



# Building the Capacity of Investee Businesses to Create Impact

Impact Investing: Building the Field, Measuring Success

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# Investee Characteristics

## **Market-Based Solution**

(Monitor Group, 2011)

1. Financially self-sustaining
2. Scalable and reach significant numbers of low-income people
3. Provides tangible social benefit to low-income people (via product or service)

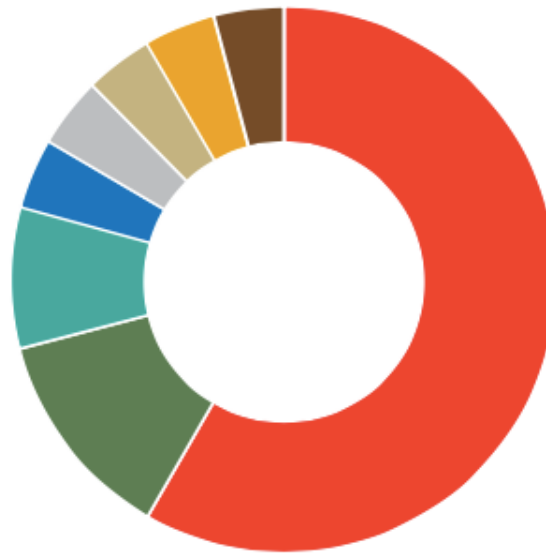
## **Observations**

- Needs to have at least one revenue stream
- Can vary in terms of legal form – nonprofit, co-op, private firm, etc.
- Scale is subjective and relative to region/issue
- Must have intentional social impact (customer, employee or beneficiary)

# Social Enterprises in Ghana



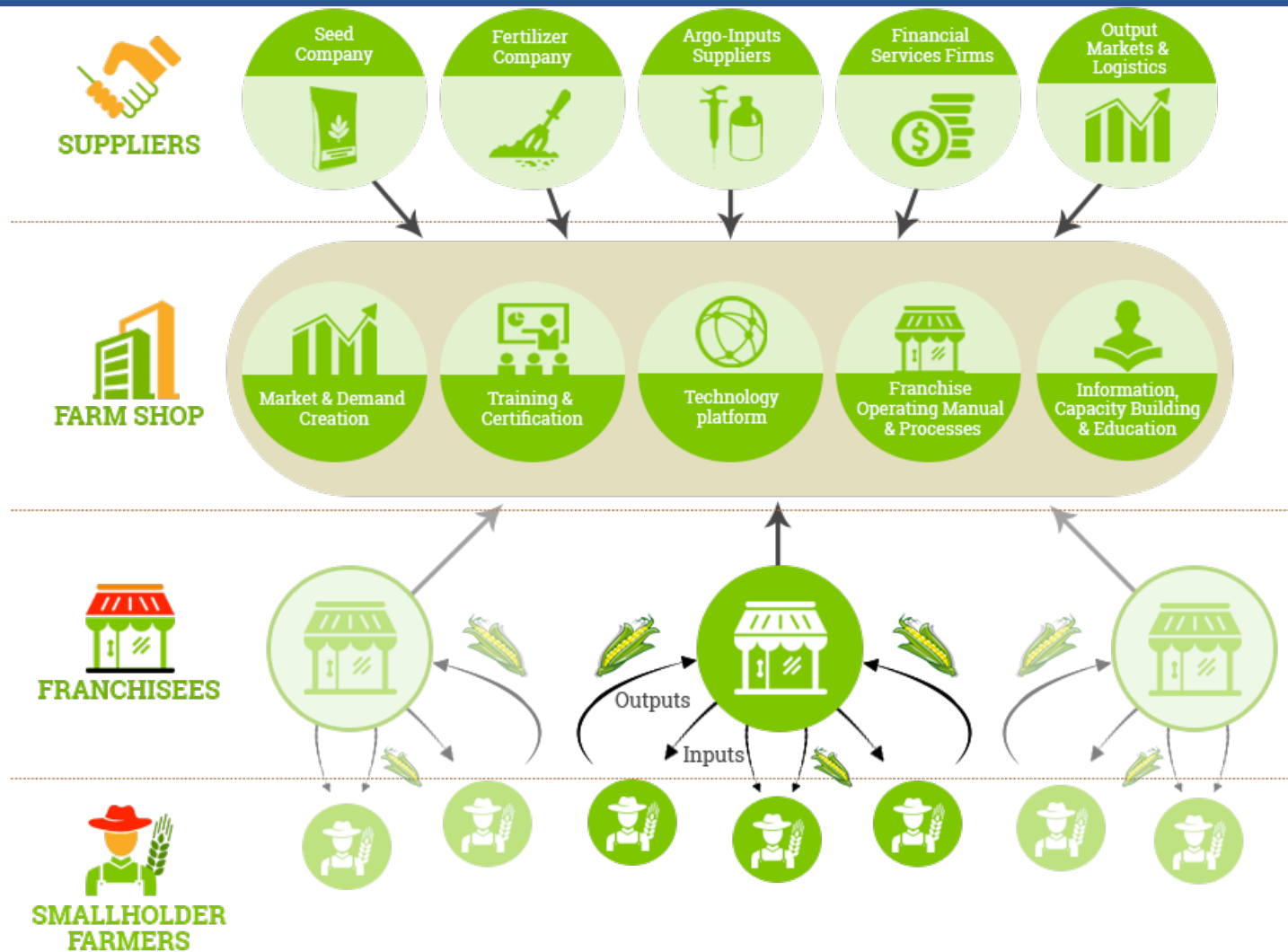
- Agriculture
- Education and skills
- Health
- Clean tech/energy
- Various
- Water and Sanitation
- Justice
- Creative industries



