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Investing for Impact in Nigeria: A Deep Dive into Agriculture, Education, and Health Sectors

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A Deep Dive into Agriculture, Education and Health Sectors

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Foreword

As we navigate through an era of unprecedented challenges, the need for more impactful solutions has never been more pressing. The COVID-19 pandemic, climate change, and social inequalities have highlighted the urgency for sustainable development across the world, and Nigeria is no exception.

Under the new political administration, we have renewed hope for a better future for Nigerians. The focus on job creation, poverty reduction, and economic growth aligns with the principles of Impact Investing, which mobilises resources towards critical sectors for sustainable development.

This report is our contribution to mainstream Impact Investing in Nigeria and attracting private capital towards the achievement of the sustainable development goals (SDGs). It provides valuable insights into investing for impact with policy recommendations for unlocking the potential of the Agriculture, Education, and Health sectors. It also includes recommendations for investing in MSMEs, women, and unlocking Pension Funds to mobilise capital to drive growth in these sectors. It is clear that we cannot achieve the desired impact without collaboration, concerted effort, and decisive actions. We need transformative investments now! We must collaborate across sectors, utilise finance and technology, and accelerate sustainable solutions at scale to achieve our development goals.

Unlocking Nigeria's potential requires concerted and urgent actions. We need to mobilise collective resources and act decisively to bring about sustainable development. Together, we can achieve transformative impact and create a better future for all Nigerians.

Let us seize the opportunities, and let us act now!

Ibukun Awosika
Chair, Nigerian National Advisory Board for Impact Investing

Etemore Glover
Chief Executive Officer Impact Investors Foundation

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CHAPTER ONE

INTRODUCTION

Investment has been a part of human activities for over a millennium and has evolved. Prior to the mid-twentieth century, investment activities were undertaken for one of two reasons: financial gain or philanthropy. Since the beginning of the new millennium, many institutions and High-Net-Worth individuals have moved their investment goals to meet Corporate Social Responsibility (CSR) or ethical or socially responsible requirements. As a result, these investing entities are incorporating social, environmental, and financial conditions into their investment criteria and assets portfolio structure which birthed Impact Investing.

The Nigeria Impact Investing market has grown significantly between 2015 and 2022. Coincidentally, Nigeria has experienced two (2) episodes of economic recession during this period. In 2021, the Nigerian economy experienced a robust recovery momentum, with a real Gross Domestic Product (GDP) growth rate of 3.4 percent. The recovery was bolstered by critical reforms that boosted growth in key sectors of the economy, such as Agriculture, Manufacturing, and Information and Communication Technology, among others.

Given that the Nigerian Impact Investing market is still evolving, the current macroeconomic environment in Nigeria provides valuable evidence to support investment inflows that will result in both social and financial returns in the three (3) priority sectors - Agriculture, Education, and Health. The performance of these sectors and their importance in driving positive development outcomes in Nigeria are also highlighted by the Nigerian government's priorities, as outlined in the National Development Plan (NDP) 2021-2025 and Nigeria's Agenda 2050.

In providing the needed information on the performance of the MSMEs ecosystem and Impact Investing market in Nigeria, this document provides a detailed landscape of the Nigerian Micro, Small and Medium Enterprises (MSMEs) ecosystem and Impact Investing market, with a strategic focus on three (3) priority sectors: Agriculture, Education, and Health. The document has seven (7) major sub-sections, which include.

- Nigerian Macroeconomic And Sectoral Performance
- Historical Development Of The Impact Investing Market
- Demand-Side Analysis – Nigerian Msmes Landscape
- Supply-Side Analysis – Impact Investing Landscape
- Enabling Policy Environment For Impact Investing In Nigeria
- Creating A Case For Pension Fund In Nigeria's Impact Investing Market
- Policy Recommendations

Aside from extensive coverage of relevant literature, insights from the valuable experience of MSMEs and critical stakeholders are aggregated through a survey of MSMEs and Key Informant Interviews (KIIs). These methods provide an opportunity to examine similar or recent facts and information on the development and state of the Impact Investing market in Nigeria and its exposure to firms in the priority sectors of this study.

OBJECTIVES OF THE PROJECT

This study in Nigeria, focusing on three (3) strategic sectors – Agriculture, Health, and Education, aims to assess and conduct a deep dive assessment of the Impact Investing market towards unlocking the country's massive Impact Investing potential. In addition, the research will fill the data and information gaps to develop Nigeria's nascent Impact Investing market, focusing on the demand-side and supply-side of Impact Investing in Nigeria. Also, the research will address policy issues towards unlocking the deployment of institutional capital for Impact Investing in NAB/NESG's priority sectors.

This project is an essential step toward understanding the enabling conditions for unlocking investment for impact in Agriculture, Health, and Education. It will further set out the required policies, interventions and collaboration among key stakeholders that can take the Impact Investing market in Nigeria to the next level. The report will also include evidence-based recommendations that have been co-developed and validated with key stakeholders.

Specific Objectives
The primary objective of this project is to generate insight and provide information and evidence-based local and international case studies in the priority sectors to engage with stakeholders in Nigeria. Specifically, the two main objectives are:

» Provide an in-depth understanding of the financing needs of MSMEs and social enterprises in the priority sectors, including those led by females. This goal is achieved through landscaping the Investment activities in the sectors and identifying the critical stakeholders/players in this space.

» Provide research-based findings that identify regulatory restrictions that should be removed to unlock Impact Investing in these priority sectors and incentives to unlock more private sector investments with gender consideration.

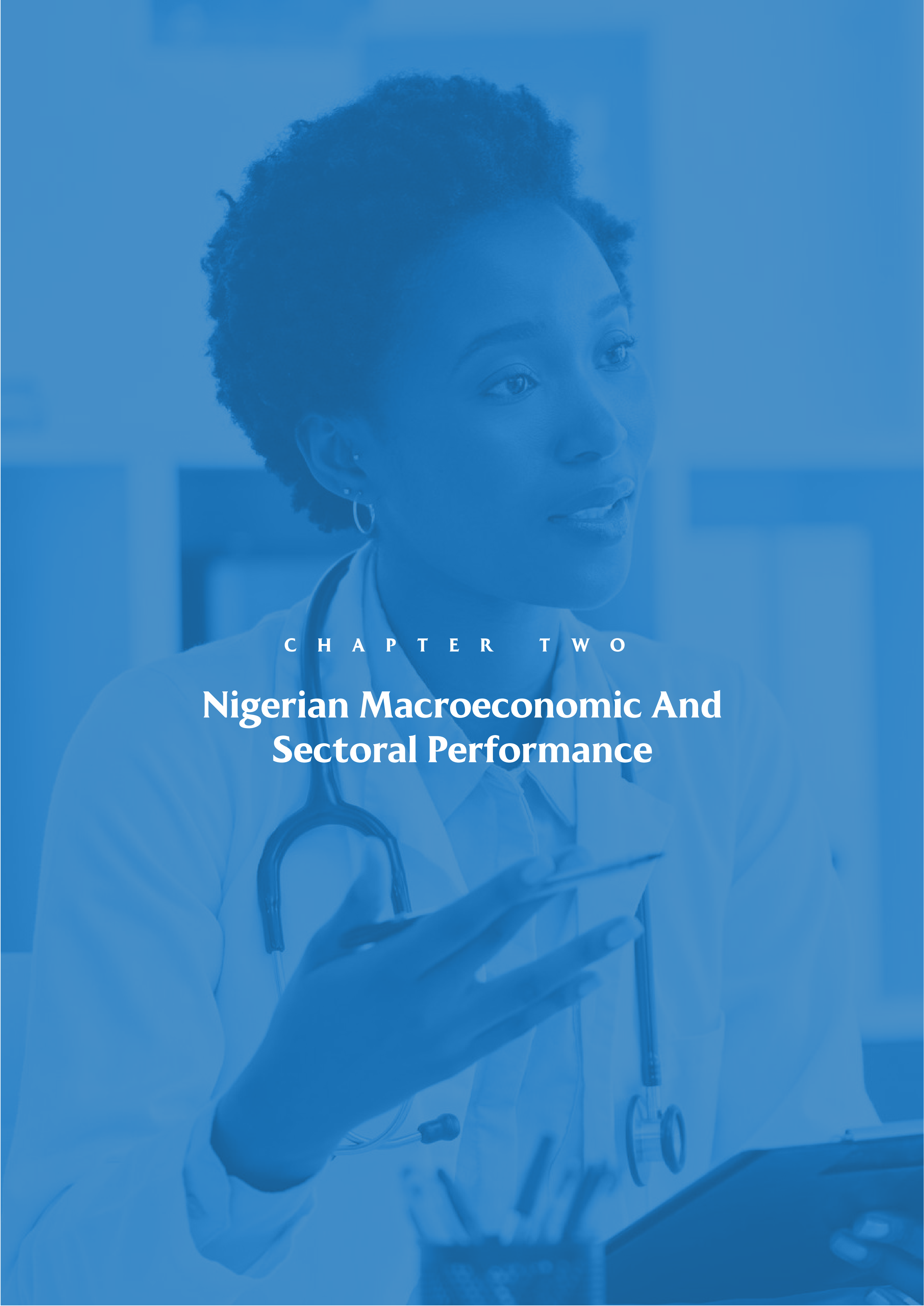
APPROACH

This work applies a mixed methods approach to achieve the objectives of this study. It combines primary data gathering with secondary research and draws on both qualitative and quantitative methods to represent a close to the true reality of Impact Investing activities in Agriculture, Education, and Health sectors. In addition, a cross-cutting theme of gender was highlighted in these approaches.

A. Desk Research
The NESG/NNABII team conducted secondary research (desk research) to gather existing information on Impact Investing and MSME development activities in Nigeria. This approach provides some baseline information on the state of affairs of Impact Investing, enterprise development, and policy environment.

B. Qualitative research and key informant interviews (KII)
A total of nine (9) interviews were conducted across a range of various regulators, credit/finance/investment supply, and demand/enterprise development actors in the Nigerian MSMEs. Insights from these KIIs will strengthen and provide further in-depth context to information gathered through the desk research.

C. Quantitative data analysis
Quantitative analysis was conducted based on new deal database provided by Impact Investing Foundation (IIF) and updated by the NESG team for impact transactions in Nigeria between 2019 and 2022. In addition, the MSME survey was conducted and analysed to provide information unavailable via the desk research and deal database.



C H A P T E R T W O

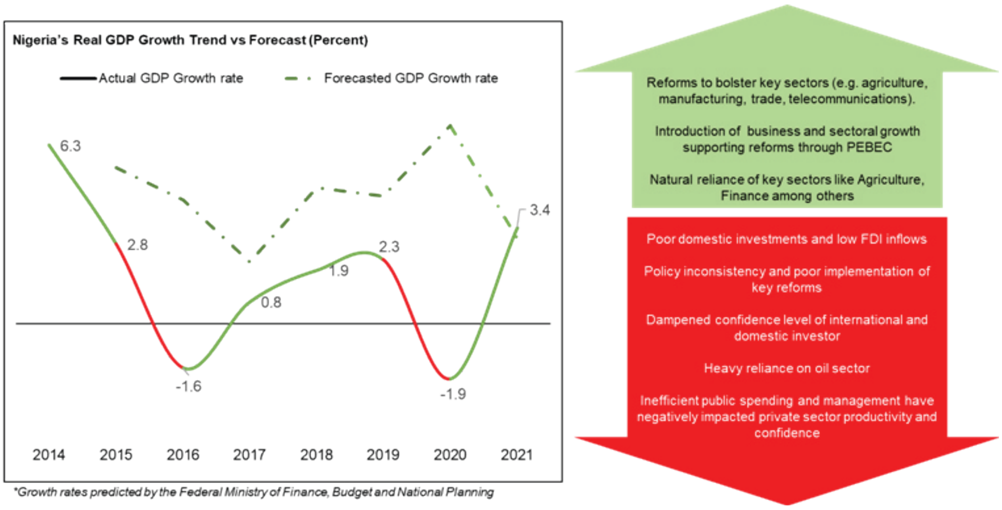
Nigerian Macroeconomic And Sectoral Performance

NIGERIAN MACROECONOMIC ENVIRONMENT

The Nigerian macroeconomic environment has experienced an inter-play of a high growth era and two (2) episodes of economic recession within the last ten (10) years, from 2013 to 2022. During this period, the country recorded a high real Gross Domestic Products (GDP) growth of 6.3 percent in 2014. In subsequent years, the Nigerian economy experienced significant growth challenge between 2015 and 2020. In 2016, the country's real GDP contracted by 1.6 percent, induced by the global oil price crash, and in 2020, by 1.9 percent due to the COVID-19 pandemic-induced economic crisis (see Figure 1).

In 2021, the economy recorded a robust recovery momentum with a real GDP growth rate of 3.4 percent. The recovery momentum was strengthened by critical reforms and a return to normalcy, which bolstered growth in key sectors of the economy, such as Agriculture, Manufacturing, and ICT, among others. Also, some business and investment reforms initiated through the Presidential Enabling Business Environment Council (PEBEC) strengthened the resilience of these critical sectors of the economy.

Figure 1: Trend of Macroeconomic Performance in Nigeria



Data: National Bureau of Statistics; Annual FGN Budget Speech 2014-2021; Chart & Calculations: NESG Research

Despite these reforms, the performance of the economy has always been below projections. Challenges behind the economic slowdown in Nigeria include volatility of the exchange rate, policy inconsistency and poor implementation of crucial reforms, dampened confidence level of international and domestic investors, heavy reliance on the oil sector, poor domestic investments, and low Foreign Direct Investment (FDI) inflow as well as inefficient public spending and management.

SECTORAL REVIEW – Agriculture, Education, AND Health SECTORS

Sectoral performance of the Nigerian economy also highlights that Agriculture and Industrial sectors are growing rapidly in response to the efforts towards diversifying the economy. Aside from the Education sector, which has experienced sub-optimal performance, Agriculture and Health sectors have sustained growth momentum. The Agricultural sector has been a major contributor to overall economic growth since 2017 and was a key driver of the economic recovery in 2021.

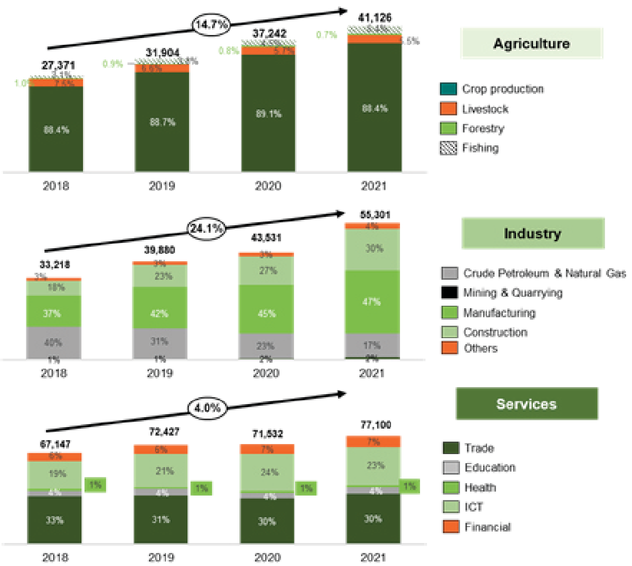
Between 2017 and 2021, the sector accounted for an average of 24 percent of Nigeria's GDP. Also, the sector's GDP performance in terms of growth rate has been above 2 percent, albeit at a slower pace (from 4.1 percent in 2017 to 2.2 percent in 2021). The Agricultural sector is broadly divided into four (4) sub- sectors – Crop production, Livestock, Fishing and Forestry.

Crop production is the largest sub-sector, accounting for 88.4 percent of Agricultural output in 2021. This segment of the Agriculture sector also received most interventions from the government and other relevant stakeholders. Investment inflow into the Agriculture sector is also primarily directed to Crop production. Other segments of the Agriculture sector – Livestock, Fishing and Forestry, contributed 5.5 percent, 5.4 percent, and 0.7 percent, respectively, to the Agricultural output in 2021.

Despite the importance of Agriculture in driving economic growth, the sector faces some major challenges, such as an insufficient supply of finance, poor value chain linkages, resource shortages and widespread adoption of outdated farming techniques, and farmers-herdsmen crisis, among others.

Figure 2: Sector contribution to GDP

(Nominal GDP N'billion, percent of sub-sector contribution to broad sector, 2018 - 2021)



Sub-sector	CAGR of Real GDP (2018-2021)	Rating
Crop	2.3%	
Livestock	0.7%	
Forestry	2.2%	
Fishing	2.6%	
Crude Petroleum & Natural Gas	-3.2%	
Mining & Quarrying	-3.0%	
Manufacturing	0.9%	
Construction	-0.1%	
Wholesale and retail trade	-0.2%	
Health	1.8%	
ICT	9.6%	
Education	-3.4%	
Financial	6.0%	

Key: CAGR > 5% CAGR < 5% and < 1% CAGR < 1%

Data: CBN; Chart & Calculations: NESG Research

The Health sector's performance has been relatively high, with a GDP growth rate of 2.2 percent and 4.9 percent in 2022 and 2021, respectively. The sector also accounted for an average of 0.7 percent of the country's GDP between 2016 and 2021. Another measure of Health sector activities in Nigeria is public and private spending on Healthcare provision. According to data from Fitch Solutions, Healthcare spending is estimated to have peaked at N5.76 trillion in 2021 from N5.32 trillion in 2020. This figure represents 8.4 percent growth in total Healthcare spending in the country. The COVID-19 pandemic contributed significantly to the recent surge in both private and public Healthcare spending in the country. While the government spent N1.48 trillion billion on Healthcare provision in 2021, the private sector, mainly out-of-pocket spending, is estimated at N4.28 trillion in the same period.

The structure of activities in the sector is classified into primary, secondary, and tertiary levels of Healthcare services. The primary Healthcare service is overseen and managed by the Local Government Areas. The sub-national and national governments manage the secondary and tertiary Healthcare services, respectively. In addition, the Federal Government is responsible for policy development and regulations guiding the Health industry. Aside from insufficient personnel, all levels of Healthcare encountered significant funding and brain drain, contributing to the abysmal state of major Health facilities and high medical tourism.

Nigeria's Education sector also has a similar structure to the Health sector, i.e., primary, secondary, and tertiary Educational levels. The responsibility in managing Educational levels is also the same as the Health sector, with the federal government taking charge of policy development for the sector.

Considering that the Impact Investing market in Nigeria is still nascent, the current macroeconomic environment in Nigeria provides valuable evidence to support the inflows of investments that will result in both social effects and financial returns in the three (3) priority sectors – Agriculture, Education, and Health.

[1]Trelstad, B. (2016). Impact Investing: A brief history. Capitalism & Society, 11(2).
[2]Rodriguez, A.M (2019). Impact Investing: A Sustainable Opportunity for MSMEs Applied to GIZ SEDIN NICOP Value Chains in Nigeria
[3]Trelstad, B. (2016). Impact Investing: A brief history. Capitalism & Society, 11(2).
[4]Rodriguez, A.M (2019). Impact Investing: A Sustainable Opportunity for MSMEs Applied to GIZ SEDIN NICOP Value Chains in Nigeria.

C H A P T E R T H R E E

Historical Development Of The Impact Investing Market

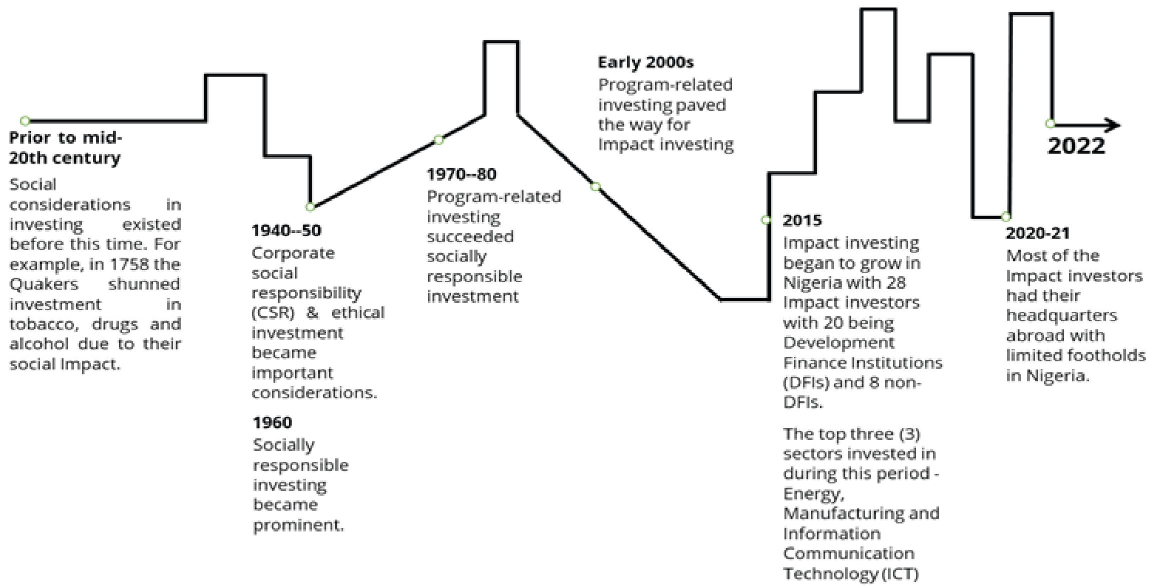
Impact Investing MARKET IN NIGERIA

However, social considerations in investing existed before this time, with organizations such as the Quakers evaluating investments based on social Impact[1].

Many transitions have occurred in investment perspectives since then. Corporate social responsibility, ethical investment, and socially responsible investment became important considerations between the 1940s and 1960s. Socially responsible investing was prominent in the late 1960s and succeeded by Program-Related Investing (PRI) in the 1970s and 1980s. Impact Investing is an outcome of a fusion between PRI and sustainable investing developed in the 1990s and early 2000s. It stemmed from the belief that social and environmental impacts could be achieved while making financial returns[2].

The term "Impact Investing" was coined either at a Rockefeller Foundation meeting in 2008 at a meeting of philanthropists and investors in Italy in 2008. The investors of the Rockefeller Foundation sought to find a term that describes their shared goal of investing with social and/or environmental impact along with financial gain[3].

