of innovative financing products and multi-stakeholder partnerships.

We encourage you to use us as a resource on your own innovative finance journey. We look forward to walking this road with you.

If you’ve just finished this review and are wondering what the next steps for your organization to get involved, we have a few suggestions.

To get professional advice and training, consult with stakeholders.

Consult with stakeholders to become part of a network of similar entities innovating in this space.

Identify outcome areas that would be good pilots for innovative financing.

Try – Fail – Try again.

Speak with your peers.

IF YOU’RE A...

THEN YOU COULD...

GOVERNMENT

- Identify priority outcome areas linked to government priorities that might be good pilots for Innovative Financing
- Commission a policy paper on Innovative Financing to identify the ways in which your funding could be used to leverage private capital in those areas
- Hold workshops with stakeholders to understand how Innovative Financing mechanisms (including outcomes based funding) could meet needs

FOUNDATION

- Seek out other foundations that have used Innovative Financing mechanisms to understand their experience and potentially partner with them
- Have discussions with grantees around how innovative financing mechanisms might help them scale

HIGH-NET-WORTH INDIVIDUAL

- Identify and speak with other families that have created Innovative Financing strategies
- Find a wealth advisor that offers impact strategies for your portfolio

CORPORATION

- Explore how your CSI could start employing innovative financing instead of donations
- Include the idea of innovative financing in strategy discussions

INSTITUTIONAL INVESTOR

- Review your portfolio for current ESG and sustainable investments
- Find a wealth advisor or tell your current advisors you would like to see impact options to review
- Consult with members of your funds to determine their priorities in their communities

SERVICE PROVIDER

- Seek out peer organizations that have used forms of Innovative Finance and learn from their experience
- Identify your capital needs as well as your underutilized assets
- Create a sustainability plan
- Speak to current funders about potential forms of financing

UNIVERSITY

- Conduct research into innovative financing
- Engage stakeholders through workshops and meetings to identify where more research is needed
- Create an innovative finance course for students
Blended Value Investing

Blended Value is a financial development model that combines non-financial and financial value to address development challenges that cannot otherwise be perceived as too risky for traditional for-profits. This type of investment seeks both financial and social returns, also emphasizes financial protection, helping to mobilise more private investment.

Blended Value

Blended Value (BV) is the concept of blending an organisation’s financial and non-financial value to maximise its impact. It is a way of improving the social or environmental value of a business, in addition to its focus on social or environmental value – it is “financially indivisible.”

Bond

A security evidencing the issuer’s obligation to repay a specified principal amount in a date certain (maturity date), together with interest earned at a stated rate or according to a formula for determining the interest rate. Bonds are distinguishable from notes, which have a much shorter period of time as to when the sum must be repaid.

Business Incubators

Business incubators assist emerging businesses to survive the start-up phase by providing networking opportunities, access to technical and administrative assistance and access to facilities. Business incubation is the vehicle used to ensure that SMEs develop into competitive and successful businesses, which contributes positively to an emerging economy.

Carbon Funds

A carbon fund is an intermediary that purchases untapped greenhouse gas emission credits from low carbon projects in developing countries and sells them to governments or private companies in developed countries. Members of the carbon fund in the tropics are allocated a share of the credits according to the degree to which they reduce the impact of deforestation on their rural and/or informal areas. Community health insurance is a way of lowering the impact of deforestation on their rural and/or informal areas. Community health insurance is a way of lowering the impact of deforestation on their rural and/or informal areas.

Challenge Fund

A challenge fund is a simple financing mechanism to allocate funds. Its core feature is the open and competitive application process, providing a limited window of time. Applications are a limited number of applications that give the opportunity to the potential of social and long-term impact.

Credit Enhancement

Credit enhancement is the process of setting up letters of credit, lines of credit, loan guarantees, debt service reserves, and debt-equity structures - that improve the credit quality and underpinning financial commitments. This strategy helps to lower the cost of fund raising and therefore improves the marketability and liquidity of bond issues.

Crowdfunding

Crowdfunding is the practice of funding a project or idea by raising money online from a large number of people, usually through online platforms.

Debt

This is money loaned to an organisation in exchange for a share of the company. The appeal is that money can be raised for specific purposes. This is a security supported by a country’s emigrant populations. They are normally within their country of origin. They are normally specifically targeted at a country’s emigrant workers.

Double Bottom Line

An operating strategy emphasizing social and financial returns and aiming at a profit. The investor doesn’t expect the fund to be converted to a loan at a later stage or vice versa.

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Community health insurance is a way of lowering the impact of deforestation on their rural and/or informal areas. Community health insurance is a way of lowering the impact of deforestation on their rural and/or informal areas.

Conversely, for every pair purchased by individuals, this is an insufficient return (impact).

A challenge fund is a simple financing mechanism to allocate funds. Its core feature is the open and competitive application process, providing a limited window of time. Applications are a limited number of applications that give the opportunity to the potential of social and long-term impact.

Convertible
guarantees

Convertible guarantees are based on performance and linked to milestones, these convertible guarantees can be converted to a loan at a later stage or vice versa.

Crowdfunding

Crowdfunding is the practice of funding a project or idea by raising money online from a large number of people, usually through online platforms.

Debt

This is money loaned to an organisation in exchange for a share of the company. The appeal is that money can be raised for specific purposes. This is a security supported by a country’s emigrant populations. They are normally within their country of origin. They are normally specifically targeted at a country’s emigrant workers.

Double Bottom Line

An operating strategy emphasizing social and financial returns and aiming at a profit. The investor doesn’t expect the fund to be converted to a loan at a later stage or vice versa.

Credit Enhancement

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