- Ghana - nationwide
- Greater Accra
- Africa
- Northern Ghana
- Eastern Region
- Ghana and UK
- Western Region
- Greater Accra and Volta Region

*“Any definition and understanding of social enterprise used in Ghana will benefit from being explicit that the commercial viability of a social enterprise is as important as its social mission.”*

# Example: Farm Shop (Kenya)



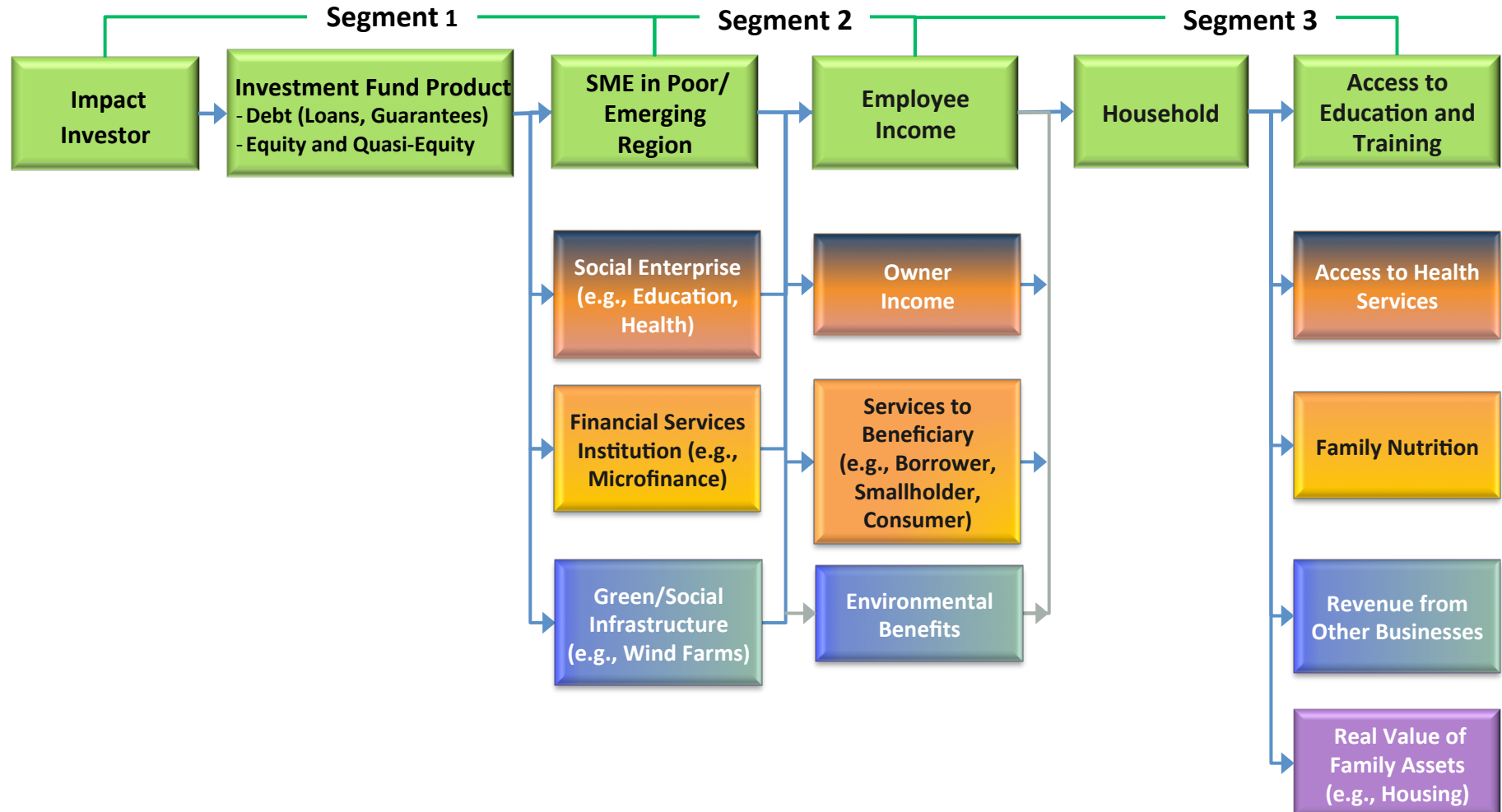
# Scalable Business Models

1. Smallholder farmer aggregators (e.g. credit, storage)
2. Distribution and sales via improved informal shops
3. Private vocational training (e.g. service industry in SA)
4. “Last mile infrastructure” (e.g. water, electricity)
5. Mobile-enabled non-financial services (e.g. education)
6. Distribution through direct sales force (e.g. solar panels)
7. Pay per use models (e.g. water, electricity, mobile)
8. Mobile money, microsavings and microinsurance

# How Investees Create Impact

- Low-income people as Customers (i.e. address issues of access, affordability)
- Low-income people as Employees (i.e. address issues of access to opportunity, new markets)