Figure 3: Historical development of Impact Investing in Nigeria and Globally



Source: NESG Research & NNABII

Two tools have been developed to aid in improving the understanding of Impact Investing and quantifying its implications. The first was the Impact Reporting and Investment Standards (IRIS) initiative, developed by the Rockefeller Foundation, B-Lab and Acumen Fund. The IRIS was designed to improve the credibility of social and environmental performance data, promote transparency, and enhance investment comparability and performance benchmarking[5]. The second tool was the Global Impact Investing Ratings System (GIIRS), developed to assess social and environmental impacts of investments.

In Nigeria, the year 2015 marked a period of rising Impact Investing market. The country had twenty-eight (28) Impact investors at that time - twenty (20) Development Finance Institutions (DFIs) and eight (8) non-DFIs[6]. The sectoral distribution of Impact Investment in Nigeria between 2005 and 2015 reflected in the dominance of the three (3) sectors - Energy, Manufacturing and Information Communication Technology (ICT). These sectors were the most preferred destination for DFIs investments in Nigeria's Impact Investment space[7].

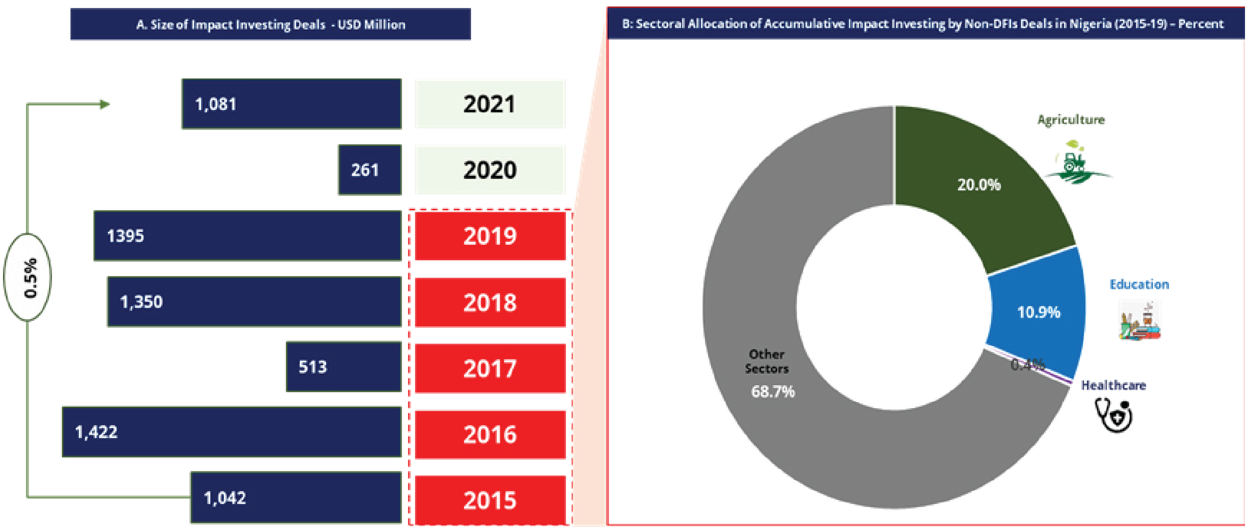
SIZE OF THE Impact Investing MARKET IN NIGERIA

From a global perspective, the global Impact Investing market has been ballooning with increasing attraction from critical stakeholders, including investments and asset class. The market size, measured by Asset Under Management (AUM), significantly rose from US$60 billion in 2014 to US$1,164 billion in 2021. The Agriculture, Healthcare, and Education sectors, on average, accounted for 8.0 percent, 5.8 percent, and 4 percent, respectively, of Impact Investment between 2014 and 2019 (sectoral data only available for these years).

With a market size of US$1.09 billion in 2021, Nigeria is the foremost recipient of impact capital in West Africa. Between 2005 and 2015, Nigeria received 29 percent of the total Impact Investing capital inflow into the region. The associated impact capital or projects were focused on ICT and Energy sectors within this period. Figure 3A shows that the value of Impact Investment deployed into Nigeria peaked at US$1.4 billion in 2016 and maintained a staggering performance with a US$1.1 billion impact capital inflow in 2021.

Historically, DFIs have remained the major Impact investors in Nigeria. These institutions deployed 71 percent of the investment capital inflow to Nigeria between 2019 and 2021. A large fraction of these investments supported Impact programs in Health, Education, and Agriculture. On the other hand, non-DFIs' Impact Investment activities in Nigeria are mainly concentrated in three 3 sectors: Energy, Financial services, and Agriculture[13]. Agriculture, Education, and Healthcare accounted for 20 percent, 10.9 percent, and 0.4 percent of non-DFI Impact Investment between 2015 and 2019.

Figure 3: Historical development of Impact Investing in Nigeria and Globally



Data: Nigerian NABII (2022) ; Chart: NESG research

[5]Clarkin, J. E., & Cangioni, C. L. (2016). Impact Investing: A primer and review of the literature. Entrepreneurship Research Journal, 6(2), 135-173.
[6]GIIN (2011). Data Driven: A Performance Analysis for the Impact Investing Industry. In 2011 IRIS Data Report. New York, NY: Global Impact Investing Network.
[7]GIIN (2015). The Landscape for Impact Investing in West Africa: Understanding the current status, trends, opportunities, and challenges.
[8]Ibid.
[9]Measured in terms of assets under management.
[10]Nigerian NABII (2022). Nigeria Impact Investing Landscape: June 2022.
[11]GIIN (2015). The Landscape for Impact Investing in West Africa: Understanding the current status, trends, opportunities, and challenges.
[12]Ibid.
[13]Nigerian NABII (2022). Nigeria Impact Investing Landscape: June 2022.

STAKEHOLDER MAPPING – IDENTIFYING EVERYONE THAT COUNTS

This research project answered the following questions:

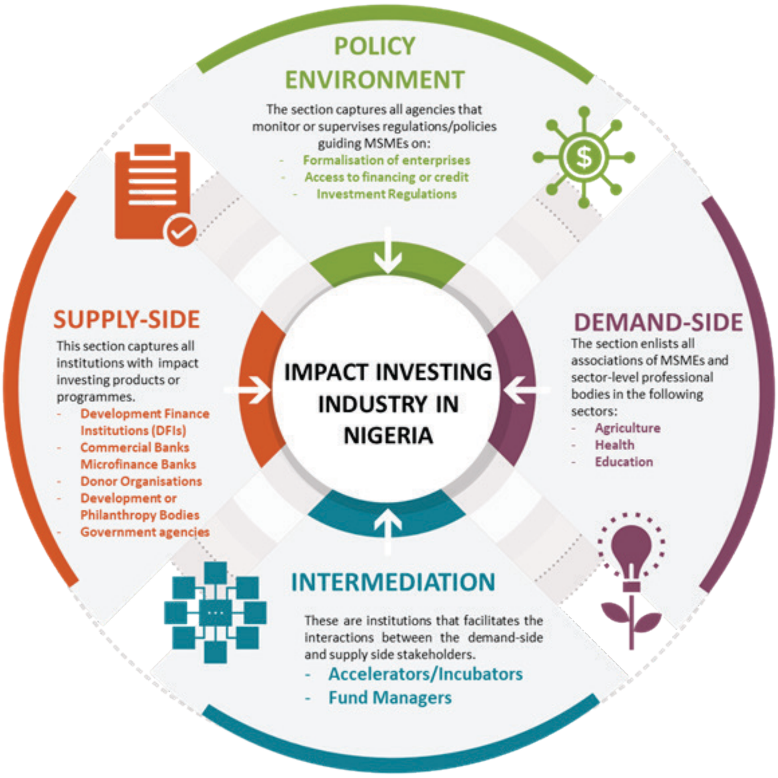
- *Who are the key actors that have the power to influence actions or policies locally?*
- *Who are the important stakeholders that might be or not in favour of achieving innovative and impactful co-created ecosystem?*
- *Who are the drivers for engaging these stakeholders in the ecosystem?*

This section identifies broad stakeholders influencing the four spectrums of the Impact Investing Ecosystem in Nigeria (see Figure 5). Taking note of the global trend, many actors in emerging economies are getting involved in taking actions towards making their economies conducive for Impact Investing – this is so due to impact investors' shift of focus to economies with the highest concentration of poor people and require sustainable and long-term solutions to address key development issues and improve access to essential services.

On the other hand, it is imperative to properly segment the role of these actors, their influence, and their sphere of authority, including programmes towards ensuring a conducive Impact Investing environment in Nigeria for the focus key sectors – Agriculture, Education and Health, and the whole economy.

The process of mapping stakeholders has the goal of answering these questions and helping the project team to identify the critical actors in their sphere of influence, their relationships, and programmes to involve stakeholders better and foster local co-creation for Nigeria's Impact Investing ecosystem.

Figure 5: Schematic Representation of Nigeria's Impact Investing Ecosystem



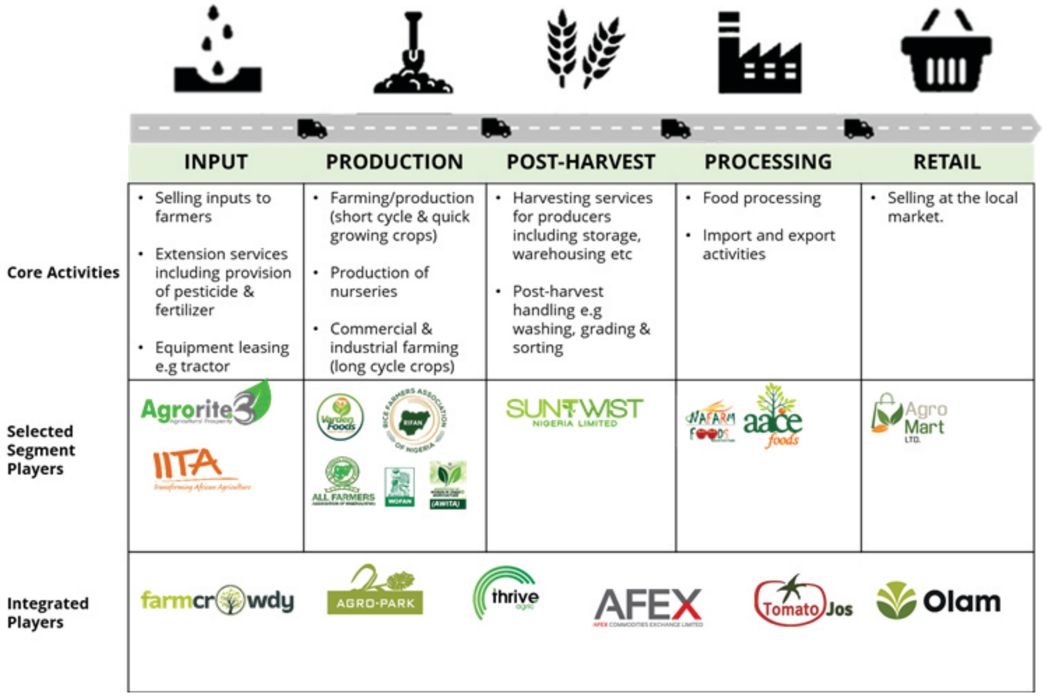
Source: NESG Research & NNABII

The sub-sections below provide information about actors or stakeholders across the fundamental spectra and value-chain activities in the priority sectors – Agriculture, Health, and Education.

A. Agriculture Sector

In the Agricultural sector, the stakeholder mapping captures relevant stakeholders in all segments of the value-chain activities and financing supply for these activities. For the activity segments, most stakeholders listed under each value chain are MSMEs, social enterprises or platforms, and sector-level professional bodies, especially prominent associations for smallholder farmers in Nigeria. Adopting this approach is informed by the role played by these associations of players or actors in these sectors. In Nigeria's Agricultural sector, most actors are smallholder and subsistence farmers. As a result, an association of farmers serves as a formalisation vehicle for most smallholder farmers to access finance and other business development interventions or programmes.

Figure 6A: Value-Chain Analysis of Agriculture Sector – Demand Side/ Activities Based

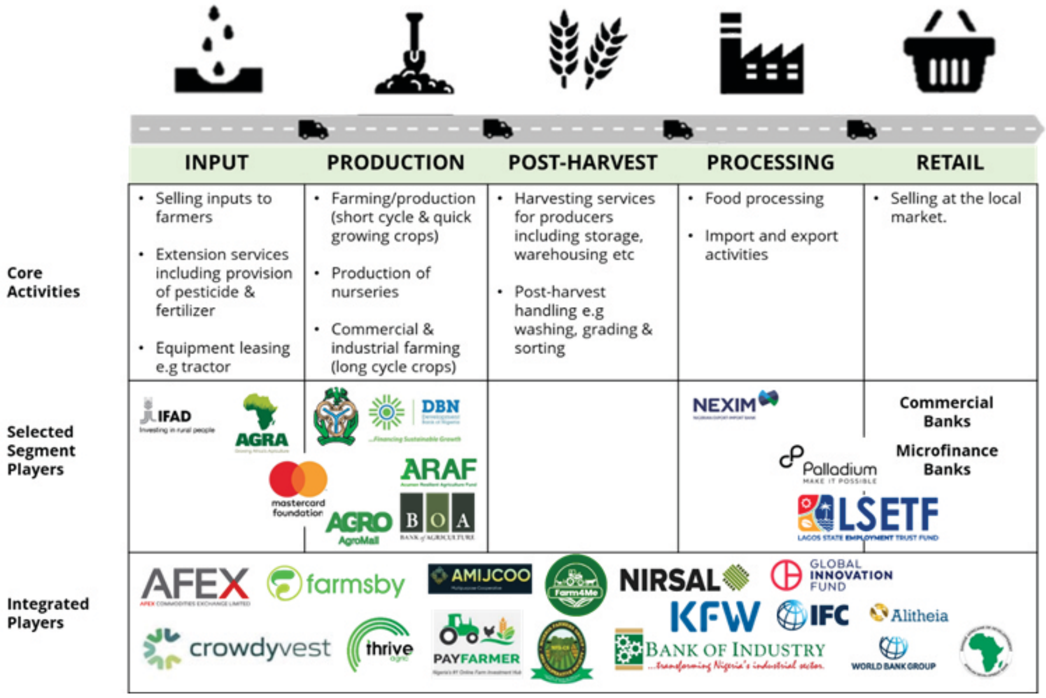


Source: NESG Research & NNABII

A unique feature of the Agriculture value-chain is the presence of integrated players covering the stretch of all activities in the sector. Some of these stakeholders include OLAM, AFEX Commodity Exchange Limited, and Tomato Jos.

On the financing side, there are more diversified stakeholders besides the presence of integrated value-chain financing organisations like the NISRAL, Bank of Industry (BoI), and Altheia, among others. Some stakeholders, like Mastercard Foundation, Lagos State Employment Trust Fund (LSETF), and Palladium, actively finance more than one agricultural activity. Taking note of the highly informal nature of the Agriculture sector in Nigeria, financing activities extend to most stakeholders' participation as either off-takers or playing the linkage role between the farmers and the off-takers.

Figure 6B: Value-Chain Analysis of Agriculture Sector – Financing Activities/ Supply Side



Source: NESG Research & NNABII

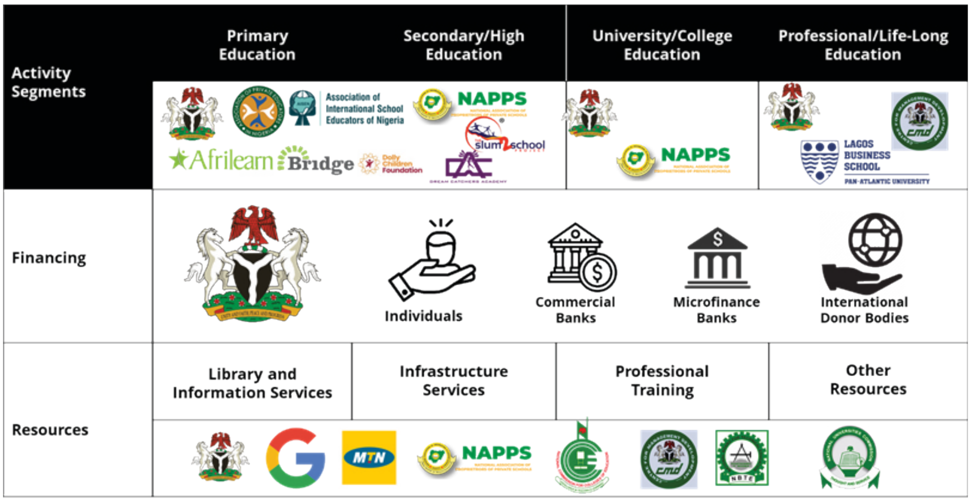
B. Education Sector

For the Education sector, the stakeholder mapping captures all stakeholders across key activity points in Nigeria's teaching and learning process. Due to the nature of the sector, i.e. serviced based, the stakeholder mapping will integrate both demand-side – activity and supply-side – financing. Most stakeholders listed under each activity are public and private enterprises, including the financing side.

To ensure proper segmentation of crucial stakeholders in Nigeria's Educational sector, two (2) broad activities are highlighted – financing and resources. For the financing segment, critical stakeholders are Federal and State governments for public Educational institutions in the country. Private Educational institutions are funded using capital sourced from commercial and microfinance banks and rarely grants from donor and philanthropy bodies.

On the resource segment, these activities enhance teaching delivery and learning assimilation. There are four (4) sub-segments - library and information services, infrastructure services, professional training, and other resources. Within this space, there is the fusion of public, private and donor organisations ensuring the availability of these resources for teaching and learning. Some of these bodies include ministries of Education and relevant departments and agencies, regulatory bodies of different levels of Education like the National University Commission (NUC), professional training institutions like Centre for Management Development, private organisations like MTN Nigeria, Google, Microsoft, Facebook, Dangote etc. through philanthropic activities.

Figure 7: Education sector value-chain and stakeholders



Source: NESG Research & NNABII

C. Health Sector

For the Health sector, the stakeholder mapping captures stakeholders across key activity points in the Healthcare provision value-chain activities. Due to the nature of the sector, i.e. it is serviced based, the stakeholder mapping will integrate both demand-side – activity and supply-side – financing. Most stakeholders listed under each activity are majorly public and privately owned enterprises, including the financing side.

The value-chain analysis shows five (5) activity points in the Health sector out of which four (4) activity points are demand-side, with the last activity segment being the financing side. There are three (3) broader players on the financing side: the government, private firms which source their capital from commercial banks, and the individuals who pay for services via out-of-pocket expenses or Health insurance subscriptions. Aside from the hospital and pharmaceutical sub-segments, the demand side of the Health sector is heavily reliant on importation (see Figure 8).

Figure 8: Nigeria's Healthcare Industry Value – Chain – Demand Side Analysis

Source: NESG Research & NNABII

D. POLICY ENVIRONMENT

The policy environment entails all ministries, departments and government agencies with responsibilities or mandates to support enterprise development and create a conducive investment environment in Nigeria. A list of relevant regulators and government agencies relevant to the study is highlighted in Table 1.

Table 1: List of Investment-Related Regulatory Agencies in Nigeria

Securities and Exchange Commission (SEC).	SEC is the primary regulatory institution of the Nigerian capital market. It is supervised by the Federal Ministry of Finance, Budget and National Planning. The body has a core mandate of ensuring the safety and stability of the Nigerian investment environment. This goal is achieved by examining applications from companies seeking to raise capital from the capital market and recommending appropriate guiding regulations.
Central Bank of Nigeria (CBN)	CBN is the sole institution responsible for overall controlling and administrating Nigeria's monetary and financial sector policies. In addition, the body is charged with setting regulations for ensuring high standards of banking practice and financial stability through its surveillance activities and promoting an efficient payment system. The bank also performs some primary developmental functions, focusing on all the critical sectors of the Nigerian economy (financial, agricultural, and industrial sectors).
National Insurance Commission (NAICOM)	NAICOM is responsible for ensuring the effective administration, supervision, regulation and control of insurance businesses in Nigeria. It also protects insurance policyholders, beneficiaries and third parties to insurance contracts.
National Pension Commission (PENCOM)	PENCOM is the regulatory body in charge of formulating, directing and overseeing Nigeria's overall policy on pension matters. This role also includes setting the standards, rules and regulations for managing the pension funds, including sectors or financial instruments to invest these funds.
Nigerian Investment Promotion Commission (NIPC)	NIPC is the Federal Government agency that coordinates and monitors all investment promotion activities. The agency's role includes initiating support measures to enhance Nigeria's investment climate for Nigerian and non-Nigerian investors.
Corporate Affairs Commission (CAC)	CAC is the autonomous body charged with the responsibility of registration and administration of company registries in Nigeria. In addition, the body formulates and administers regulations on the supervision, management and winding up of all companies in the country.

Source: NESG Research & NNABII

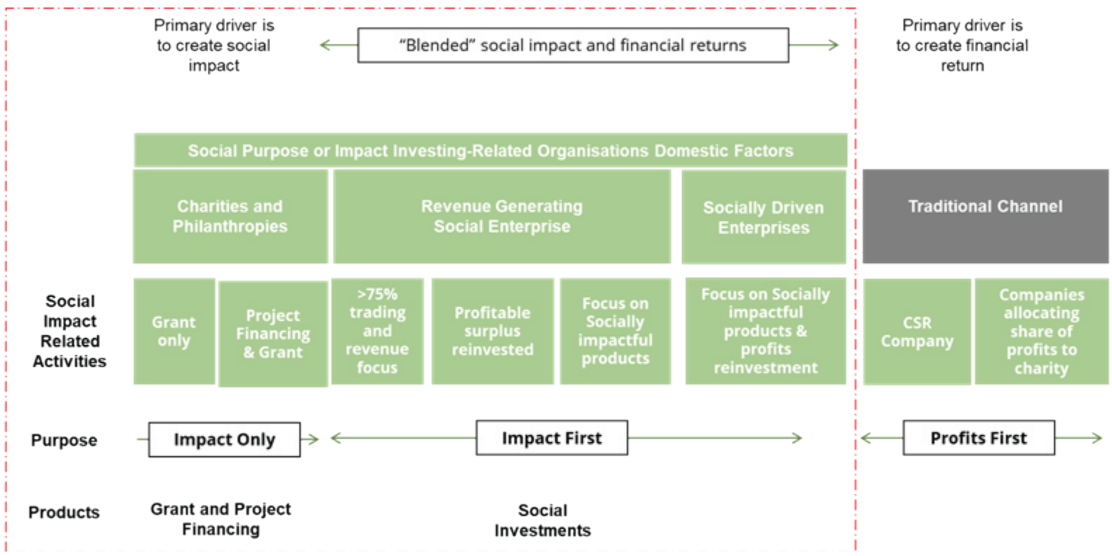
E. Intermediation

The intermediation space is occupied by active stakeholders on the supply and demand side of the Impact Investing ecosystem in Nigeria. These actors support investors or enterprises in deal sourcing, fund structure advisory services, business and impact support management, research and policy advocacy, networks and industrial linkages. Some of the current intermediation stakeholders in Nigeria are incubators and accelerators, Technical Assistance (TA) providers, donors, research institutions, academia, credit rating services, etc. Most popular names within this space of influence include Co-Creation Hub (CcHub), Civic Innovation Lab, Fate Foundation, The Spark, LeadPath Nigeria, Wennovation Hub, The Meltwater Entrepreneurial School of Technology (MEST), and Enterprise Development Centre (EDC), Pan-Atlantic University, Lagos.

KEY FEATURES OF THE Impact Investing MARKET IN NIGERIA

Impact Investment can occur along a spectrum, classified by the degree to which social and/or environmental Impact is prioritized in investment activity. The European Venture Philanthropy Association (EVPA) classification of Impact Investment shows that organizations prioritize financial returns and social impact to differing degrees. Investors along this spectrum may not strictly abide by the criteria developed by GIIN for Impact Investment which involves solving problems and addressing opportunities[15].

Figure 8: Nigeria's Healthcare Industry Value – Chain – Demand Side Analysis



Adapted from GIZ SEDIN NICOP Value Chains in Nigeria, 2019

A broader classification of Impact Investment represents observed investment activities in Nigeria. Impact Investment is achieved in a non-conventional sense due to the country's peculiarities as an emerging market with numerous development needs and the nature of dominant economic sectors. Commercially oriented investors can have a significant impact in Nigeria through their investments. An important by-product of capital deployed by this category of investors is increased capital flow and growth of local businesses[16].

The increasing prominence of non-DFI funding has had implications for the types of businesses receiving Impact Investment. Commercially oriented businesses have, since 2019 till date, been receiving Impact Investment. As such, businesses receiving Impact Investment do not fit into the traditional category of a social enterprise. However, these businesses can leverage Impact Investment by providing low-income households with financial services and energy. GIIN also makes similar findings that some investments, although not meeting the strict definition of Impact Investment - as these investments neither target nor measure Impact. An example of such investment in Nigeria is Paga - a mobile money operator[18].

DRIVERS OF CURRENT TRENDS IN NIGERIA'S Impact Investing MARKET

This section examines the factors influencing the observed patterns of Impact Investment in Nigeria. These can be divided into global and domestic factors, respectively.

Divers of Current Trends in Nigeria's Impact Investing Market	
Global Factors	» Global trends and investors preferences » Growth in Impact Investment ecosystem » Widespread adoption of Impact Investing as a tool for achieving Sustainable Development Goals (SDGs)
Domestic Factors	» Increasing technology adoption » Financing developmental need of Nigeria » Changing policy and regulation landscape » Expanding work or activities of developmental bodies and agencies in developing countries

[15]See https://thegiin.org/characteristics/.
[16]GIIN (2015). The Landscape for Impact Investing in West Africa: Understanding the current status, trends, opportunities, and challenges.
[17]Impact Investors Foundation (2019). Impact Investors' Foundation. Nigeria and Ghana Impact Investing and Policy Landscape.
[18]GIIN (2015). The Landscape for Impact Investing in West Africa: Understanding the current status, trends, opportunities, and challenges.

A. Global factors

These factors transcend international boundaries and are primarily contagious due to widespread globalization.

Global trends and investor preferences: The Impact Investors Foundation places Agriculture as one of the top three (3) sectors – including ICT and financial services, in terms of Impact capital deployment, indicating this sector's growing importance[19]. In addition, GIIN, in its 2020 Annual Impact Investor Survey, found that investors' interest in the Food and Agriculture sector was rising. Investors plan to increase their allocation to this sector[20]. This situation can be explained, in part, by supportive policies in these sectors, which are likely to boost investment[21].

Other global trends such as the Fintech revolution, growth in digital technology, and focus on gender equity and the youth population are also driving investment patterns in Nigeria[22]. Impact investors are primarily interested in financial services, microfinance, energy, and Agriculture, mainly using debt-based instruments. This is reflected in the sectors with the most incredible amount of capital deployed, such as Agriculture which is evolving with the increasing use of digital technology[23].

The dominance of DFIs in Nigeria's Impact Investing is a major driver of investment patterns. These institutions, primarily focused on Energy, ICT, and manufacturing between 2005 and 2015, have recently shown keen interest in the financial and energy sectors. Notably, DFI capital allocated to the financial, energy, and ICT sectors accounted for an average of 32 percent, 81 percent, and 27 percent, respectively, from 2019 to 2021[24].

Growth in the Impact Investment ecosystem: Studies have identified a trend towards diversification in the Impact Investment sector. The range of stakeholders operating in the financial industry is rising, with players such as insurance companies, commercial banks, and pension funds[25]. The observed growth in non-DFI investors supports this assertion.

Impact Investing as a tool for achieving Sustainable Development Goals (SDGs): The alignment between the objectives of Impact Investment and the SDGs makes the former an essential medium for achieving the SDGs. The areas of concern of the SDGs span across a range of sectors encompassing Agriculture, Education, Health, clean energy, and the environment, which are areas in which Impact investors are active. Some Impact investors also consciously align their investment strategy to the SDGs, further supporting the realisation of these goals. In addition, as countries face significant fiscal constraints while facing economic and environmental shocks, Impact Investment becomes increasingly critical to achieving the SDGs.

B. Domestic factors

Technology adoption: GIIN, in its 2015 report, highlights that the focus of ICT investment is on technology as an enabler and points to the optimistic view of investors about the role of technology in Nigeria[26]. As noted above, DFI have become very active in technology, as technology made up 20 percent of total DFI investment in 2021[27]. This trend will likely influence investment in other sectors that will benefit from technological innovations.

Development needs: As an emerging market economy, Nigeria has a wide range of development needs, contributing to the influx of Impact Investment. Based on the Human Development Index (HDI) score of 0.54 in 2021, Nigeria is classified as having low human development by

[19]Ibid.
[20]GIIN (2020). 2020 Annual Impact Investor Survey.
[21]Nigerian NABII (2022). Nigeria Impact Investing Landscape: June 2022.
[22]Rodriguez, A.M (2019). Impact Investing: A Sustainable Opportunity for MSMEs Applied to GIZ SEDIN NICOP Value Chains in Nigeria.
[23]Impact Investors Foundation (2019). Impact Investors' Foundation. Nigeria and Ghana Impact Investing and Policy Landscape.
[24]Nigerian NABII (2022). Nigeria Impact Investing Landscape: June 2022.
[25]Ibid.
[26]GIIN (2015). The Landscape for Impact Investing in West Africa: Understanding the current status, trends, opportunities, and challenges.
[27]Nigerian NABII (2022). Nigeria Impact Investing Landscape: June 2022.

the United Nations Development Programme (UNDP). Nigeria's HDI score reflects poor Health and Educational outcomes, in addition to low GDP per capita. For instance, meeting the Sustainable Development Goals (SDGs) by 2030 requires US$300 billion[28]. This funding requirement to achieve SDGs has promoted Impact Investment into diverse sectors of the economy, such as Agriculture, Education, Health, Energy, and Financial services.

Policy and regulation: The relative improvement in Nigeria's ease of doing business ranking is fast positioning the country for Impact Investing and other investment forms. The enactment of the Finance Act 2021 supports new businesses and efficiency in operations. Pension funds in Nigeria were previously prohibited from investing in private equity. Such prohibitive regulations on pension and insurance companies have contributed to the low content of local capital in Impact Investment. However, recent regulatory reform permit pension funds to invest 5 percent of their assets under management in alternative asset classes (such as private equity) and insurance companies to invest 50 percent of their total assets in listed equity.

Expanding the work or activities of development bodies and agencies in developing countries: Developing countries, like Nigeria, are experiencing an increase in investors operating within their borders as investors seek to take advantage of emerging investment opportunities in these countries. This is partly attributable to advancing development needs in these countries. The recent evolution of DFIs and non-DFIs investing in Nigeria and Africa indicates the growing interest of development bodies in developing regions.

CHALLENGES OF THE Impact Investing IN NIGERIA

Although Nigeria has the largest size of Impact Investment in Africa, relative to GDP, East Africa has the largest size of Impact Investment in Africa. This shows that Nigeria has considerable scope to improve its Impact Investment ecosystem. By addressing the limitations experienced by players in the Impact Investment market, Nigeria could significantly improve investment in numerous sectors of the economy. Challenges encountered in Nigeria's Impact Investment ecosystem include:

Limited investment-ready enterprises: A few enterprises are investment-ready and meet Impact Investment criteria alongside financial returns. This situation is attributable to the prominence of a limited number of sectors and the fragmentation of the West African market. In addition, many existing enterprises lack the capacity to attract investment from Impact investors. Furthermore, poor reporting and professional management hinder investment into promising enterprises with good growth prospects[29].

Enterprises lacking the ability to track business data would struggle to attract Impact capital. SMEs do not have the necessary resources for this endeavour and lack an understanding of the importance of generating this data, according to GIIN[30]. However, investors have noted improved quality of data due to the digitalisation of data engendered by the COVID-19 pandemic[31].

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[28]https://www.undp.org/nigeria/press-releases/united-nations-development-programme-nigeria-launches-sdg-investor-maps-initiative-empower-investors-data-and-insights
[29]GIIN (2015). The Landscape for Impact Investing in West Africa: Understanding the current status, trends, opportunities, and challenges.
[30]GIIN (2015). The Landscape for Impact Investing in West Africa: Understanding the current status, trends, opportunities, and challenges.
[31]Nigerian NABII (2022). Nigeria Impact Investing Landscape: June 2022.

Challenges of the Impact investing in Nigeria – General and Sector-Level	
General	• Limited investment ready enterprises in Nigeria • Under-developed Impact investing markets and products in Nigerian financial markets • Huge funding gaps and difficulty in exiting investments • High operating costs and insufficient ecosystem synergy • High macroeconomic and other financial risks • Unclear policy and regulatory environment
Agriculture	• Lack of credit history and collateral of most firms which implies a high risk for investors. • Complex risk profile due to agronomic and socio-cultural risks • Limited medium and large-scale farming operations. Majority of farmers are smallholder farmers (SHF) • Low demand for financing among SHF due to high-risk evaluation
Healthcare	• High level of uncoordinated action within the sector • High risk in the early product development phase • Limited exit options, and reputational risks
Education	• Long period to scale (i.e low margins) • Few exit options for investors • High risk due to long time horizon and lack of collateral

Source: NESG Research & NNABII

Challenges within the Impact Investing and financial markets: Rising Impact investors do not match the number of deals available, leading to excess demand for limited deals. Most Impact Investment in Nigeria comes from international investors. Domestic investors are skeptical of Impact Investing, making it difficult for social enterprises to obtain finance. Local investors often feel that these investments translate into sacrificing financial return[32]. This situation may be attributable to a lack of understanding of the objectives of Impact Investing.

Funding gaps: In Nigeria, access to finance is highlighted as one of the most intense challenges facing businesses, especially MSMEs. This situation has increased the default in paying wages and salaries of employees. GIIN's 2022 report indicates that more than half of early-stage startups considered cutting jobs[33].

High operating costs: Despite improvement in Nigeria's cost of doing business index, inflationary pressure constitutes a key challenge faced by businesses. With the rising inflation rate and its adverse effects on consumers' purchasing power, Nigeria's cost of living has increased significantly. Also, business operations costs are relatively high due to high import costs, multiple taxes, and heightened registering property. As a result, some Impact investors are forced to operate from outside the country, which lowers their ability to be informed about advantageous developments.

Macroeconomic and other risks: Foreign exchange risks, repatriation of capital, and profits risks are challenges investors face in the Nigerian market. Due to Nigeria's high dependence on oil, the country is susceptible to the vagaries of the oil market. This situation contributes to devaluations, volatility in the value of the Naira and overall macroeconomic instability, which negatively affects Foreign Direct Investment (FDI) inflow. In addition, according to the 2022 GIIN report, investors encounter difficulty repatriating funds from investments within Nigeria, which could act as a disincentive to investment[34].

Unclear policy and regulatory environment: The unstable regulatory environment marked by policy inconsistency and incongruence are inimical to attracting investment. An inability to predict policy direction and a lack of clear legislation discourage investment[35]. An enabling and stable business environment is critical to support the Impact Investment ecosystem.

[31]Nigerian NABII (2022). Nigeria Impact Investing Landscape: June 2022.
[32]GIIN (2015). The Landscape for Impact Investing in West Africa: Understanding the current status, trends, opportunities, and challenges.
[33]Ibid.
[34]Ibid.
[35] GIIN (2015). The Landscape for Impact Investing in West Africa: Understanding the current status, trends, opportunities, and challenges.

A. Agriculture

Lack of credit history and collateral: SMEs and social enterprises struggle to obtain funding due to a lack of credit history and large collateral requirements placed on them by risk-averse investors. This condition hinders their ability to thrive and scale their business operations.

Complex risk profile: Due to the high default risk associated with SMEs and the general perception that Agriculture is a high risk venture, smallholder farmers struggle to access affordable capital. Investments in Agriculture often involve risk-taking over several years, which can be a disincentive to investment[36]. The high rate of illiteracy among farmers and the low capacity to adopt innovative methods are some factors that raise the risk associated with an investment in Nigeria.

Limited medium and large-scale farming operations: There is a high prevalence of smallholder farmers in the Nigerian Agriculture sector, as eighty (80) percent of farming in Nigeria is undertaken by smallholder farmers (SHFs)[37]. Investing in small-scale farming is associated with a higher level of risk which negatively affects the allocation of Impact Investment activities into the Agriculture sector. Given limited capital to scale, small-scale farmers struggle to expand. Therefore, there is a limited number of medium and large-scale farmers in Nigeria, equally limiting the investment options of Impact investors in the sector.

Low demand for financing by SHFs: The high collateral requirements faced by SHFs due to the risky nature of small-scale agricultural activities act as a disincentive for these businesses to seek investment, negatively affecting the Impact Investing ecosystem.

B. Health care

High level of uncoordinated action within the sector: Nigeria's Healthcare system is marked by poor coordination and fragmentation of services[38]. A lack of adequate coordination across the country has led to wide variations in service delivery and quality. The resulting structural inefficiencies discourage the much-needed investment in the poorly resourced sector.

High risk in the early product development phase: Early-stage enterprises are associated with elevated risk. In addition, medical product development is also hazardous and complex due to the technical nature of this activity and the different risks present such as the inadequate definition of product requirements and poor design specifications[39].

Limited exit options and reputation of the Health sector: Equity and quasi-equity investors in various sectors, including Healthcare and Education, face limited exit options. This situation is observed to negatively impact the participation of Impact investors in the Nigerian market[40]. This situation is due to many factors, including shallow capital markets and capital controls. Nigeria's Health system is also marred by a reputation for medical tourism which may lower the perceived viability of investing in Healthcare.

C. Education

Long period to scale: Compared with other sectors, scaling in Education doesn't generally translate into lower variable costs. In addition, the complexity associated with setting up an Educational institution and its dependence on human resources makes scaling more challenging[41].

[36]NABII (2022).
[37]Current State of Nigeria Agriculture and Agribusiness Sector (2020)
[38]The Nigerian Health care system: Need for integrating adequate medical intelligence and surveillance systems (2011). J Pharm Bioallied Sci; 3(4):470-8.
[39]Kirkire, M.S., Rane, S.B. & Jadhav, J.R. (2015) Risk management in medical product development process using traditional FMEA and fuzzy linguistic approach: a case study. J Ind Eng Int. Vol 11, 595–611. https://doi.org/10.1007/s40092-015-0113-y
[40]GIIN (2015). The Landscape for Impact Investing in West Africa: Understanding the current status, trends, opportunities, and challenges.
[41]Cooley, L, Seghers, M, Perlman, J (2021). Planning for scale: The Education Scalability Checklist. https://www.brookings.edu/blog/Education-plus-development/2021/02/24/planning-for-scale-the-Education-scalability-checklist/amp/

Few exit options for investors: Owing to the nature of the sector, there is a limited exit options for non-founder investors in the Education sector. This situation is observed to negatively affect the ability of the Nigerian Impact Investing market to attract the required investors. This situation is due to many factors, including shallow capital markets and capital controls.

High risk due to long time horizon and lack of collateral: Reaping the financial and social returns from Impact Investment in the Educational sector can take a relatively long time. A lack of collateral coupled with elevated risk from the complexity and nature of the sector contributes to subdued investment in the sector.

C H A P T E R   F O U R

Demand-Side Analysis – Nigerian MSMEs Landscape

DEMAND SIDE ANALYSIS OF THE Impact Investing MARKET IN NIGERIA

The role of micro, medium and small-sized enterprises (MSMEs) as a critical conduit of innovation, economic growth and development cannot be overemphasised. MSMEs account for 49.7 percent of Nigeria's GDP, 87.9 percent of the total employment stock, and 6.12 percent of total exports in 2020. Also, MSMEs represent 96.7 percent of businesses in Nigeria[42]. Moreover, SMEDAN defined MSMEs in terms of asset value and workforce size. The 2021 MSME Survey captured four business types (see Table 2). If a conflict exists between employment and assets criteria, the employment-based classification will precede the other criterion.

Table 2: Nigeria's Definition of Businesses

Category	Total Asset Value (excluding land, buildings, and vehicles)	Workforce size
Nano	Less than 3 million (< 7,212)	1-2
Micro	3 million < 25 million (= 7,212 < 60,096)	3-9
Small	25 million <100 million (= 60,096 < 240,385)	10-49
Medium	100 million < 1 billion (= 240,385 < 2.4 million)	50-199

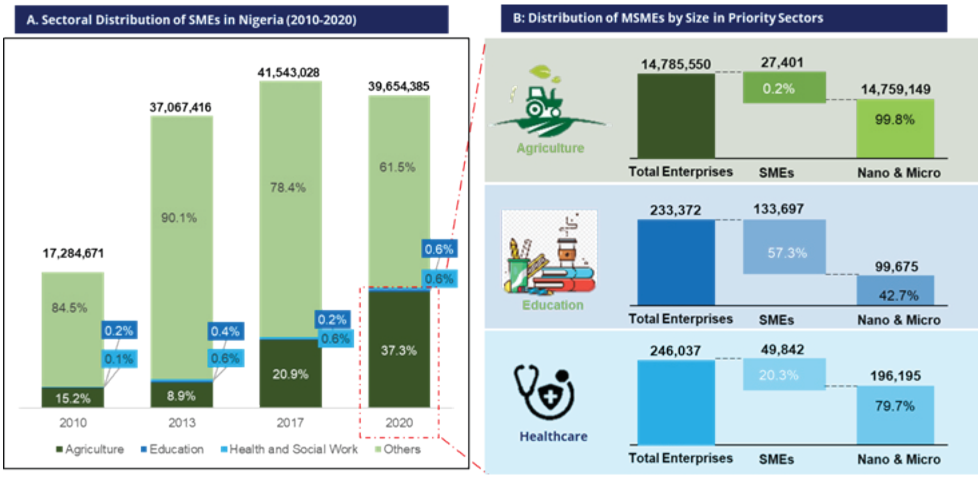
Source: SMEDAN National MSMEs Policy, 2021-2025

Since 2010, there has been an upsurge in the MSMEs count in Nigeria, rising from 17.3 million firms in 2010 to 39.7 million firms in 2020. However, the number of MSMEs in 2020 represents a 4.3 percent decline from 41.5 million firms in 2017. To this end, the current section discusses the demographic characteristics and features of MSMEs in Nigeria, emphasising three priority sectors: Agriculture, Education and Health. In addition, the section centres on the challenges of MSMEs, sources of business finance available to MSMEs, and sizing the MSMEs finance gap in Nigeria.

SECTORAL DISTRIBUTION OF MSMES IN NIGERIA

The sectoral distribution of Nigerian MSMEs is skewed to a few sectors. The distribution of MSMEs in Nigeria across the activity sectors varied from 2010 to 2020 (see Figure 12). In 2020, the sectors with the largest count of MSMEs were Agriculture (37.3 percent) and Trade (33.1 percent). Likewise, Agriculture is the second largest uptake of Nigerian entrepreneurs (11.6 percent of total respondents) after the Retail, Fashion and Fast-Moving Consumer Goods sector (22.9 percent)43. Health and Education are among the sectors with the least SME headcount in 2020, with a 0.6 percent share each. However, Education and Health have about a five (5) percent uptake of entrepreneurs. Focusing on the three priority sectors showed that Micro-enterprises accounted for the largest share of the total MSMEs count in the case of Agriculture (99.8 percent) and Health (79.7 percent) in 2020. However, the MSMEs space in the Education sector was dominated by the SME headcount (57.3 percent) in 2020.

Figure 12: Sectoral Distribution of SMEs in Nigeria (2010-2020)



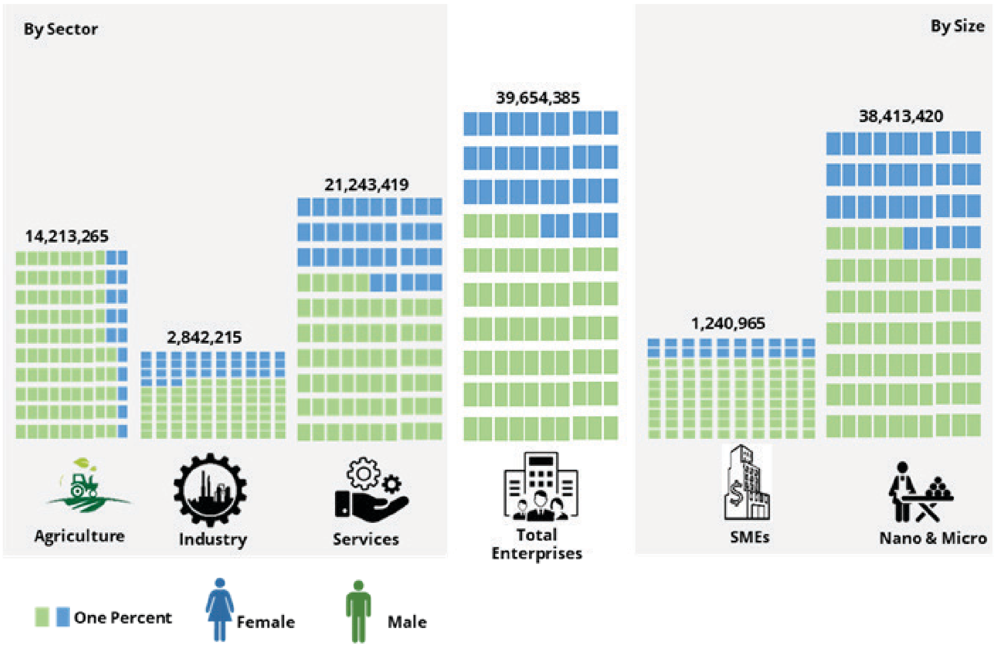
Data: NBS & SMEDAN, 2010-2020 Chart: NESG Research

Putting a gender lens on the ownership structure of MSMEs in Nigeria shows grossly under-represented female participation in the ecosystem. Although the situation keeps improving with the emergence of many gender-focused business development support programmes, only 32.8 percent of MSMEs in Nigeria are owned by the female gender. Meanwhile, the more significant proportion of women-owned businesses is Nano and micro-enterprises, accounting for 32.9 percent (12,638,015) of this class of enterprises in Nigeria. However, fewer women are participating in the MSME space, responsible for only 20 percent (248,193) of SMEs operating in Nigeria.