- Low-income people as Suppliers (i.e. address issues of access to markets, inclusive hiring, aggregation of product, access to credit)
- Low-income people as Agents, Distributors, and Entrepreneurs (i.e. address issues of access to opportunities, access to markets and credit, product/service innovation)
- Low-income Households and Community (indirect)

# Extending the Impact Value Chain



# Different Pathways to Scaling

Cost per farmer reached

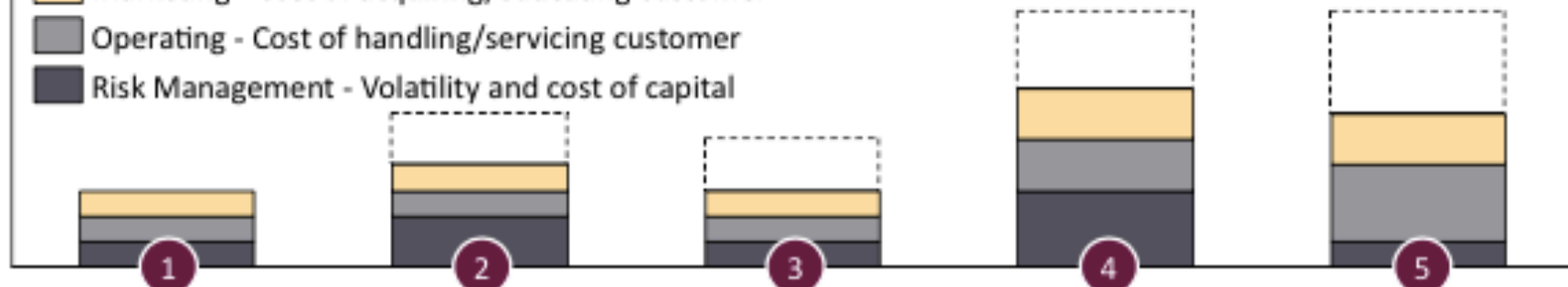
Conceptual

□ R&D - Cost of developing/piloting models\*

■ Marketing - Cost of acquiring/educating customer

■ Operating - Cost of handling/servicing customer

■ Risk Management - Volatility and cost of capital



**1**  
Replicate and scale  
social lending

**2**  
Innovate new  
financial products

**3**  
Finance out-  
grower schemes

**4**  
Finance alternate  
aggregation points

**5**  
Finance direct  
to farmer

- Driven equally by cost of risk management, operating, and acquiring producer organizations as clients
- No R&D cost because the model is already proven