Across the broad sectors, women-owned MSMEs are predominant in the services and Agriculture sectors, accounting for 35.3 percent (7,477,683) and 15.0 percent (2,131,990) of MSMEs in Nigeria, respectively. In the industrial sector, 33.3 percent (946,456) of MSMEs are owned by women. Across the top five (5) MSME sectors[44], men-owned enterprises dominated Agriculture (84.9 percent) and Service (54.8 percent) sectors. On the other hand, women-owned enterprises were more prevalent in Accommodation & Food Services (86.8 percent), Manufacturing (68.7 percent), and Wholesale/Retail Trade (64.5 percent)[45].

[42]SMEDAN & NBS (2021). Nigerian MSME Survey Report, retrieved from: https://smedan.gov.ng/wp-content/uploads/2022/03/2021-MSME-Survey-Report_1.pdf
[43]Fate Foundation (2021). 2021 State of Entrepreneurship in Nigeria Report, retrieved from: https://www.fatefoundation.org/download/2021soe/
[44]Top sectors that MSMEs fall into are five viz; Wholesale/Retail trade (42.3percent), Agriculture (20.9 percent), Other Services (13.1 percent), Manufacturing (9.0 percent) and
[45]Accommodation & Food Services (5.7 percent).
SMEDAN & NBS (2021). Nigerian MSMEs Survey Report, retrieved from: https://smedan.gov.ng/wp-content/uploads/2022/03/2021-MSME-Survey-Report_1.pdf

Figure 13: Distribution of MSMEs in Nigeria by Broad Sector, Size & Gender

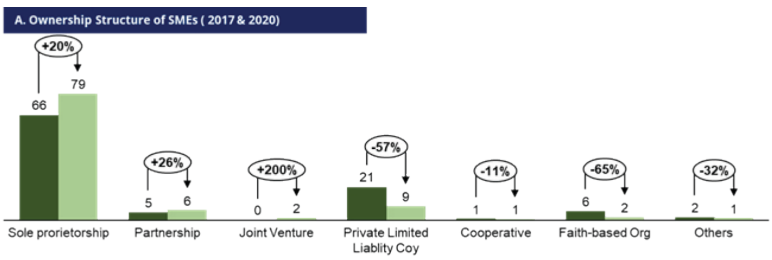


Data: SMEDAN & NBS, 2021 Chart: NESG Research

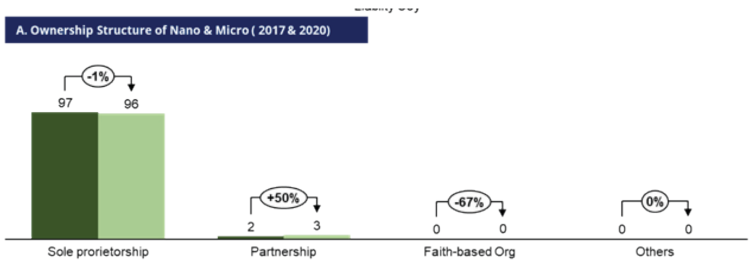
Features of MSMEs Firms in Nigeria

Most MSMEs in Nigeria operate as one-person businesses, which also informs businesses' legal and gender status. Sole proprietorship accounted for 57.5 percent of SME business owners in 2010, and the share jumped to 79.1 percent in 2020 (see Figure 14a). This condition is also the case with micro-enterprises dominated mainly by a sole proprietorship, with over 90 percent share from 2010 to 2020 (see Figure 14b). Meanwhile, the SMEs operating under a Private limited liability status represented 27.2 percent of the total SME headcount in 2010 but dropped to 8.9 percent in 2020. This situation reflects a series of divestments witnessed across activity sectors in Nigeria over a similar period. Consequently, the share of registered SMEs declined sharply from 80.8 percent in 2010 to about 50 percent in 2020[46].

Figure 14: Ownership Structure of Nigeria's MSMEs (2010-2020)



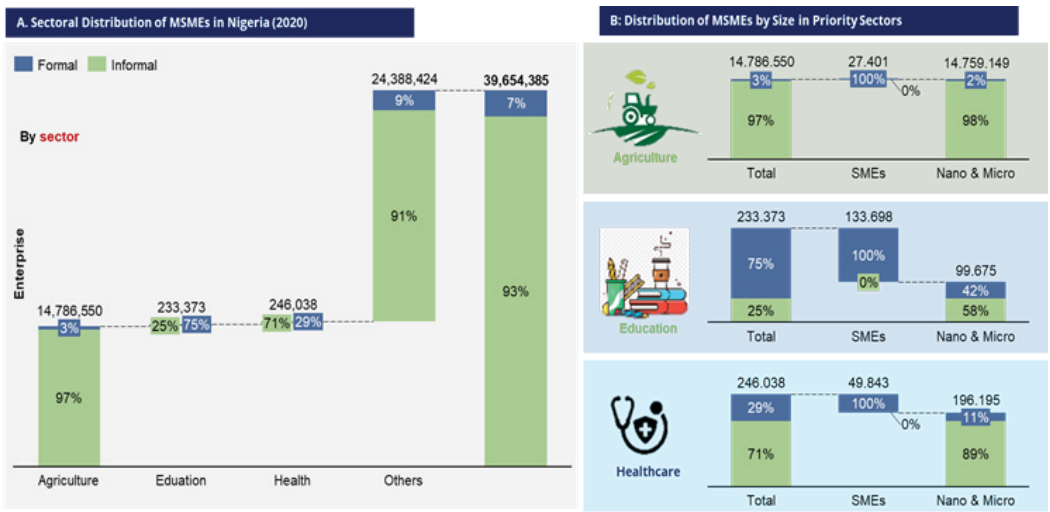
[46]SMEDAN & NBS (2021). Nigerian MSMEs Survey Report, retrieved from: https://smedan.gov.ng/wp-content/uploads/2022/03/2021-MSME-Survey-Report_1.pdf



Data: SMEDAN & NBS; Chart: NESG Research

Similarly, less than 5 percent of Micro-Enterprises registered with the Corporate Affairs Commission (CAC) from 2010 to 2020. To corroborate this, Fate Foundation[47] revealed that most small businesses are incorporated as a business name (75 percent of businesses), with the remaining 25 percent of respondents incorporated as either a private company limited by shares (19 percent), company limited by guarantees (3 percent), or public company limited by shares (3 percent). This situation reiterates that many MSMEs in Nigeria operate within the informal sector. The informal sector accounted for about 96 percent of micro-enterprises in 2020. Moreover, there is a gender imbalance in business ownership. About 86.4 percent of SMEs are under the purview of sole male proprietors, leaving just 13.6 percent of businesses under the female owners' watch. Sector-wise, estimates showed that male business owners ran about 92.3 percent, 89.4 percent and 62.1 percent of SMEs in the Agricultural, Health and Education sectors, respectively, as of 2020[48].

Figure 15: Distribution of MSMEs by sector, Size and Formality in Nigeria



Data: SMEDAN & NBS, Chart & Calculations: NESG Research

[47]Fate Foundation (2021). 2021 State of Entrepreneurship in Nigeria Report, retrieved from: https://www.fatefoundation.org/download/2021soe/
[48]SMEDAN & NBS (2021). Nigerian MSMEs Survey Report, retrieved from: https://smedan.gov.ng/wp-content/uploads/2022/03/2021-MSME-Survey-Report_1.pdf

Employment opportunities in Nigerian MSMEs are concentrated in a few sectors. From 2010 to 2020, the most employment-elastic sectors in the SME space include Education, Manufacturing and Trade, with a combined share of 58.5 percent of the total employment stock in 2020 (see Figure 16a).

Conversely, the sectors having the most prominent employment capacity in Nigeria's Micro-enterprises are Trade and Agriculture, with a total contribution of 78 percent to the employment stock in 2020 (see Figure 16b).

MSME Survey: Formality and Membership of Trade or Business Group

The analysis highlighted that about 10.0 percent of firms that participated in the survey were not registered. Similarly, 27.5 percent of firms didn't belong to a trade group or business membership organisation. On the sectoral distribution, all firms that indicated non-registration of business operate in the agricultural sector.

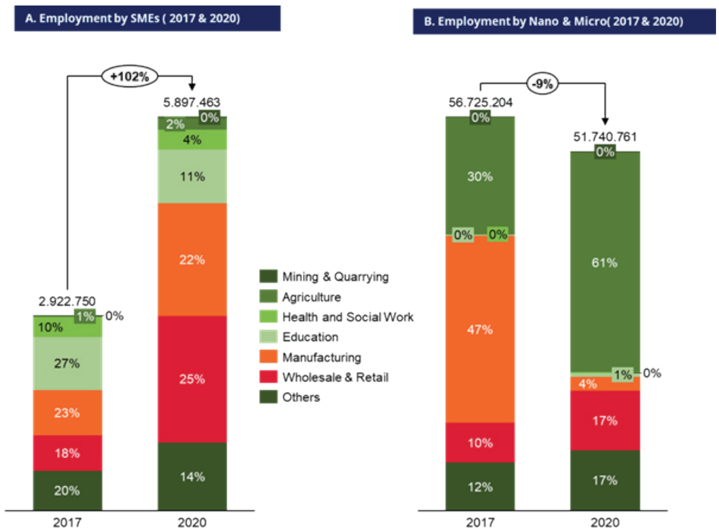
In the same pattern, the sector also accounted for most firms with no association with trade groups or business membership organisations. This skewness of informality in the sector could be due to the dominance of smallholder farmers in the sector.

Business Registration (n = 40)			
	Missing Figure	No	Yes
Agriculture	0.0%	10.0%	42.5%
Education	0.0%	0.0%	10.0%
Health	0.0%	0.0%	12.5%
Other	0.0%	0.0%	15.0%
Total	7.5%	10.0%	82.5%
Membership of a Business Association or Trade Group (n=40)			
	Missing Figure	No	Yes
Agriculture	0.0%	12.5%	40.0%
Education	0.0%	2.5%	7.5%
Health	0.0%	5.0%	7.5%
Other	0.0%	5.0%	10.0%
Total	7.5%	27.5%	65.0%

Source: NESG Research & NNABII

This situation suggests that improved financial and non-financial support extended to Agriculture, Manufacturing, Education and Trade could enhance their job-carrying capacity and reduce the country's unemployment rate, which stood at an all-time high of 33.3 percent as of 2020. However, MSMEs operating in the Mining & Quarrying sector have one of the lowest employment rates in Nigeria (see Figures 16a and 16b).

Figure 15: Employment Distribution by MSME Size and Sector in Nigeria



Data: SMEDAN & NBS; Chart: NESG Research

MSME Survey: Employment Status and Distribution of Firms

As highlighted above, the survey showed that 52.5 percent of businesses operate in the Agriculture sector. Only 10.0 percent and 12.5 percent of firms that participated in the survey operate in Education and Health sectors, respectively. The remaining firms (15.0 percent) operate in other sectors, such as construction, oil and gas, and hospitality. There is no information regarding industry/sector for 10 percent of the firms. The gender analysis of these firms indicated the dominance of the male-gender (70 percent) in managing these businesses. Only 10.0 percent of Agriculture firms have female heads, which is much lower for Health (5.0 percent). None of the managing directors of businesses in the Education sector is female.

	Size of Employees					
		1-10	11-50	51-100	101-200	501 & above
	7.5%	2.5%	0.0%	0.0%	0.0%	0.0%
Agriculture	0.0%	37.5%	10.0%	0.0%	2.5%	2.5%
Education	0.0%	7.5%	0.0%	2.5%	0.0%	0.0%
Health	0.0%	10.0%	2.5%	0.0%	0.0%	0.0%
Other	0.0%	5.0%	5.0%	2.5%	0.0%	2.5%
Total	7.5%	62.5%	17.5%	5.0%	2.5%	5.0%
Employees Distribution by Gender Ratio (Male: Female)						
		100:0	80:20	60:40	40:60	20:80
	7.5%	0.0%	2.5%	0.0%	0.0%	0.0%
Agriculture	2.5%	12.5%	17.5%	7.5%	10.0%	2.5%
Education	0.0%	2.5%	0.0%	2.5%	2.5%	2.5%
Health	0.0%	0.0%	0.0%	5.0%	5.0%	2.5%
Other	2.5%	2.5%	5.0%	5.0%	0.0%	0.0%
Total	12.5%	17.5%	25.0%	20.0%	17.5%	7.5%

Source: NESG Research & NNABII

CHALLENGES FACING MSMES IN NIGERIA

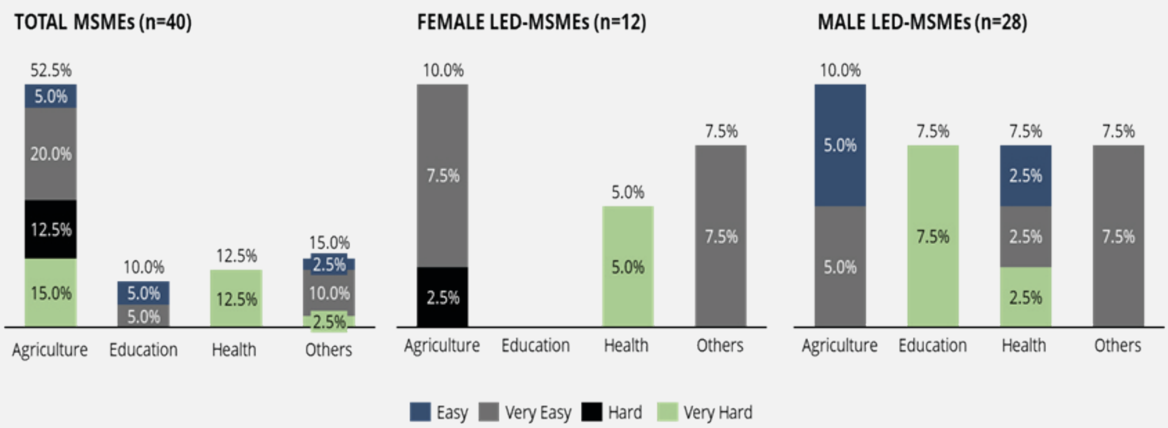
The challenges facing MSMEs in Nigeria are enormous, but the pronounced constraints to business survival and growth include the following.

Limited access to sustainable financing results in massive business failure. About 27.8 percent of MSMEs cited limited access to finance as their primary business constraint in 2020 (SMEDAN & NBS, 2021). As a result, about 80 percent of MSMEs in Nigeria could not survive after five years. This situation is further worsened by a lack of business plans and unacceptable feasibility reports, an inability to raise the required equity contribution, an absence of collateral securities and a lack of business documentation.

MSME Survey: Ease of Access to Finance

This survey section is critical to achieving the study's objectives- the deep dive approach. According to the Figure below, 25.0 percent of firms in Agriculture, 10.0 percent in Education and 12.5 percent in other industries identified that it is easy to access finance in Nigeria. 27.5 percent of Agriculture firms and 12.5 percent in Health indicated that it is difficult to access finance.

Across gender, more female led-firm in Agriculture (7.5 percent) found it easier to access finance than male-led firms. For firms in the Health sector, it is harder to access finance for a female-led firm (5.0 percent) than for male-led firms (2.5 percent).



Source: NESG Research & NNABII

Excessive regulation, complex and cumbersome tax process – High and multiple taxation stunts the survival and growth of MSMEs in Nigeria. About 19 percent of MSMEs cited high taxes as one of the most unfavourable government policies for businesses. In comparison, about 12.5 percent of MSMEs blamed their challenges on inconsistent policies in the country[50].

Infrastructural deficit: The operational cost of business is very high due to a lack of basic infrastructures, such as electricity, with many businesses running on generators. On the other hand, firms that cannot afford the high costs of alternative energy sources are pushed out of business. For example, about 14.2 percent of MSMEs reported inadequate infrastructure as their business constraint in 2020[51].

Challenges of MSMEs in Nigeria		
• Limited access to sustainable financing results in massive business failure. • Excessive regulation, complex and cumbersome tax process • Huge infrastructural deficit • Limited managerial skills among MSMEs • Low digital adoption for business operations • Domestic supply chain challenges • Presence of high number of unskilled workforce	Agriculture	• Huge knowledge gaps among farmers especially on modern techniques of farming. • Limited availability of quality inputs, fertilizers and other raw materials. • Huge infrastructural gap, especially irrigation and insufficient mechanisation. • Limited access to finance • Inconsistent government policy on agriculture.
	Education	• Insufficient trained manpower • Poor Healthcare Infrastructure • Limited financial resources for establishing necessary medical infrastructure • Weak policy framework for healthcare sector • Inadequate technical expertise & maintenance support for medical equipment
	Healthcare	• Insufficient trained personnel • Huge infrastructural and institutional challenges • Limited access to finance for establishing necessary infrastructure and facilities • Poor management of educational curriculum

Source: NESG Research & NNABII

Managerial problem: Most MSMEs in Nigeria lack the requisite entrepreneurial skills to keep businesses running and attractive to investors. About 15.3 percent of MSMEs cited a lack of entrepreneurial and vocational training as a significant business constraint[52].

Low digital adoption: A few MSMEs in Nigeria conduct their business transaction online. Overall, only 18 percent of MSMEs explored e-commerce as of 2020. Specifically, the Trade sector has the highest number of e-commerce MSMEs (23 percent of total MSMEs), followed by Manufacturing (17.8 percent), Education (10 percent), Professional services (10 percent), Health (3.7 percent) and Agriculture (2.5 percent)[53]. This situation suggests the potential of the priority sectors to explore digital activities offered by innovative tech startups, including Agtech, Edtech and Healthtech in Nigeria.

Domestic supply chain challenges: Nigerian MSMEs depend on imported intermediate inputs to produce finished manufacturing products. Overall, imported raw materials accounted for about one-third of the total input requirements of Nigerian MSMEs as of 2020. While the MSMEs in the Agriculture and Education sectors rely more on domestic raw inputs, the Health sector depends more on foreign raw materials as of 2020[54].

The huge presence of ***an unskilled workforce*** makes it difficult for domestic firms to internalize and keep pace with foreign technologies and global best practices in the art and science of business. Many employees in Nigerian MSMEs need more skills and competencies to enhance business performance. Specifically, more than one-third of workers in MSMEs operating within the three priority sectors – Agriculture, Education and Health – represent the crop of the unskilled workforce as of 2020[55].

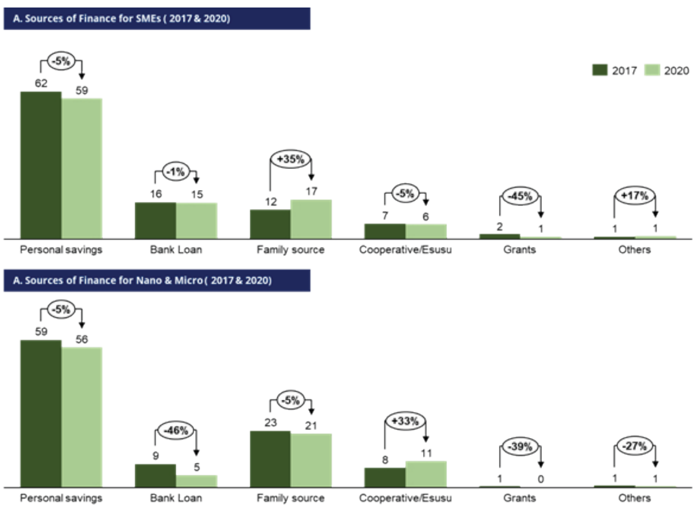
[49] SMEDAN & NBS (2021). Nigerian MSME Survey Report, retrieved from: https://smedan.gov.ng/wp-content/uploads/2022/03/2021-MSME-Survey-Report_1.pdf
[50] Ibid. 52
[51] Ibid. 52
[52] SMEDAN & NBS (2021). Nigerian MSME Survey Report, retrieved from: https://smedan.gov.ng/wp-content/uploads/2022/03/2021-MSME-Survey-Report_1.pdf
[53] Ibid. 55
[54] Ibid. 55

DEMAND FOR CREDIT OR ACCESS TO FINANCING

As earlier established, many MSMEs are run by sole proprietors, and the primary source of business finance emanates from the business owners. For MSMEs in Nigeria, the three (3) significant sources of business finance could be traced to personal savings, cooperative association & thrift (Esusu) and the family. These sources constitute over 80 percent of business financing available to SMEs in 2020 (see Figure 18a). However, for Micro enterprises, two (2) sources – personal savings and family sources - account for 83 percent and 80.5 percent in 2017 and 2020, respectively.

Meanwhile, business grants constitute a minor source of finance for Nigerian MSMEs, with less than 2.2 percent and 0.6 percent of funding going into SMEs and Micro businesses over a similar period. This situation suggests a huge vacuum in MSME financing that unexplored funding opportunities, such as impact or patient capital, could fill.

Figure 18: Sources of MSMEs financing in Nigeria in 2017 and 2020 (Share of Enterprises, %)



Data: SMEDAN & NBS; Chart: NESG Research

Notably, Nigerian MSMEs are classified as not being investment ready, and this singular factor has reduced the attractiveness of these businesses to new financing models such as impact investible funds. The critical factors that have narrowed the access of MSMEs to non-traditional sources of business finance include but are not limited to:

- **High level of informality** – most businesses are dominated by micro-enterprises which operate mainly under the informal sector.
- **Fear of business ownership domination due to the desire to maintain control** – MSME operators in Nigeria prefer debt financing over equity financing.
- **Lack of business plans** for operational continuity and/or expansion.
- **The absence of an updated database** to assess the potential of MSMEs across the different sectors of the Nigerian economy. This situation has made it difficult for these MSMEs to access Impact Investment funds that abound globally.

- **High business-related risks:** Less than 5 percent of Nigerian MSMEs have an active insurance policy.
- **Huge skills gap** – many MSMEs do not survive due to the bad management and poor leadership skills of business owners or partners.
- **Low awareness about Impact Investing products:** Impact Investing is not widely understood, and there is no shared understanding that business needs to be good for people and the world.

MSME Survey: Importance of Financial Products to MSMEs in Nigeria

Regarding financial products' importance, i.e availability, there are varying degrees across sectors and products. In the Agriculture sector, 4.3 percent of firms with access to finance indicated that funds from family and friends are the most important. 8.7 percent of Agriculture firms also indicated that loans from banks and guarantees are the most important.

Other forms of financial products such as grants from NGOs & government and venture capital are also most important to 4.3 percent of firms in the Agriculture sector that have accessed finance recently. The increased development or availability of social-impact related interventions and fund opportunities in Nigeria's agricultural sector also helped diversify funding sources.

	Agriculture			Education			Health		
	Important	More important	Most important	Important	More important	Most important	Important	More important	Most important
Funds from Family and Friend	8.7%	8.7%	4.3%	4.3%	8.7%	0.0%	0.0%	4.3%	8.7%
Grants from NGOs & government	0.0%	4.3%	4.3%	8.7%	0.0%	4.3%	4.3%	0.0%	4.3%
Loans from Banks	4.3%	8.7%	8.7%	4.3%	4.3%	0.0%	0.0%	0.0%	0.0%
Equity investment	8.7%	0.0%	0.0%	4.3%	4.3%	0.0%	4.3%	0.0%	0.0%
Guarantee	0.0%	4.3%	8.7%	4.3%	4.3%	0.0%	0.0%	0.0%	0.0%
Hybrid (Equity investment & Loans)	4.3%	4.3%	0.0%	4.3%	0.0%	4.3%	0.0%	0.0%	0.0%
Venture Capital	4.3%	0.0%	4.3%	8.7%	0.0%	0.0%	0.0%	0.0%	0.0%
Angel financing	4.3%	4.3%	0.0%	4.3%	4.3%	0.0%	0.0%	0.0%	4.3%
Others	0.0%	4.3%	13.0%	4.3%	4.3%	0.0%	0.0%	0.0%	0.0%

Source: NESG Research & NNABII

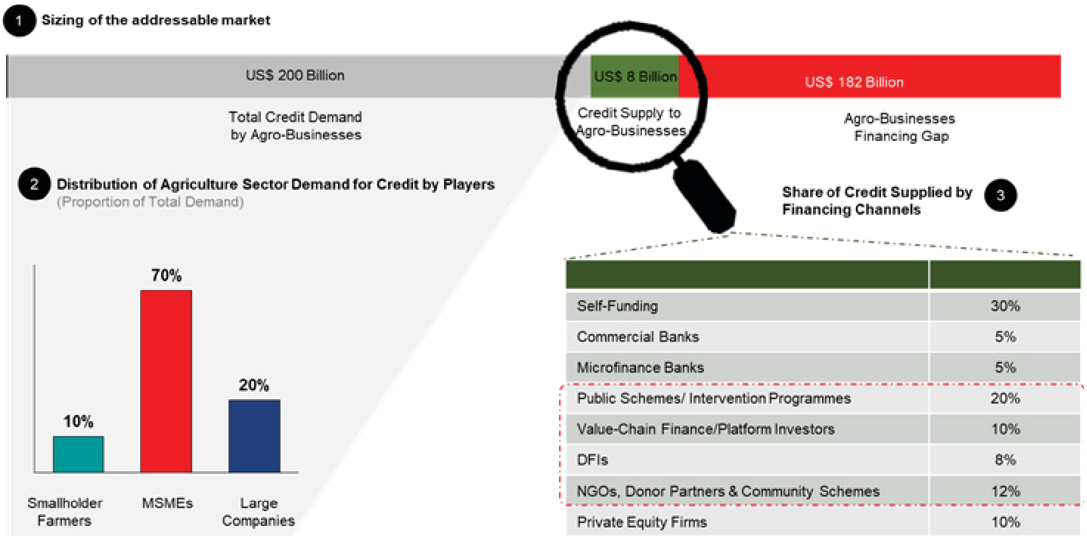
THE SIZE OF MSMES FINANCE GAP IN NIGERIA

Meanwhile, since many Micro, Small and Medium-sized Enterprises (MSMEs) operate in the informal sector, an enormous funding gap still needs to be met. The vacuum could be filled through the Impact of patient capital. Accessing Impact Investment funds would enhance the role of MSMEs in Nigeria's economic development. The limited access of MSMEs to sustainable sources of business finance has created a wedge between the investment requirements of firms and the actual funds available.

In Nigeria, the MSMEs finance gap was estimated at US$158 billion, representing 3 percent of the total finance gap for MSMEs in developing countries as of 2017[56]. Similarly, the National Bureau of Statistics (NBS) submitted that less than 5 percent of SMEs have been able to access adequate finance for operational activities, business growth and expansion[57]. To support the enormous funding gap Nigerian MSMEs face, data from the CBN showed that small businesses accounted for less than 1 percent of total commercial banking credit in 2018.

In sectoral terms, the financing gap for agricultural MSMEs in Nigeria is estimated at ₦76 trillion (US$182 billion). The MSMEs finance gap accounts for about 80 percent of the sector's financing gap[58], including informal smallholder farmers. Out of the US$8 billion (₦3.34 trillion) credit supply to Agriculture, about 50 percent is provided by stakeholders within the Impact Investing market, such as public schemes/ interventions programmes, platform investors, DFIs and philanthropic bodies such as NGOs, international development bodies and other community-based schemes.

Figure 19: Financing Gap in the Nigerian Agricultural Sector



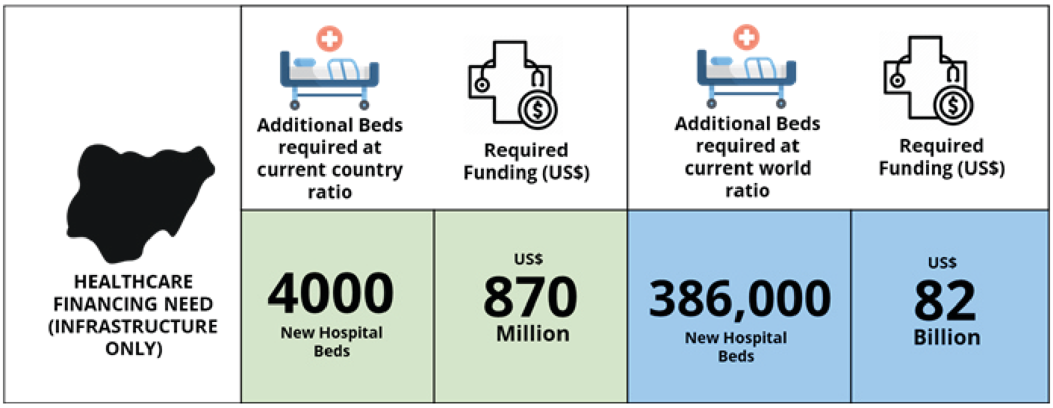
Data: Agri-Logic (2021) Chart; NESG Research

Financing the Healthcare sector is a topical issue in Nigeria, like in most developing countries. This is despite the 2001 Abuja Declaration on the Health sector by the African Union, where African countries pledged to allocate 15 percent of their annual budget to Health care. The Nigerian government has yet to achieve half of this goal since 2001. As a result, more than 70 percent of Healthcare spending in Nigeria is out-of-pocket expenses by households.

Using the global average bed-to-population ratio of 2.7 beds per 1000 people, Nigeria is estimated to need an additional 386,000 beds[59]. This estimate was adopted to estimate the financing gap in the Nigerian Healthcare sector at US$82 billion as of 2019[60]. This figure captures the needed investment in real estate and infrastructural development only.

[56]IFC, MSME Financing Database, 2017
[57]PwC (2020). PwC's MSME Survey 2020: Building to Last Nigeria Report, retrieved from: https://www.pwc.com/ng/en/assets/pdf/pwc-msme-survey-2020-final.pdf
[58]Agri-Logic (2021). Addressing The $200 Billion Demand for Finance for Agriculture and Agribusiness in Nigeria, retrieved from: https://agri-logic.nl/access-to-finance-nigeria/
[59]Knight Frank (2020). Healthcare in Africa 2020, retrieved from: https://content.knightfrank.com/research/1981/documents/en/Healthcare-in-africa-2020-7198.pdf
[60]Ibid. 54

Figure 20: Financing Gap in Nigeria's Healthcare Sector



Data: FrankKnight, 2019 Chart: NESG Research

Meeting the United Nations Education, Scientific and Cultural Organisation (UNESCO) 's required Education funding target of 15 to 20 percent of annual budgetary allocation has been a tall call for Nigeria. Aside from falling to meet the stipulated UNESCO's target, the funding gap in the Nigerian Education sector was estimated at N1.3 trillion (US$3.3 billion)[61] as of 2021[62], which is 73.7 percent higher than PwC's funding gap estimate of about N572 billion (US$1.9 billion)[63] as of 2017[64].

The intensity of the funding gap in Nigeria is observed to be primarily observable in the post-secondary level of Education. The Universal Basic Education (UBE) is a government agency at the federal and state levels dedicated to managing the primary and secondary tiers of Education. Due to the limited funding for tertiary Education, there have been incessant labour union actions in the segment which could be addressed with Impact Investing products.

IMPACT INVESTING PRODUCTS AND MSMES IN NIGERIA

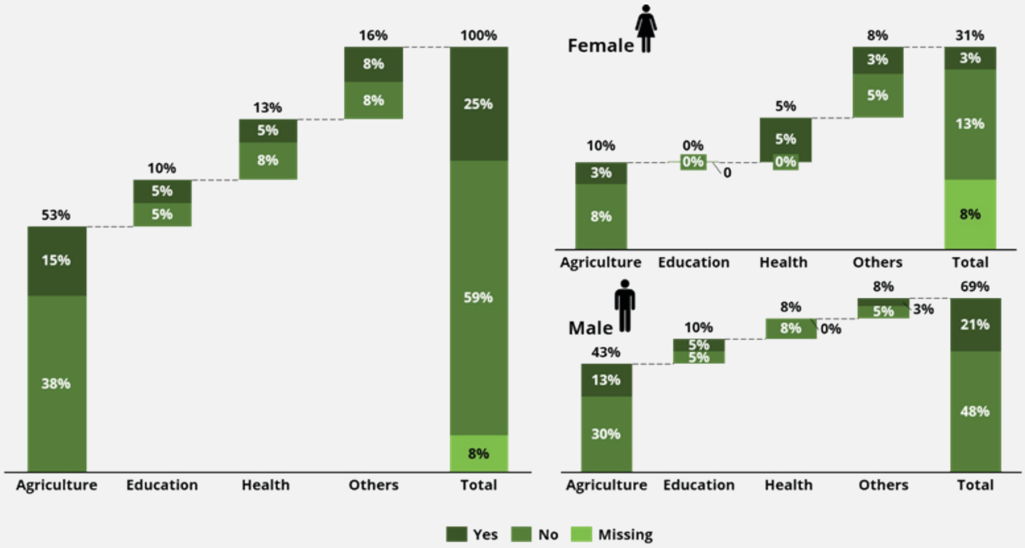
The emergence of the Impact Investing ecosystem has largely exposed Nigerian MSMEs in traditional sectors to alternative funding opportunities, including Venture Capitalist (VC) financing, philanthropy, and grant awards, among others. Despite the growing momentum of venture capitalism within the African digital ecosystem, critical funding gaps still exist, especially for early-stage technology ventures.

Another important Impact Investing product available to Nigerian MSMEs is philanthropy and business grants. A critical milestone in this regard is the Tony Elumelu Foundation (TEF) entrepreneurship programme launched in 2010. Specifically, in 2015, TEF Founder Tony O. Elumelu and his family made a US$100 million commitment to implement an entrepreneurship programme designed to empower 10,000 African entrepreneurs over the next ten (10) years through training, mentorship, funding, and access to market linkages. This performance corresponds to a yearly investment of US$10 million.

[61]https://yourbudgit.com/wp-content/uploads/2021/06/2021-Education-Budget-Analysis-1.pdf
[62]BudgIT and MacArthur Foundation (2021). Education Fund: Leaving No Child Behind: 2021 Education Budget Analysis, retrieved from: https://yourbudgit.com/wp-content/uploads/2021/06/2021-Education-Budget-Analysis-1.pdf
[63]The average official exchange rate of N305.3/US$1 in 2017 was used for currency conversion.
[64]PwC (2019). Closing the funding gap in social infrastructure: Making the case for adoption of endowment funds, retrieved from: https://www.pwc.com/ng/en/assets/pdf/adopting-endowment-funds.pdf

MSME Survey: Awareness of Impact Investing Products/Funds
A critical point before access is awareness about the Impact Investing products by the enterprises. From the survey results, 59 percent of firms indicated non-awareness of the Impact Investing funds in Nigeria. Twenty-five (25) percent highlighted that they are aware of these products, while 8 percent didn't respond to the question.

Results on the gender dimension also showed that only 3 percent of female-led firms are aware of Impact Investing products, while 21 percent of male-led firms indicated awareness. In the sectoral distribution, only 15 percent of Agriculture and five (5) percent of Education and Health firms indicated awareness of these Impact Investing products.



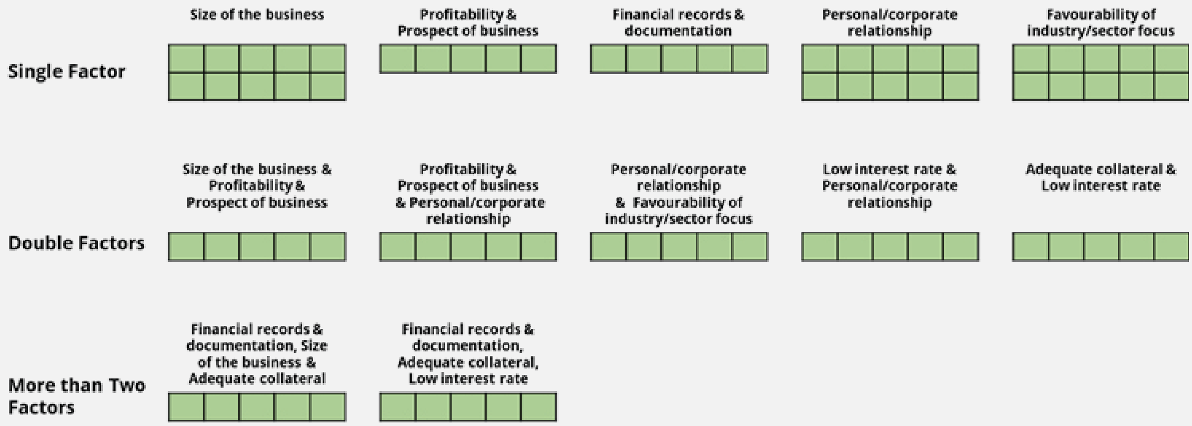
Source: NESG Research & NNABII

In 2021, TEF received 406,257 applications, half of which were considered at the shortlisting stage. Nigeria accounted for 70.6 percent of the total applications in 2021 (equivalent to 286,817 Nigerian applicants). However, only 4,949 candidates were beneficiaries of funding opportunities availed by TEF. Nigeria accounted for about 31 percent of the beneficiaries (equivalent to 1,522 successful applicants)[65].

Moreover, businesses at the ideation and infancy stages were the primary beneficiaries, accounting for 98.6 percent of the successful applicants, while the meagre 1.4 percent went to businesses at their growth stage. In terms of the gender distribution of the beneficiaries, female entrepreneurs were mainly encouraged, taking the lion's share of 68 percent. In addition, the sectoral distribution of successful applications showed that Agriculture had the highest uptake of 1,692 beneficiaries (representing a 34.1 percent share), followed by the Food and Beverages sector (with a share of 11.3 percent), Fashion (8.9 percent). The Health and Education sectors accounted for 3.6 percent and 5 percent, respectively. Other sectors include Beauty and Wellness, Manufacturing, ICT, Trade, and Waste Management, with a combined share of 37.1 percent[66]. The low success rate of Nigerian applicants (0.5 percent)[67] accessing the TEF funding opportunities could partly explain the less prominence of business grants among the sources of MSMEs financing in Nigeria. However, replicating this philanthropic gesture on the continent would close the vast MSMEs finance gap in Africa and Nigeria.

MSME Survey: Success factors to funds accessibility (percent)

About 75 percent of the surveyed respondents have had access to one impact-investing product. The key factors that have enhanced their access to Impact Investing products include the size of the business only (10 percent of the respondents), personal/corporate relationships only (10 percent), favourability of industry only (10 percent), profitability and business prospects only (5 percent), as well as financial records and documentation only (5 percent).



Source: NESG Research & NNABII

C H A P T E R F I V E

Supply-Side Analysis – Impact Investing Landscape

SUPPLY-SIDE ANALYSIS

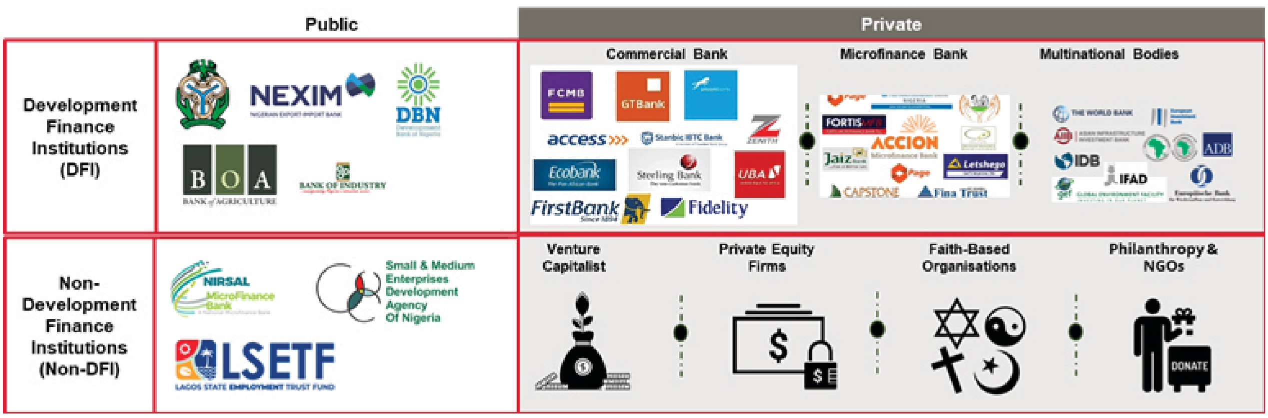
This section presents a review of the supply-side of Impact Investment in Nigeria. The supply side refers to all organisations, including NGOs, private sector players, government agencies, and individuals directly or indirectly supplying capital to make Impact Investments. These stakeholders are collectively referred to as "Impact Investors".

Impact Investing entails investing in a firm that will produce social and environmental benefits, not only from a financial standpoint. ***"Many people who assert to engage in Impact Investing fail to consider the social aspects. The investment should have a quantifiable return that will benefit both the environment and society"*** – Executive Director of EDC.

IMPACT INVESTMENT AND MSMES FINANCING IN THE NIGERIAN FINANCIAL MARKET

The Nigerian financial market is gradually advancing with evolving avenues for corporate and business finances; however, MSME financing, especially for Impact Investments, continues to experience headwinds. Specifically, the supply of Impact Investment for MSMEs in Nigeria's financial market could be stratified into two (2) primary sources – DFIs and non-DFIs. Furthermore, these institutions (investors) could be established/owned/managed by the government, such as the central banks and other specialized institutions of the government. They could also be privately owned, such as commercial banks, microfinance banks, finance houses, multilateral financial institutions, venture capitalists, private equity firms, philanthropy organizations etc.

Figure 21: Schematic Representation of the MSMEs Financing in Nigeria

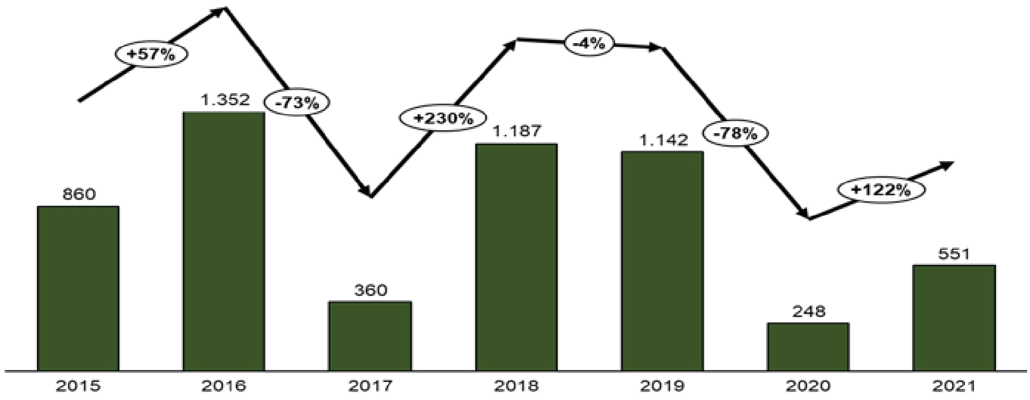


Data: Agri-Logic (2021) Chart; NESG Research

A. Development Finance Institutions (DFIs)

The DFIs are found to dominate the deployment of impact capital in Nigeria. These DFIs include government-designated development financial institutions, multilateral and bilateral financial institutions, microfinance institutions, and so on, which have been Nigeria's primary source of Impact Investment. Over the past five years, despite the challenging operating environment that motivated oscillatory deployment of impact capital, DFIs deployed US$3.49 billion of Impact Investment, accounting for 75.8 percent of total deployment within the period[68]. The increase in DFI investment was motivated by renewed confidence in the Nigerian economy following the ease of lockdown measures which motivated new investors.