- Driven by risk (due to long-term lending exposure to market fluctuations)
- High R&D cost of developing/testing new products (e.g., CAPEX finance)
- Some marketing cost to introduce product

- Driven by R&D cost of developing/testing new schemes
- Reduced marketing & operating cost with existing buyer reach
- Reduced risk management cost by sharing risk with buyer and/or farmer

- High R&D cost of new finance models
- High risk management cost for financing small businesses
- Moderate marketing & operating cost to work with small business clients

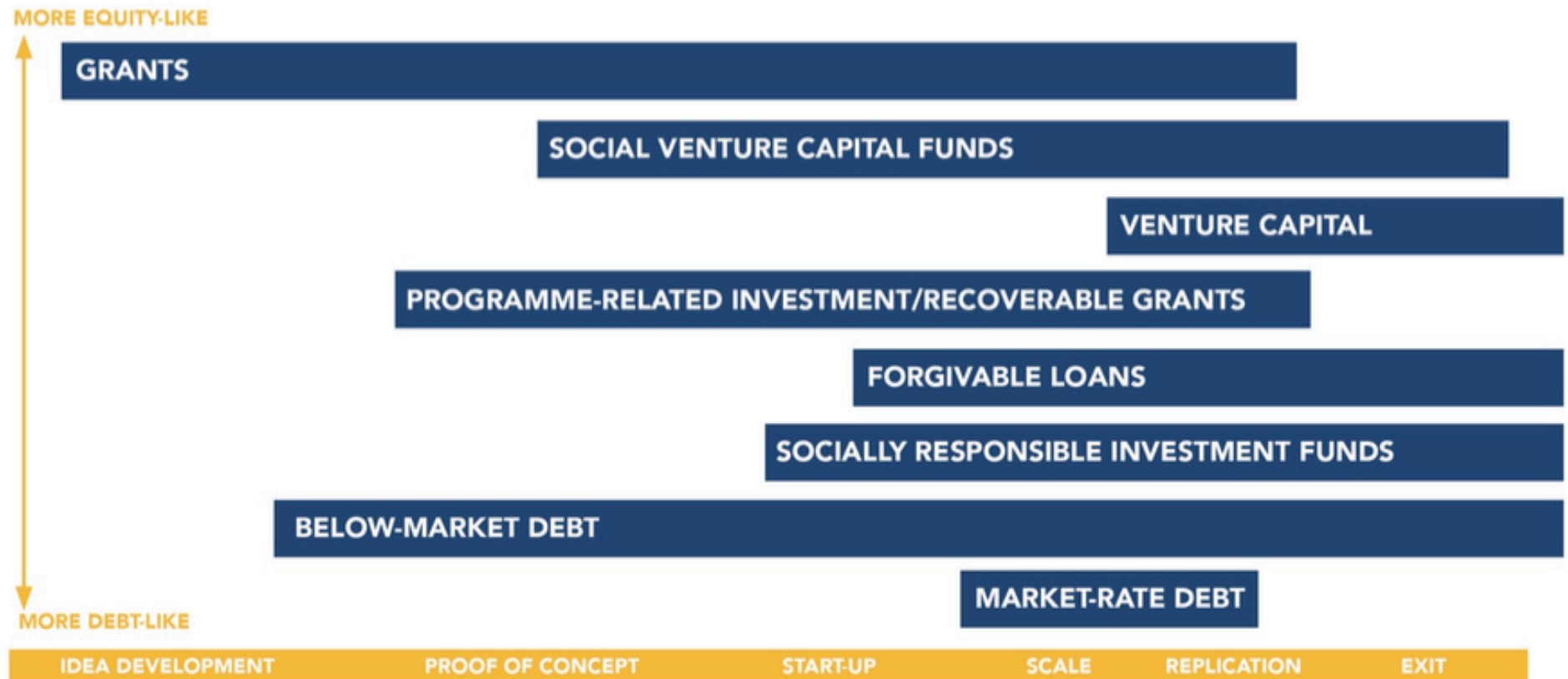
- High R&D cost of developing rural agriculture distribution models
- High operating and marketing cost to reach rural farmers
- Potential to minimize risk, if diversified