Figure 22: Total DFI Impact Investment in Nigeria (US$' Million)



Data: Dalberg Analysis; Chart: NESG Research

i. Public DFIs in Nigeria

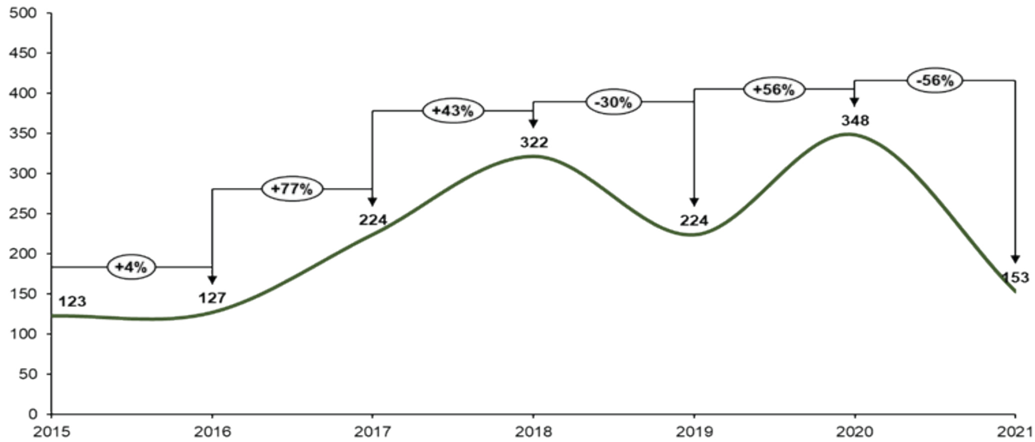
Beyond the overall investment, the government, via several agencies, is promoting investments in MSMEs with expectations of Impact on poverty reduction and improvement of the economic welfare of Nigerians. These public DFIs include the Bank of Industry (BoI), Development Bank of Nigeria (DBN), Nigerian Export-Import Bank (NEXIM), Bank of Agriculture (BOA) and the Central Bank of Nigeria (CBN). Being the Apex bank in Nigeria, the CBN, through its various programmes, disbursed an estimated N192.73 billion to MSMEs in Nigeria in 2021. This figure is 44.7% lower than the record level disbursements of N348.44 billion in 2020, associated with the COVID-19 pandemic and the series of stimulus programmes implemented to boost economic activities.

The decline in CBN disbursement in 2021 could be attributed to the persistently elevated inflation rate in the country. As such, the CBN continues to restrict expansion in liquidity. While the Health sector received N490 million through the Health Care Sector Intervention Fund (HSIF) and the Education sector did not receive any support from the CBN, the agricultural sector has been the primary beneficiary of the CBN interventions. Over fifty-five (55) percent of CBN's MSMEs funding focuses on Agriculture while also benefiting from other CBN programmes.

The Development Bank of Nigeria (DBN) has three broad mandates - lending, risk sharing, and technical assistance or capacity building. ***"With a pool of funds of US$1.3 billion, the bank is able to support and alleviate the financial constraints faced by MSMEs in Nigeria. Lending to MSMEs is considered high-risk by financial institutions."*** – Chief Economist of the Development Bank of Nigeria

[68]Dalberg Analysis. 2021.xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

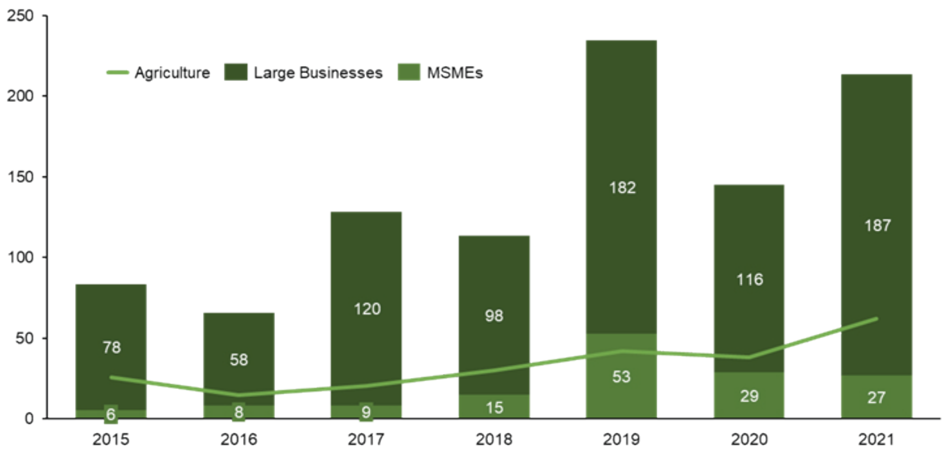
Figure 23: Trend of the Central Bank of Nigeria's credit to small businesses in Nigeria (N' Billion)



Data: CBN; Chart: NESG Research

With a mandate to provide financial assistance to businesses of various categories, sizes and sectors, the Bank of Industry (BoI) funds different aspects of business operations. In 2021, the BoI disbursed N213.5 billion to businesses in Nigeria, of which 12.6 percent (N27 billion) was invested in MSMEs. Historically, the BoI investment in MSMEs has declined after recording an investment of N53 billion in 2019. Nevertheless, the BoI investment of N108.77 billion in MSMEs over the past three years (2019 -2021) surpassed the N32 billion of the 2016 - 2018 period by 240 percent. Agriculture remains a major destination of investment for the BoI, with an average of 24.2 percent of disbursement going into the sector. While the Health sector received an average of 11.4 percent of BoI disbursements, there is no record of direct investment in the Education sector.

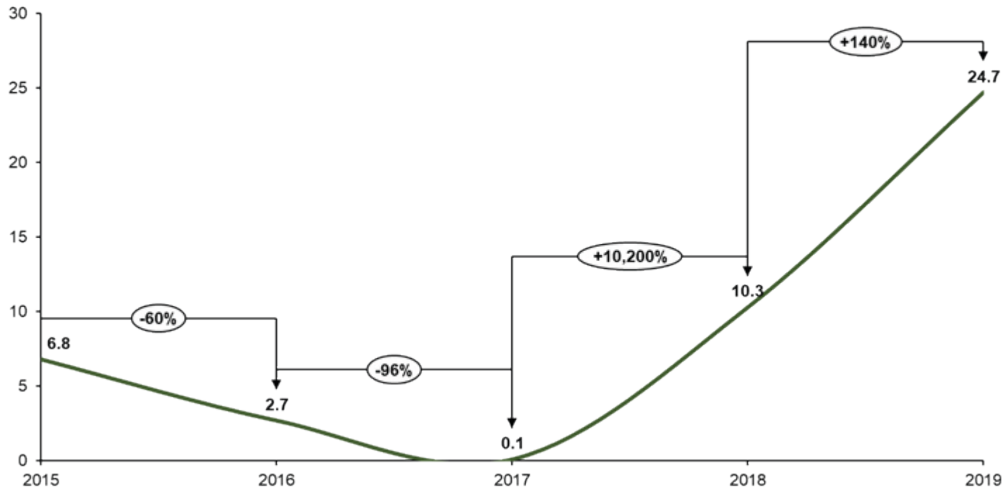
Figure 23: Trend of the Central Bank of Nigeria's credit to small businesses in Nigeria (N' Billion)



Data: CBN, BoI; Chart: NESG Research

Among other government DFIs, the Nigerian Export-Import Bank (NEXIM) was established to provide credit facilities to promote non-oil export. Following the exit of the recession in 2017, the disbursement from the Bank expanded significantly. In 2019, NEXIM Bank invested N24.7 billion in firms in the non-oil sector. This figure represents about a 140 percent increase from 2018, following about ten (10) folds increase from 2017. The skyrocketing expansion of NEXIM Bank credit was driven by the restructuring of the bank and streamlining of loan processes. Agriculture also has been the primary beneficiary of non-oil credit from the NEXIM Bank, accounting for an average of 54.4 percent since 2015. In 2019, NEXIM Bank credit to the Agriculture sector accounted for 77.7 percent, while manufacturing and solid minerals accounted for the remaining. However, only 0.1 percent of the NEXIM Bank credit went to MSMEs.

Figure 25: NEXIM Bank investment in the non-oil sector in Nigeria (N' Billion)



Data: CBN; Chart: NESG Research

Case study of impact enterprises support – Development Bank of Nigeria

Roles in Enhancing MSMEs' access to finance and Impact Investment. The bank's main mandate is to empower partner financial institutions (PFIs) to lend to MSMEs. There is a subsidiary of the institution - Impact Credit Guaranty Limited, responsible for risk-sharing and credit guarantee on PFIs loans to MSMEs.

Lending to MSMEs in Health and Education sectors. The bank does not intervene directly with MSMEs but uses products to incentivise the PFIs. Some of these include N70 billion to Access Bank Plc. The bank has been doing that on a case-by-case basis, which has shown a significant impact. About 44,000 MSMEs have been impacted in these sectors.

Products for priority groups like women, youth. The bank has a gender framework, an umbrella where the products can fit any commercial bank. Within the framework, allocation to women is 30 percent of the total disbursements volume of the bank. Examples of these initiatives are listed below..

- Collaboration with PFIs to develop product for women, like one with Access Bank Plc.
- Non-interest banking products for Northern Nigeria.

Requirements for DBN's PFI selection. There are four criteria used by the bank to select PFIs who later lend to MSMEs in Nigeria.

- Profitability
- Good capital adequacy ratio (CAR)
- Low Non-performing Loans (NPLs)
- Positive shareholders fund

Effectiveness of DBN's MSMEs entrepreneurship development programmes. In collaboration with Enterprise Development Centre (EDC), Lagos Business School and other PFIs with Training schools, the bank has organised specialised and general capacity building for MSMEs. Below are some of the impacts in this regard.

- The beneficiary of the training has increased from 100 in 2019 to 200 in 2022.
- There is also Online Learning Management System.
- One of the benefits of these programmes is the upgrade of micro businesses to formally registered and structured enterprises – for about 97 percent of training beneficiaries.
- 31 percent of the trainees reported increased access to finance, including from conventional commercial banks.
- One of the beneficiaries won the pitching competition by Agro-Mind Africa. Prize was US$30,000 in equity financing.

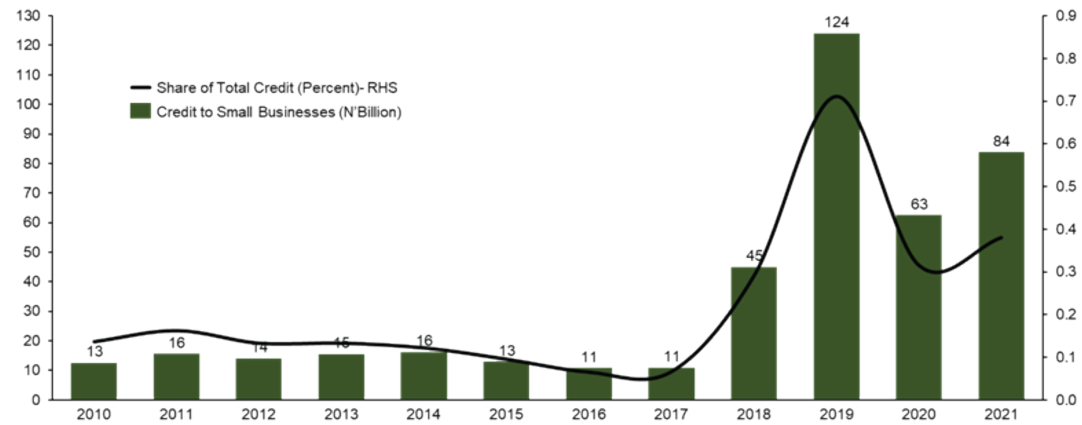
Appropriate funding type for MSMEs. From lending experience and available data with the bank. Patient fund with a low-interest rate and proper structuring of government intervention funds are most suitable funding to support the growth, survival and sustainability of MSMEs in Agriculture, Education & Health sectors.

ii. Private DFIs in Nigeria

In the private sector, commercial banks are the significant funding sources for businesses in Nigeria. However, Impact Investments from commercial banks, especially concerning MSMEs, have been low. According to the CBN, commercial banks in 2021 offered a total of N22.02 trillion in credit to the private sector. Still, only 0.38 percent (N83.74 billion) accrued to small-scale enterprises, which has been on a downward trend over the past three decades. This situation could be attributed to the high-profit orientation of commercial banks.

The bank focuses on five critical sectors of the economy which make up the HEART Strategy - Health, Education, Agriculture, renewable energy and transportation. ***"Agriculture, Education, and Health sectors are at the heart of the "Heart Strategy"***. – Sterling Bank Team.

Figure 26: Historical trend of commercial bank credit to small businesses in Nigeria

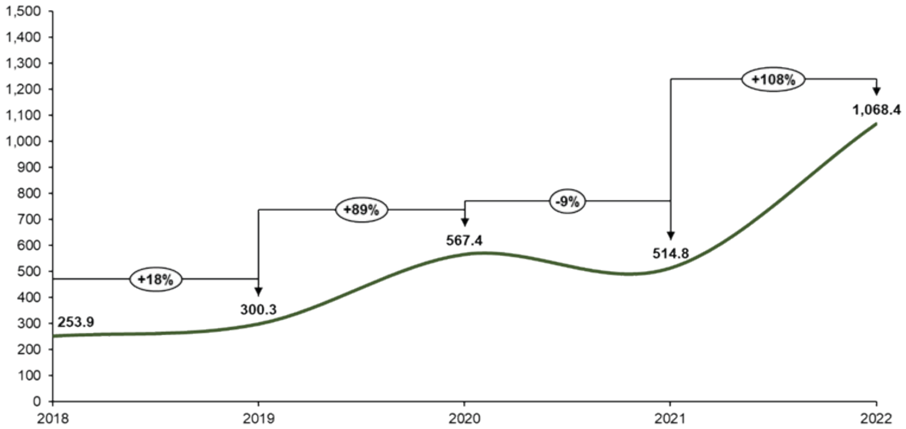


Data: CBN; Chart: NESG Research

In place of commercial banks, microfinance banks were established to reach small businesses and poor people to address their financial needs. While facing the challenges of meeting the financial service need of the poor, the microfinance sector has been a recipe alternative for conventional banks in Nigeria and has been experiencing growth over the years. According to the CBN, microfinance banks' claims on the private sector declined by 9.3 percent in 2021 to N514.7 billion from N567.37 billion in 2020[69]. However, it has more than doubled to N1.07 trillion as of August 2022[70]. The continuous adoption of technology and automation of operations have facilitated the growth experienced in the industry.

[69]CBN Online Database - http://statistics.cbn.gov.ng/cbn-onlinestats/QueryResultWizard.aspx
[70]CBN Online Database - http://statistics.cbn.gov.ng/cbn-onlinestats/QueryResultWizard.aspx

Figure 27: Microfinance Bank Credit to Private Sector in Nigeria (N' Billion)



Data: CBN; Chart: NESG Research

Likewise, multilateral financial institutions such as the World Bank, International Finance Corporation (IFC), International Monetary Funds (IMF), Africa Development Bank (AfDB), and Islamic Development Bank (IsDB) are getting more involved in the businesses of providing funding for small businesses. The World Bank, as a global institution, plays a major role in this regard. Through the interventions of the World Bank, the DBN disbursed a total of US$243.7 million[71] in 2019 to nearly 50,000 businesses, 70 percent of which were women-led businesses. Also, it developed the International Financial Corporation's (IFC) Small Loan Guarantee Program to ease MSMEs' access to financial services with risk-sharing features to encourage local financial institutions to provide more support for MSMEs. This process is supported by a US$120 million first-loss guarantee from the International Development Association (IDA). The IFC has already guaranteed about US$172 million across Africa as of 2021, with the Union Bank of Nigeria interfacing for Nigeria[72]. Also, in early 2022, the World Bank provided a US$158 million lifeline to 650,000 MSMEs in Nigeria through the BoI.

In Africa, the AfDB is at the centre of support for MSMEs. Like other multilateral financial institutions, the AfDB does not directly finance MSMEs. Instead, through its Africa SME Program, the AfDB supports local financial institutions to increase credit to MSMEs[73]. In 2018, the AfDB approved US$50 million for Fidelity Bank Plc to support SMEs in Nigeria, focusing on women-led businesses in manufacturing, Education and Health sectors.

[71]https://www.worldbank.org/en/topic/smefinance
[72]https://www.worldbank.org/en/news/feature/2021/07/07/jumpstarting-small-and-medium-sized-businesses-in-west-africa
[73]https://www.afdb.org/en/news-and-events/african-development-bank-approves-us-50mn-facility-to-support-smes-and-women-owned-enterprises-in-nigeria-18590

Case study of funding impact enterprises – Sterling Bank Nigeria Plc

The bank and SMEs financing in Nigeria. The bank has always been already to lend to MSMEs, especially Agriculture, Education, and Health sectors. For example, lending to Agriculture accounts for 15 percent of the bank's total loans. In addition, the bank has adopted a value-chain approach as a lending strategy. This approach means that irrespective of the scale of operations - micro, small, medium, or large, the bank is ready to provide the needed credit facilities.

Dimensions of impact on MSMEs in the focused sectors. The bank has developed specialised financial products with the following impacts.

- The bank's technology programme provides 89 percent job potential in digital technology or software engineering for 1000 participants.
- Funding a Cardiology Center in Nigeria, the first in Africa.
- Student loan products, the first in Nigerian Education sector.
- Supporting hospitals with electronic medical records. This project isn't a CSR project. It is an example of the full-package support to MSMEs.
- Zero percent working capital school loans for one year. If the loan is not paid within one year, it starts to attract interest rates.

Experience with Lending to female-led MSMEs. There are dedicated products for female-led and youth-owned MSMEs. The bank mandates that women must hold 70 percent of that particular portfolio. The current performance is about 50 percent.

- The bank is driving gender inclusion. For example, there is Agriculture finance product for women.
- Women are more obliged to meet their financial obligations.
- NPL of female farmers is zero.

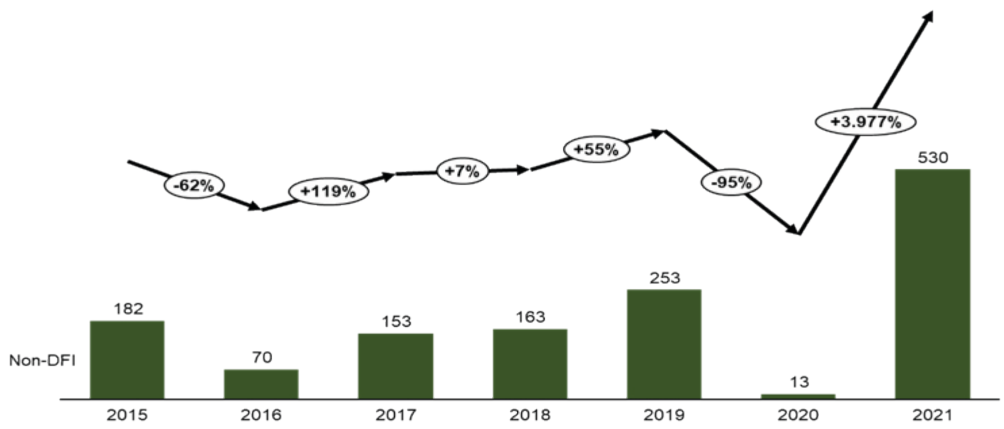
B. Non-Development Financial Institutions (non-DFIs)

The non-DFIs are investment organizations that fund businesses at various levels, including government-established development organizations, crowdfunding organizations, venture capitalists, private equity firms, philanthropy organizations, etc. Non-DFIs continue to pick up pace in impact capital deployment in Nigeria. Over the past five years (2015 – 2021), non-DFIs deployed a total of US$1.11 billion, contributing 24.3 percent to the total deployment of impact capital. Meanwhile, following the recovery of the economy from the COVID-19 pandemic-induced recession, in 2021, non-DFI impact capital deployment increased tremendously to US$530 million (see Figure 28). This performance almost matched with DFI impact capital which increased by 122.2 percent to US$551 million.

The increase in non-DFI in 2021 was also motivated by renewed confidence in the Nigerian economy following the ease of lockdowns. Except for 2020, Nigeria has, over the past five years, witnessed increased non-DFI Impact Investments with increasing new entrants into the space in the form of private equity and venture capital. Most of these non-DFIs were from North America, Europe, and China, focusing on the environment and social Impact. Domestically, the non-DFI deployment also rides on the increasing emergence of MSMEs development philanthropy.

The core mandate of LSETF is ensuring the government enables job creation using MSMEs as a standpoint. Thus, the agency's funding is towards impact i.e job creation. ***"Access to finance is the core product/programme of the body. As of 2018, every N500,000 loan generates three (3) additional jobs in micro-businesses. At the macro level, over 200,000 jobs have been created from over 13,000 loans disbursed by the agency. Business support and capacity development have also created over 80,000 jobs since inception in 2018."*** – Executive Secretary, LSETF

Figure 28: Total direct Impact Investments in Nigeria by Non-DFI (US$' Million)



Data: Dalberg Analysis; Chart: NESG Research

The government also, through the non-DFIs such as the Nigeria Incentive-Based Risk Sharing system for Agricultural Lending (NIRSAL), Lagos State Employment Trust Fund (LSETF), and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), supports MSMEs with financing and removing barriers to accessing finance. For instance, NIRSAL was established to address the problem of low funding and investment flows and create a more vital linkage within the Agriculture value chain. The Credit Risk Guarantee (CRG) Scheme is one major initiative of NIRSAL. It protects investors from possible investment losses through a risk-sharing arrangement where NIRSAL indemnifies them of their principal and accrued interest to the pre-agreed CRG rate limit. As of 2021, NIRSAL, through this initiative, has facilitated over N73 billion in funding flows into the Agriculture value chain since its inception through various bank and non-bank financial institutions, providing credits and investments into the Agriculture value chain[75].

[74]Retrieved from https://nirsal.com/credit-risk-guarantee/
[75]Retrieved from https://nirsal.com/2022/03/09/nirsal-credit-risk-guarantee-support-to-agro-processing-hits-%e2%82%a673-billion/

With the mandate to stimulate and monitor the development of Nigeria's MSMEs sub-sector, SMEDAN links MSMEs to internal and external sources of finance, among other business support responsibilities. In recent times, SMEDAN has expanded its operations to directly provide finance for MSMEs in Nigeria. Likewise, the LSETF, among other state non-DFIs, provides financial support for MSMEs and entrepreneurs in Lagos State.