# Investee Lifecycle and Varying Needs



# Matching Financing to the Need



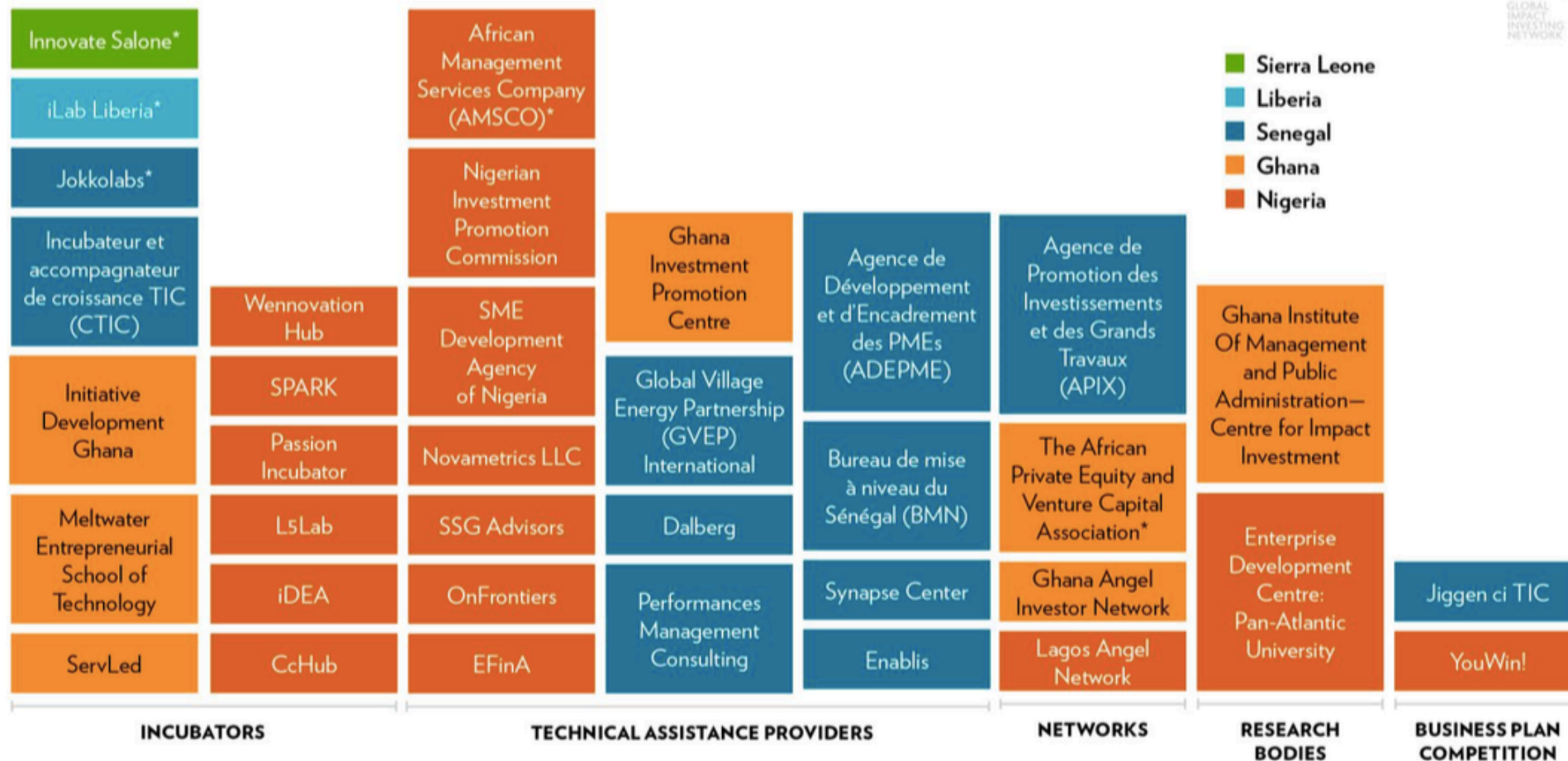
# Challenges and Barriers

- **Lack of financing options apart from commercial banks.** Angel investor, venture capital, and private equity markets are still very small.
- **High collateral requirements for loans.** Banks are very risk averse, and do not tailor their products or services to meet social enterprise needs.
- **Capacity gaps.** Enterprises face challenges maintaining robust systems e.g. financial records, human resources, governance, and marketing.
- **High cost of doing business.** Poorly developed infrastructure makes it difficult to bring products to market. This adds complications for enterprises already struggling to secure customers and expand.
- **Difficulty conforming to differing investor requirements.** Investors have differing and sometimes cumbersome requirements to satisfy their due diligence activities.