Case study of funding impact enterprises – Lagos State Employment Trust Fund

Impact-focused MSMEs financing programme of LSETF and its effectiveness. The core mandate of LSETF is ensuring the government enables job creation using MSMEs as a standpoint. This means the agency's funding is towards impact i.e job creation.

- As of 2018, every N500,000 loan generates three (3) additional jobs in micro-businesses.
- At the macro level, over 200,000 jobs have been created from over 13,000 loans disbursed by the agency.
- Business support and capacity development have also created over 80,000 jobs since inception.

Programmes targeted at women-led and women-owned MSMEs. Women-owned businesses are businesses in that women own or manage at least 50 percent of the business. There is a programme called Women-Owned Businesses Initiative (W-Initiative). This programme is being executed in partnership with Access Bank Plc.

- Access bank started the initiative with 15 percent interest to the public, but LSETF's partnership reduced it by 10 percent. The reduction was to improve affordability for women at the grass root level.
- There are challenges with reaching i.e loan application success. Only 3.1 percent of applications (16,000) are successful.
- This situation is due to KYC requirements stipulated by the Central Bank of Nigeria.

Level of risk associated with lending to MSMEs. Initially, the non-performing loans (NPLs) is about 30%. With business support, NPLs have reduced to less than 10%. Our research showed that behaviour associated with non-repayment are tied to a lack of knowledge.

Experience with supporting firms in focused sectors

- **Agriculture.** There are many risks associated with Agriculture financing in Nigeria. Hence, the organisation has redesigned a new program for the sector based on off-takers. The fund started a pilot this year and hopes the model will work effectively.
- **Education.** There is a fund developed a programme for low-income schools to minimise the post-COVID effect. This is because schools are job creators. The Education fund is called the LSETF Equilibrium Programme.
- **Health.** There is also a Health sector intervention fund in post-COVID. As a result of this facilities, many small and medium-sized hospitals received government approval.

Experience with financing women-led or women-owned MSMEs. Most women beneficiaries are young and very risk-aware and credit averse.

BREAKDOWN OF IMPACT INVESTMENT BY SECTORAL DESTINATIONS

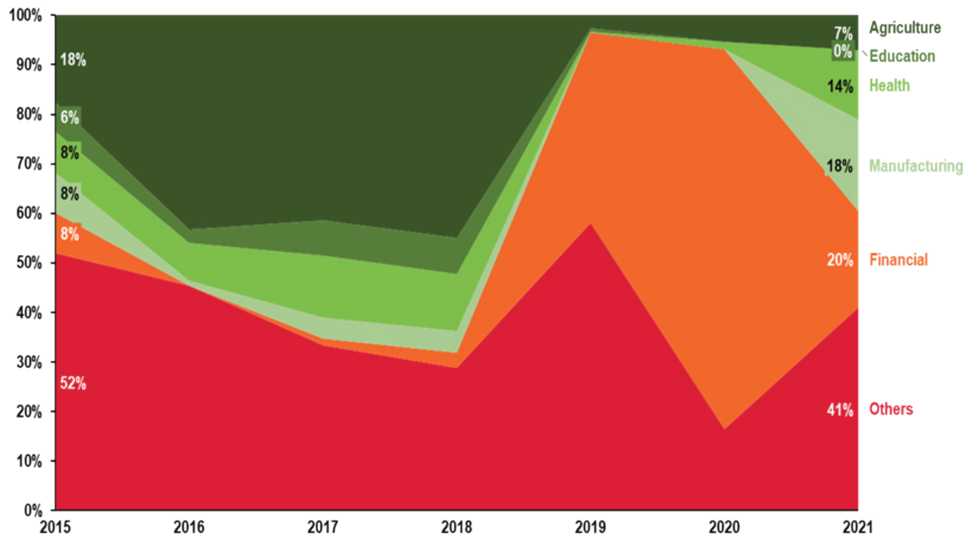
Alongside financial services and energy, the Agriculture sector is a major consistent destination for Impact Investment in Nigeria. Over the past five years, since 2017, Impact Investing in financial services and energy accounted for 28 percent and 16 percent of impact capital deployment in Nigeria, respectively. Meanwhile, the Agriculture sector accounted for 18 percent. In 2021, US$268.39 million was accrued to the energy sector, increasing from US$12.78 million in 2020. Financial services in 2019 recorded a peak of impact capital deployment at US$537.48 million. However, the performance remains subdued at US$211.58 million as of 2021.

In terms of the focused sectors, Agriculture has witnessed a persistent decline in impact capital deployment despite the consistency of investment inflows. From US$606.79 million deployed into Agriculture in 2018 and a forty-five (45) percent share of the total Impact Investment into Agriculture in Nigeria has declined to US$76.30 million and 7 percent share of the total in 2021. Nevertheless, US$947.53 million was accrued to the Agriculture sector over the past five (5) years (2017 -2021), representing 20.6 percent of total deployment (see Figure 29).

Impact Investment in Education dried up as no deployment was recorded in 2020 and 2021. Nevertheless, over 2015 – 2019, investors deployed a total of US$246.06 million to the Education sector, accounting for an average of 5 percent of Impact Investing. The Education sector recorded a peak impact capital inflow of US$99.39 million and a share of 7.4 percent in 2018.

The Health sector, however, continues to record impact capital inflows. Revolutionised by the Impact of the COVID-19 pandemic, the sector has seen renewed investors' confidence. In 2021, the deployment of impact capital in the Health sector increased to US$152.11 million from US$3.90 million in 2020. Over the past five (5) years (2017 – 2021), US$377.65 million was invested in the Health sector, representing 8.2 percent of total deployment. Other sectors with substantial inflows in 2021 include manufacturing, technology and services, with impact capital deployments of US$198.36 million, US$141.21 million, and US$27.55 million, respectively.

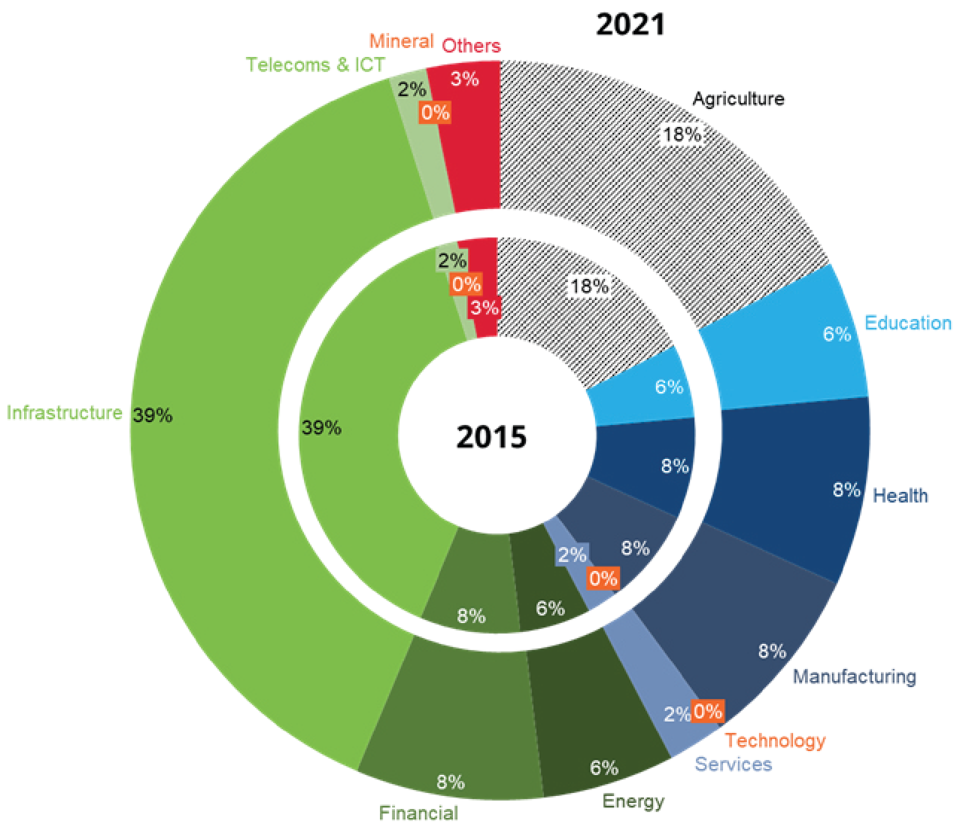
Figure 29: Sectoral breakdown of total Impact Investment in Nigeria (Percent)



Data: Dalberg Analysis; Chart: NESG Research

Agriculture, financial services, and energy sectors have been Nigeria's most consistent destinations of Impact Investment for DFIs. Over the past five years (2017–2021), Agriculture, financial services and energy sectors attracted US$799.80 million, US$729.69 million, and US$372.71 million in impact capital deployment from DFIs, representing 22.9 percent, 20.9 percent, and 10.9 percent of total DFI investment in the period, respectively. While impact capital inflows remain consistent in these sectors, the recent inflows have been subdued compared with the deployments in 2018/2019. Meanwhile, DFI impact capital deployment into other focus sectors (Education and Health) has halted since 2018. The emergence of investors' interest in Nigeria's technology sector and renewed confidence in the manufacturing sector make up for the shortfall from the three major sectors. In 2021, DFI investors deployed US$198.36 million and US$110.20 million across manufacturing and technology, accounting for 36 percent and 20 percent of total deployment, respectively.

Figure 30: Sectoral breakdown of DFI Impact Investment in Nigeria (Percent)

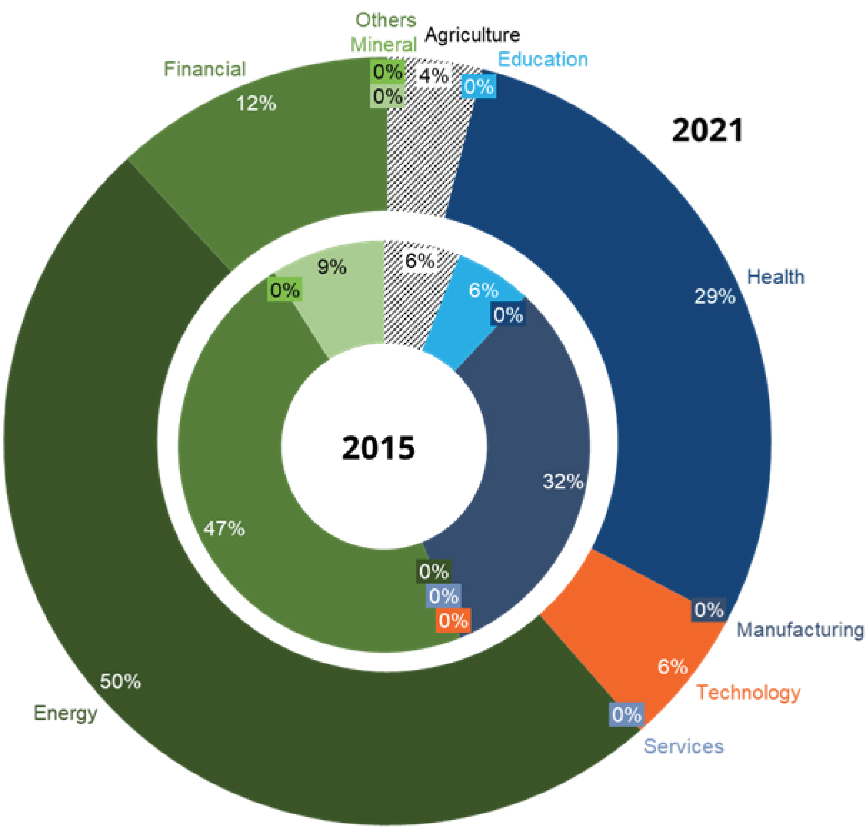


Data: Dalberg Analysis; Chart: NESG Research

Non-DFIs displayed a similar preference as impact capital deployment remains consistent for Agriculture, energy and financial services sectors. Over the past five years, non-DFI investors deployed US$147.83 million, US$397.61 million and US$267.38 million into Agriculture, energy and financial services, accounting for an average of 18.8 percent, 37.7 percent and 20.2 percent, respectively. Impact capital deployed into Agriculture and financial services remains subdued compared to its peak in 2018 and 2019. However, inflows into the energy sector have been elevated since COVID-19 and accounted for 50 percent (US$262.88 million) of non-DFI impact capital deployed in 2021.

While there is a recent dearth of non-DFI impact capital deployment in the Education sector, a substantial part of the non-DFI inflows went into the Health sector. Following the outbreak of the COVID-19 pandemic, 30 percent of non-DFI Impact Investment went into the Health sector in 2020. This motivated further investment in the Health sector in 2021 as total impact capital deployed to the sector expanded to US$152.11 million. Also, non-DFIs are finding the Nigerian technology space attractive as they invested US$31.01 million in 2021, with a share of 6 percent of non-DFI deployment.

Figure 31: Sectoral breakdown of non-DFI Impact Investment in Nigeria (Percent)

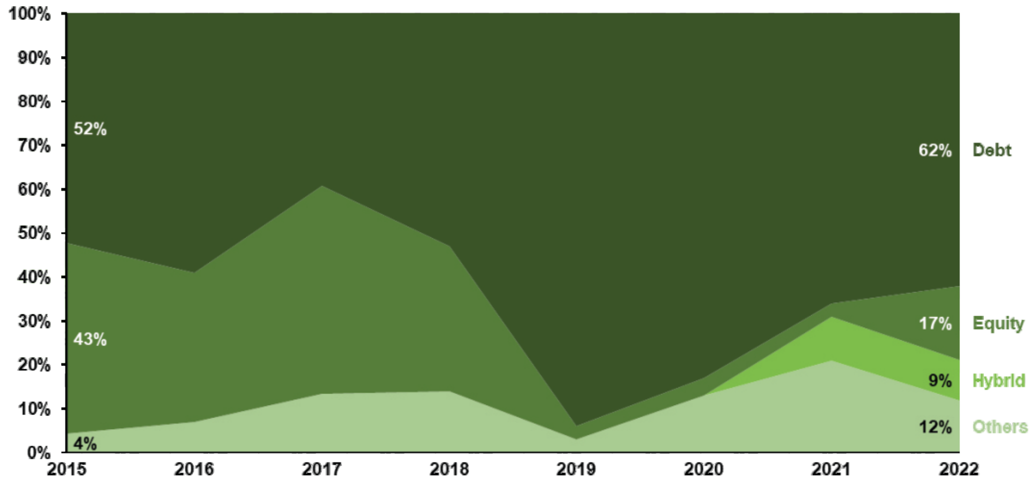


Data: Dalberg Analysis; Chart: NESG Research

TYPES OF IMPACT INVESTING FINANCIAL INSTRUMENTS IN NIGERIA

Debt instruments are the dominant financial instrument adopted by impact investors in Nigeria, among many alternative financial instruments. The channel of Impact Investment inflows varies and differs in some sectoral cases. The channels include debt, equity, grant, guarantee and hybrid (of the various instruments, but in most cases, debt and equity). While the equity inflows are evolving over the years, impact investors still favour debt instruments as the main investment channel. Over the past five years (2017–2021), 67.1 percent of impact capital deployed in Nigeria came through debt instruments, while equity accounted for an average of 18.1 percent. Other sources of Impact Investment inflows were responsible for 12.9 percent on average between 2017 and 2021. In 2021, a substantial share of Impact Investment inflows came in through a hybrid of debt and equity. At US$108 million Impact Investment inflows, hybrid investment accounted for 10 percent of total inflows in 2021. The domineering preference for debt-impact capital is motivated by its associated lower risks and complexities than equity capital

Figure 32: Breakdown of Impact Investment by finance instruments (Percent)

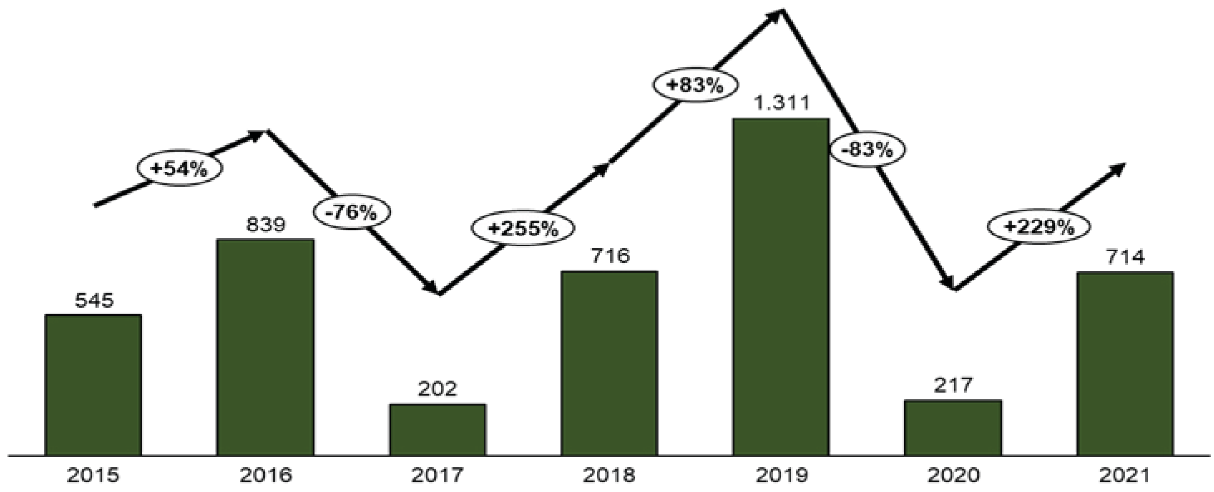


Data: Dalberg Analysis; Chart: NESG Research

The effect of COVID-19-induced economic uncertainty is waning in the Nigerian economy as debt-impact capital is recovering. Debt instruments are interest-bearing financial products that the impact investors give to prospective impact companies as a principal in anticipation of repayment at an agreed maturity date. This loan contract is awarded to an impact project to be paid back with interest within a predefined number of years. Debt instruments appear in the book of impact companies as a liability to be settled sometime in the future, irrespective of the profitability of the businesses.

In 2019, the deployment of impact capital in debt instruments peaked at US$1.31 billion, accounting for 94 percent of total deployment. However, due to the recessionary Impact of the COVID-19 pandemic, the deployment of debt instruments by impact investors dipped to US$216.63 million in 2020. Following the recovery of the economy, debt instrument deployment increased to US$713.46 million. The ease of designing, structuring and managing debt instruments has been the primary reason for its favourability among investors.

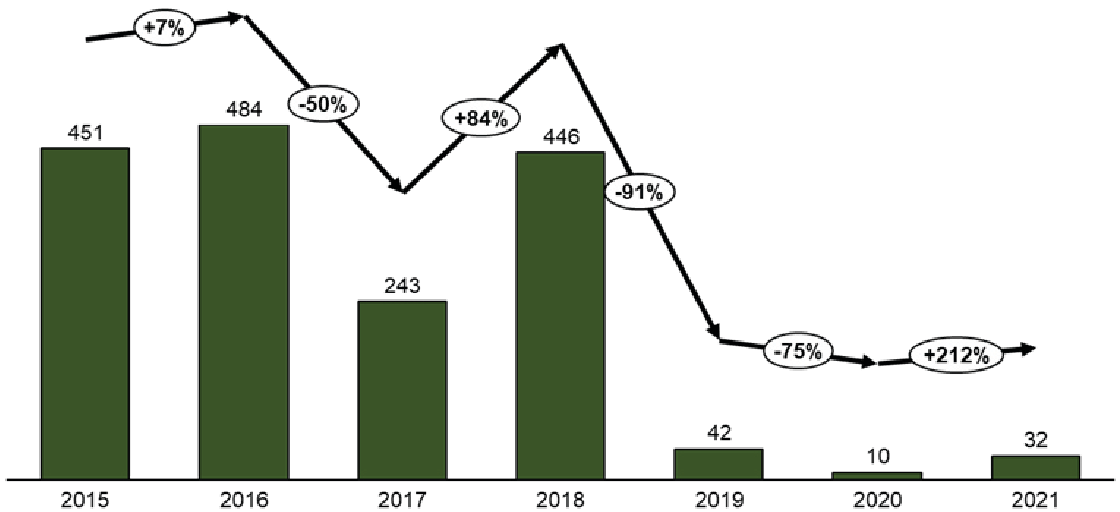
Figure 33: Impact Investment in Nigeria by debt instruments (US$' Million)



Data: Dalberg Analysis; Chart: NESG Research

Equity Impact Investments have since 2018 been subdued as inflows and share of total deployment continue to decline. Equity instruments give the investors ownership rights in the impact project. Each equity holder has a share of the project and is entitled to dividends. Equity impact deployment in Nigeria reached a record level of US$483.50 in 2016, accounting for 34 percent of the total inflow. On average, equity accounted for 18.1 percent of the total over the past five years (2017 – 2021). The relatively low share of equity impact capital deployment over the years is due to its unlimited liability characteristics such that the recipient country's risk characteristics becomes a determining factor. Accordingly, the elevated economic risks that accompanied the outbreak of the COVID-19 pandemic have continued to hamper the growth of equity Impact Investment in Nigeria.

Figure 34: Impact Investment in Nigeria by Equity instruments (US$' Million)



Data: Dalberg Analysis; Chart: NESG Research

Meanwhile, there is an emergence of a hybrid instrument which combines both debt and equity impact capital. Hybrid instruments are a mix of equity and debt in the investment contract in an impact project. It could be by paying dividends and interest on the instrument or convertibility across the two instruments involved. In 2021, US$108.10 million in impact capital was deployed as hybrid instruments. The advent of the hybrid instrument is motivated by the emergence of new investors, renewed interest in the Nigerian economy as it recovers from the COVID-19-induced recession and the perceived maturing nature of Nigeria's economy.

CHAPTER SIX

Enabling Policy Environment For Impact Investing In Nigeria

ENABLING ENVIRONMENT FOR IMPACT INVESTMENTS

In Nigeria, there is no legal framework for the regulations of the Impact Investing market or its products. However, general regulations such as the Companies and Allied Matters (CAMA) Act, the Investment and Securities Act, and the Nigeria Investment and Promotion Commission (NIPC) Act guide all business and investment activities in the country. Aside from the abovementioned laws, sector-specific laws create additional provisions or requirements for investment in the related industry.

The success of any economic activity, such as Impact Investment, largely depends on how workable these legislations align with the investors' purpose. Thus, these regulations are essential to Impact Investment. For instance, in the priority sectors of this project – Agriculture, Education and Health - Table 3 highlights relevant regulations guiding investments in these sectors.