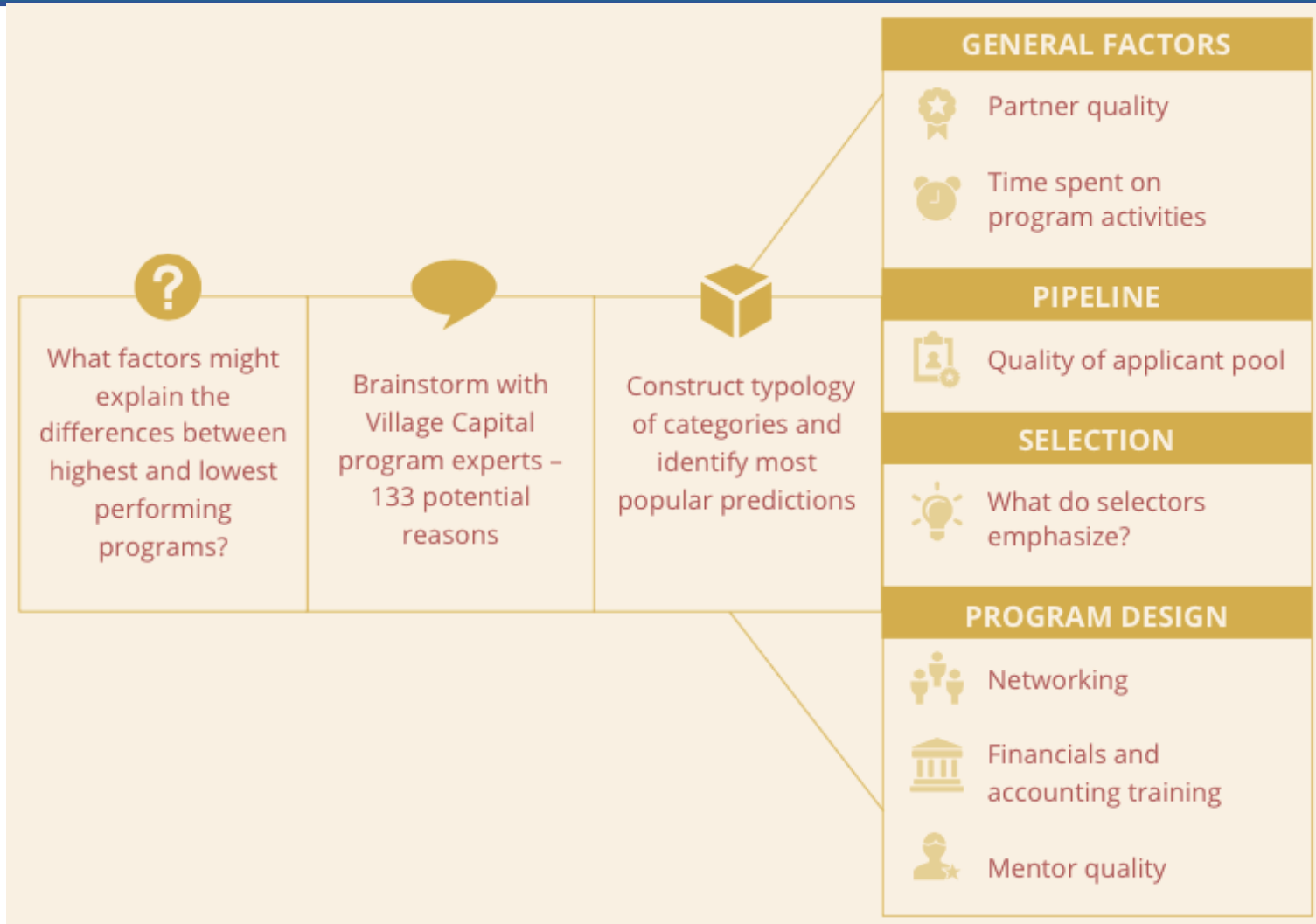
# Unpacking Investee Challenges

1. Getting the business model right... or getting the right business model? (i.e. meeting market need/pain point)
2. “Investment readiness” to put capital to work
3. Whether capital is the most pressing/compelling need
4. Understanding scale within sector, region, customer group
5. To what extent is impact embedded in the business model
6. Entrepreneur’s desire for control (for equity financing)
7. Investor expectations around risk relative to return & impact
8. Substantial difference between real and perceived risks
9. Cultural norms around entrepreneurship

# The Importance of Intermediaries



# Combination of Supports Required



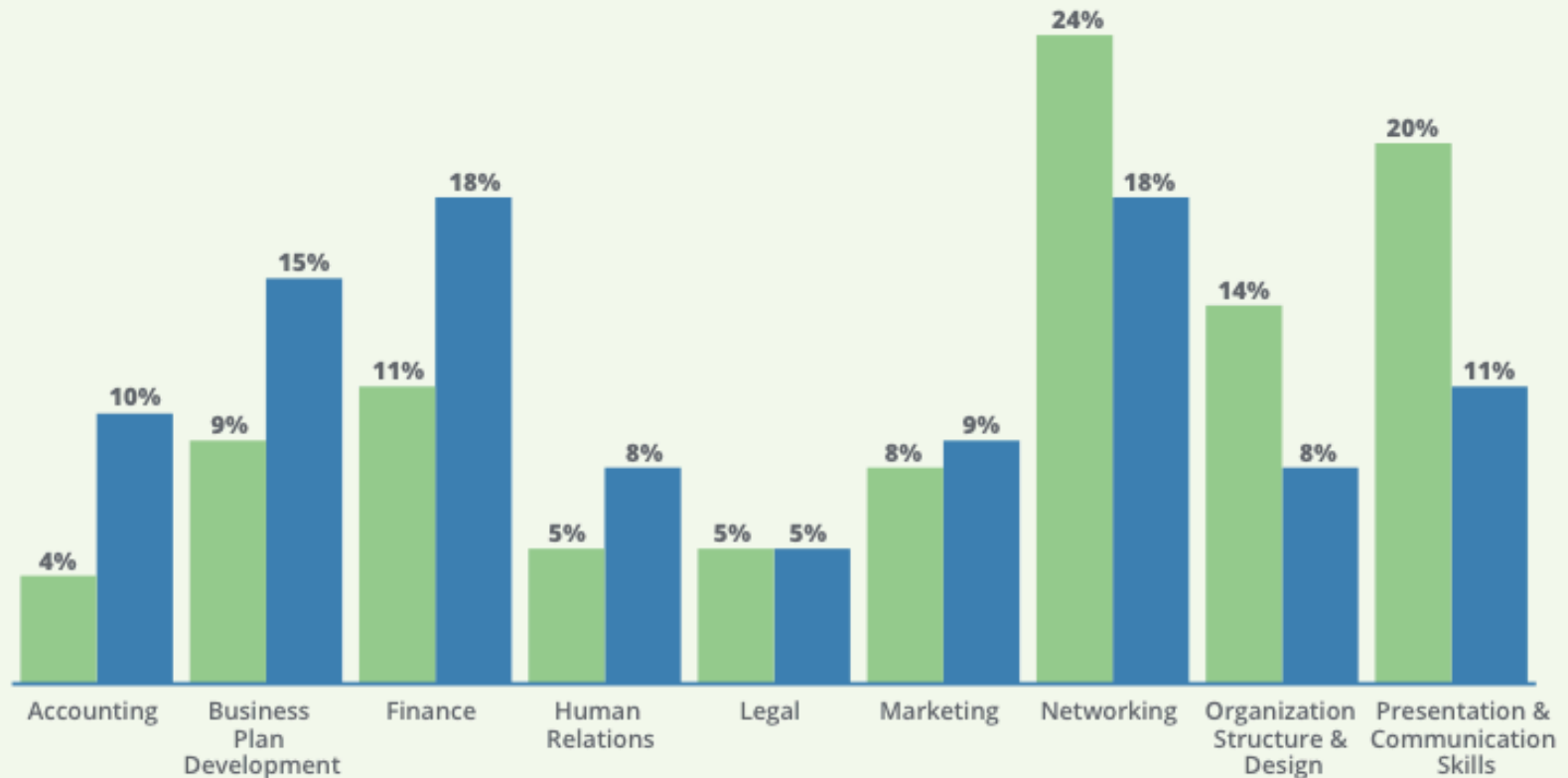
# Test and Validate Needs/Assumptions

PERCENT OF EMPHASIS PLACED ON DIFFERENT PROGRAM TOPICS

◀ figure 01 ▶

■ High-Performing Program Average

■ Low-Performing Program Average



# Strategies for Strengthening Investees

- Business incubators and accelerators
- Technical assistance (sector-specific)
- Access to professional networks
- Joint marketing and branding
- Local investor/intermediary engagement
- Expand activity beyond major urban centres