Table 3: Availability of Sector-Level Regulations and Investment Requirements

Sector	Availability	Sector Level Regulations
Agriculture	✓	» Agriculture Promotion Policy 2016-2020 » Land Use Act 1978 (LUA)
Education	✓	» Education Reform Act, 2007. » Universal Basic Education Act of 2004
Health	✓	» Health Facility Monitoring and Accreditation Agency (HEFAMMA) at States level.

Source: NESG Research & NNABII

Since Impact Investments are unique investments with positive socio-economic and environmental impacts, some regulations in current Nigeria's legal framework favour these activities. An example of these regulations is section 23 (1) of the NIPC Act. The law empowers the NIPC ***to issue guidelines and procedures that specify priority areas of investment and prescribe applicable incentives as well as benefits that conform with government policy.*** The Pioneer Status Incentive is an outcome of this provision. Other laws in Nigeria applicable to Impact Investments in the project priority sectors are highlighted in the Table 4 below.

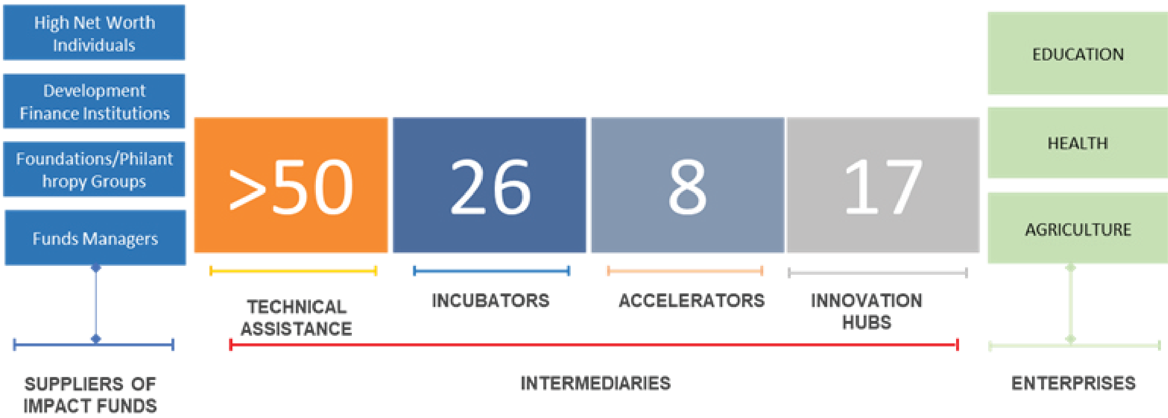
Table 4: Applicable Nigerian Laws for Impact Investing Market

Incentive	Law/Act	Specific Section(s) & Provision	Applicable sector (s) with the Priority Sectors
Pioneer Status	Industrial Development (Income Tax Relief) Act, Cap 17 Law of the Federation of Nigeria, 2004	Five years tax holiday (initially for three years and renewable for additional two years). Also, a 10 percent exemption from withholding tax on dividends paid out of business profits.	Agriculture
Enhanced capital allowance (tax depreciation) regime	Paragraph 24 Table 1 & 2 Second Schedule of Companies Income Tax Act (CITA), CAP. C21 LFN 2004, as amended 2007	Ninety-five (95) percent capital allowance is enjoyed when a qualifying expenditure is incurred pursuant. Companies engaged in wholly agricultural activities are entitled to carry forward unutilized capital allowances indefinitely.	Agriculture
Exemption from minimum Corporate Income Tax	Section 33(3) a CITA	Exempts a company's income carrying on agricultural trade from minimum tax payment.	Agriculture
Indefinite carry forward of losses	Section 31(3) CITA	Allows companies engaged in agricultural trade or business to carry forward their losses indefinitely.	Agriculture
Infrastructure Investment Tax Relief	Section 40(11) of the Companies Income Tax Act Cap. C21. LFN 2004.	Three years of tax relief on expenses incurred on infrastructure for a company located at least 20 kilometres away from essential infrastructure	Agriculture
Reduced Tax Rate for Investors	Venture Capital Incentives Act, 1993	These include (i) up to 30 percent capital allowances for eligible Startups on equity investments made by Venture Capital firms; and (ii) up to 100 percent exemption on capital gains tax on capital gains accruing to Venture Capital investors upon disposal of their equity interest.	Agriculture, Education, Health, and other sectors
Repatriation of capital and profits	Startup Bill 2021	CBN to guarantee repatriation of investment by a foreign investor through the CBN's authorized dealer to the freely convertible currency of profits, dividends, investments and capital	Technology Startups in Agriculture, Education, Health, and other sectors

INCUBATORS AND EARLY-STAGE ENTERPRISE DEVELOPMENT SUPPORT

Except for South Africa, Nigerian enterprises have received the most acceleration and incubation support and experience in Africa, with many active programs running concurrently by private sector stakeholders and the government. According to Disrupt Africa (2022), Nigeria has over 200 private and public incubators and accelerators, with more than half of these centres/stakeholders operating from Lagos, Nigeria. Major organisations offering such programs in Nigeria include CcHub, iDEA Nigeria, Ventures Platform, Ventures Park, Passion Incubator, GreenHouse Capital (GreenHouse Lab), Itanna, Wennovation Hub, Adaverse, Enspire, Premier Hub Innovation Centre, and Trium. International accelerators such as Y Combinator, Techstars, 500 Startups, Google for Startups, and Facebook Accelerator also provide funding and technical assistance to the enterprise development space in Nigeria.

Figure 35: Nigeria's Impact Investing Ecosystem by Functionality



Source: NESG Research & NNABII N.B. Information extracted from Reports from Disrupt Africa (2022), Quartz (2022), Network of Incubators & Innovators in Nigeria (2022).

The technical and funding support of the incubators and accelerators are not sector-specific but primarily centred around technology enable-solutions or enterprises. Also, the priority sectors of this study are covered by these technical support services. Specifically, Nigeria's incubator and accelerator ecosystem provides the following critical support.

- Providing access to finance for MSMEs to improve the chances of an enterprise's success.
- Providing industry-specific technical expertise and value-added services to enterprises in terms of:
  - » Capacity building
  - » Marketing and operations improvements
  - » Improving accounting systems of the enterprise

A classic example of Impact Investing Programmes of the Incubators/Accelerators is the **Impact Economy Innovation Fund** (IEIF), created by the Tony Elumelu Foundation (TEF). The fund assisted two (2) agricultural impact investors with guarantees to improve access to finance for smallholder farmers. In addition, the foundation also supported some MSMEs, mainly in the ICT industry, under the TEF/CcHub Innovation Fund.

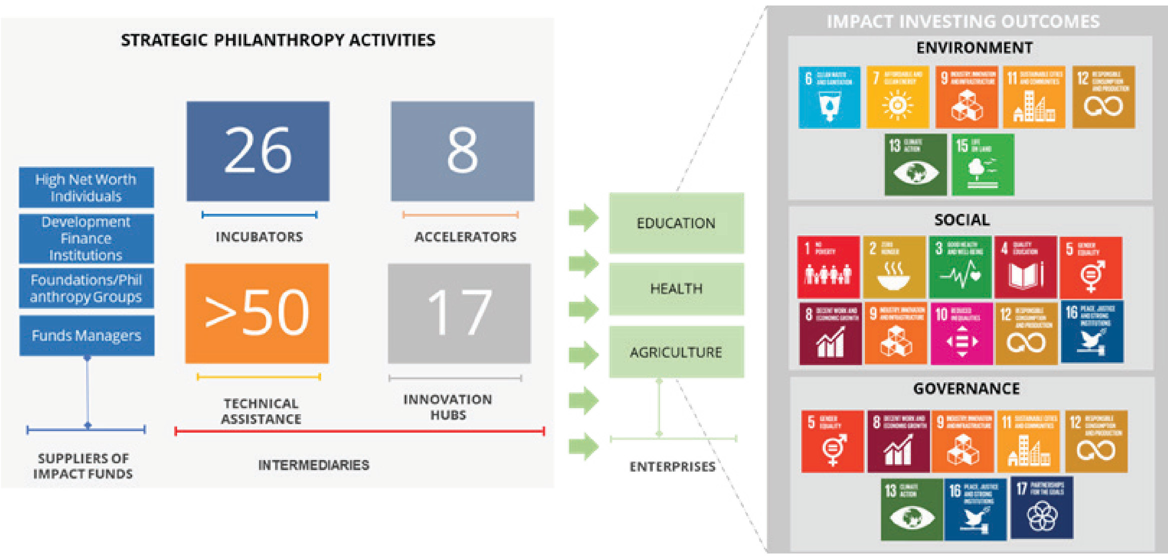
STRATEGIC PHILANTHROPY ACTIVITIES

The philanthropy landscape in Nigeria is considerably rich and characterized by different actors with activities that support sustainable development and Impact Investing landscape (refer to section 3.2.5). These actors play critical roles in supporting the Impact Investing ecosystem by supplying and amplifying resources to achieve the goals of impact projects or investments.

Local and international philanthropy bodies and NGOs have standalone financing programmes and intermediary functions in the form of technical assistance, incubation, acceleration and innovation support to enterprises in Nigeria. These activities are structured to support these enterprises to achieve sustainable growth and contribute to economic development. Players in this ecosystem with broad-based financing or intermediary programmes include Mastercard Foundation, Bill and Melinda Gate Foundation, MacArthur Foundation, Rockefellers Philanthropy, Tony Elumelu Foundation (TEF), Dangote Foundation, LeadPath Nigeria, Wennovation Hub etc.

Interestingly in Nigeria, the philanthropy space is changing, with many philanthropic bodies beginning to provide sector-specific resources and development programmes. Notably, the SDGs are core requirements for Impact Investing products or outcomes[76]. As a result, the philanthropy bodies/stakeholders are dimensioning their programmes to support Nigeria's to achieve the SDGs.

Figure 36: Strategic Role of Philanthropy Bodies in Nigeria and Impact Investing Outcomes



Source: NESG Research & NNABII

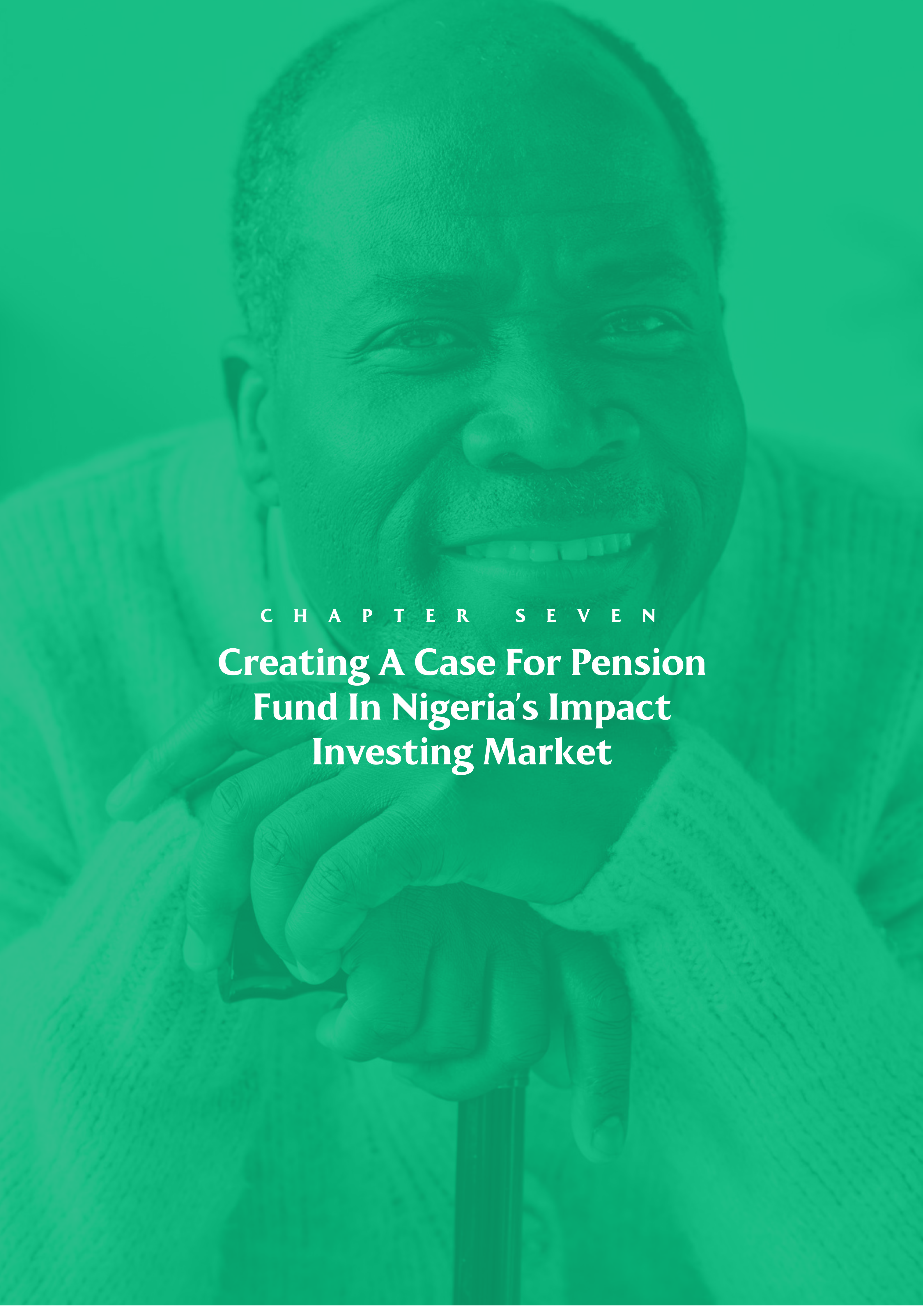
[76]Johnson, P.D. (2019). Global Philanthropy Report: Perspectives on the global foundation sector. https://cpl.hks.harvard.edu/global-philanthropy-report-perspectives-globalfinancial-sector

According to SDGfunders.org, total philanthropic funding of SDGs, or related projects that align with SDGs, in Nigeria was estimated at US$ 2.06 trillion between 2010 and 2018[77]. The SDGs' priority areas of most of the funding are good Health (SDG 3), zero hunger (SDG 2), gender equality (SDG 5) and economic growth (SDG 8)[78]. Furthermore, in 2019, the Rockefeller Foundation provided US$3.5 million to an off-grid Impact Investment company (All on Hub) to help achieve SDG 7 - affordable and clean energy[79]. The MacArthur Foundation also deployed US$21.8 million to support anti-corruption programs in Nigeria between 2017 and 2019, which aligns with SDG-16[80].

The personal wealth growth of many elite Nigerians has resulted in an increase in institutional funding of social investment activities by high-net-worth individuals (HNWIs) using foundations or charitable trusts to undertake their philanthropic activities. In Nigeria, approximately twenty-six (26) foundations or charitable trusts are founded by HNW individuals with a national reach. Many of these organizations are dedicated to assisting businesses in the Agriculture, information and communication technology, energy, and manufacturing sectors. An example of Impact Investing engagements includes the disbursement of N212.28 million (US$547,955) by TY Danjuma to 19 NGOs to undertake Health, Education, and capacity-building projects in 2018[81].

Aside from local foundations like TY Danjuma, Dangote and TEF, foreign capital and resource inflows have increased since the beginning of 2010. Foreign philanthropic institutions increased their funding to Nigeria from US$197.02 million in 2017 to US$203.17 million in 2018[82]. The Bill and Melinda Gates Foundation (BMGF) contributed most of these foreign capital inflows, accounting for approximately 85 percent (US$172.87 million) of all philanthropic funding to Nigeria in 2018[83]. Most foreign philanthropic institutions focus on Education, Health, food security, and humanitarian relief.

[77]Candid. (2020). SDGfunders: Nigeria [Data set]. https://sdgfunders.org/sdgs/location/Nigeria/dataset/historical/
[78]Ibid 4.
[79]Candid. (2019a, December 12). Rockefeller Foundation Awards $3.5 Million for Off-Grid Energy. http://philanthropynewsdigest.org/news/rockefeller-foundation-awards-3.5million-for-ff-grid-energy?_ga=2.10617396.1205582311.1587050342443950657.1586450054
[80]MacArthur Foundation. (2019, October 2). $6.3 Million in Journalism and Media Grants to Advance Accountability and Anti-Corruption Efforts in Nigeria [Press Release]. https://www.macfound.org/press/press-releases/macarthur-awards-63-millionjournalism-and-media-grants-advance-accountability-and-anti-corruption-effortsnigeria/
[81]Ty Danjuma Foundation. (2020, April 23). COVID-19: TY Danjuma Foundation Donates Relief Items to Internally Displaced Persons (IDPs) in Wassa Resettlement, Abuja, FCT. https://tydanjumafoundation.org/covid-19-ty-danjuma-foundation-donatesrelief-items-to-internally-displaced-persons-idps-in-wassa-resettlement-abuja-fct/
[82]OECD. (2020). Private philanthropy for development in Nigeria (2009–2018) [Data set]. https://stats.oecd.org/Index.aspx?DataSetCode=CRS1
[83]Ibid. 8



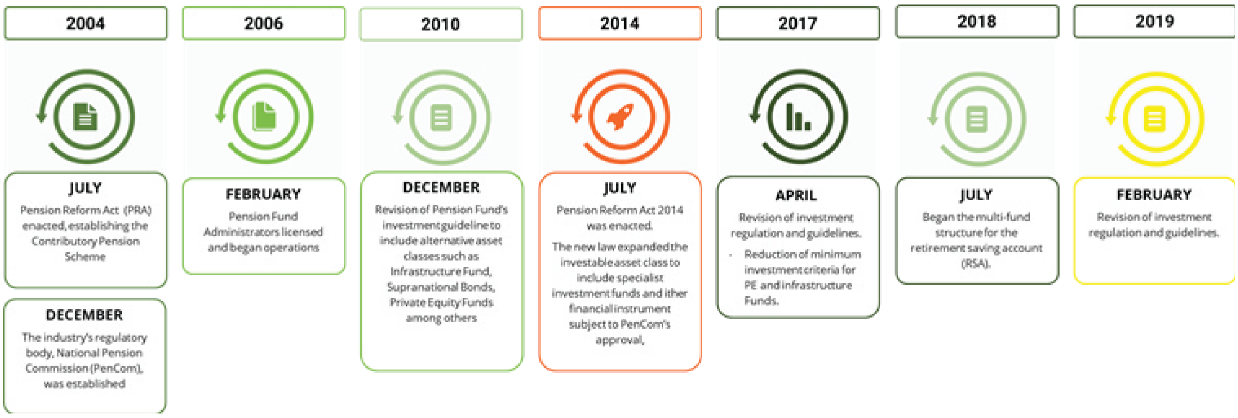
CHAPTER SEVEN

Creating A Case For Pension Fund In Nigeria's Impact Investing Market

MAKING A CASE FOR PENSION FUND IN NIGERIA'S IMPACT INVESTING MARKET

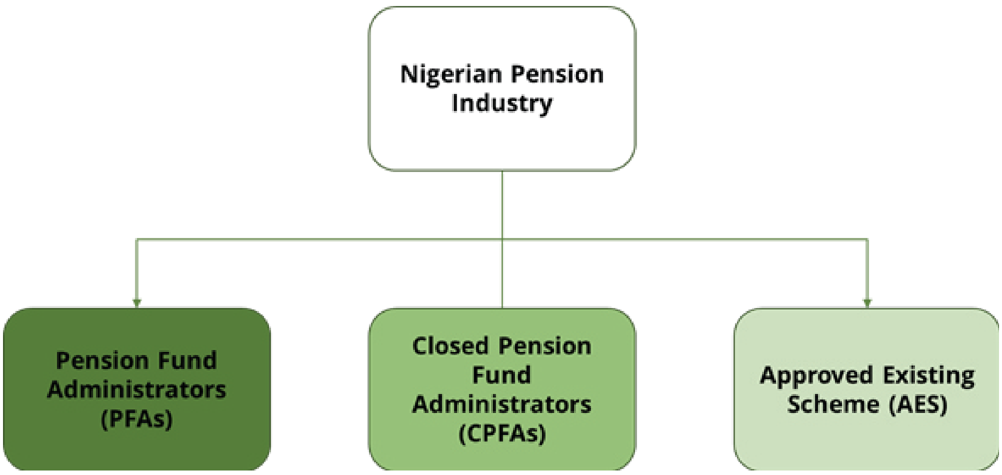
Historically, the Nigerian Pension Industry has had a similar development trend to the evolution of most developing countries. Since 2004, when the revolutionary Pension Act 2004 was enacted, Nigeria has commenced the Contributory Pension Scheme (CPS), which ended the Defined Benefits (DB) scheme era. The new Pension system modelled the three countries - Switzerland, Poland, and Chile- and has resulted in significant leapt growth in both coverage and assets of the Pension Industry.

Figure 37: Historical Timeline of the Nigerian Pension Industry



Within the new pension scheme, there are three (3) dimensions of the stakeholders – Pension Fund Administrators (22 players), Closed Pension Fund Administrators (6) and Approved Existing Scheme (AES). On the contributors' strength, the industry's total membership is estimated at 9,586,291in 2021, a 3.4 percent growth from 9,271,665 in 2020. Disaggregation of the membership showed that the CPS accounted for 99.4 percent (9,529,127), while both AES and the CPFAs accounted for the remaining 0.60 percent, divided as 40,951 and 16,213 members, respectively. In addition, the CPFAs' membership is projected to decline in the coming years due to the closure of the Schemes to new members as stipulated in Sections 50(1) (h) and 51 of the PRA 2014.

Figure 38: The Structure of the Nigerian Pension Industry



Source: NESG Research & NNABII

For the PFAs, the country operates a multi-fund structure which allows contributors to choose their contributions' placements. This multi-fund structure, also known as the Life-Cycle Investment Structure, aligns contributors' risk appetite with their investment horizon at each life cycle stage (see Table 5). In addition, it also creates room for effective management of the fund by segmenting the assets or investments. These funds have a varying class of contributors and operational guidelines for the management and allocation of assets for investments.

Table 5: Types of Funds within the Nigerian Contributory Pension Fund

	Type of Fund	Remarks
1	Fund I	This is an optional fund. Contributors must write formally to opt for this fund.
2	Fund II	Default fund for contributors aged 49 and below.
3	Fund III	Default fund for contributors aged 50 and above.
4	Fund IV	This is the Retiree Fund.
5	Fund V	Strictly for Contributors under the Micro-Pension Scheme
6	Fund VI	Contributors that choose to have their pension contributions in Non-Interest Money and Capital Market Products

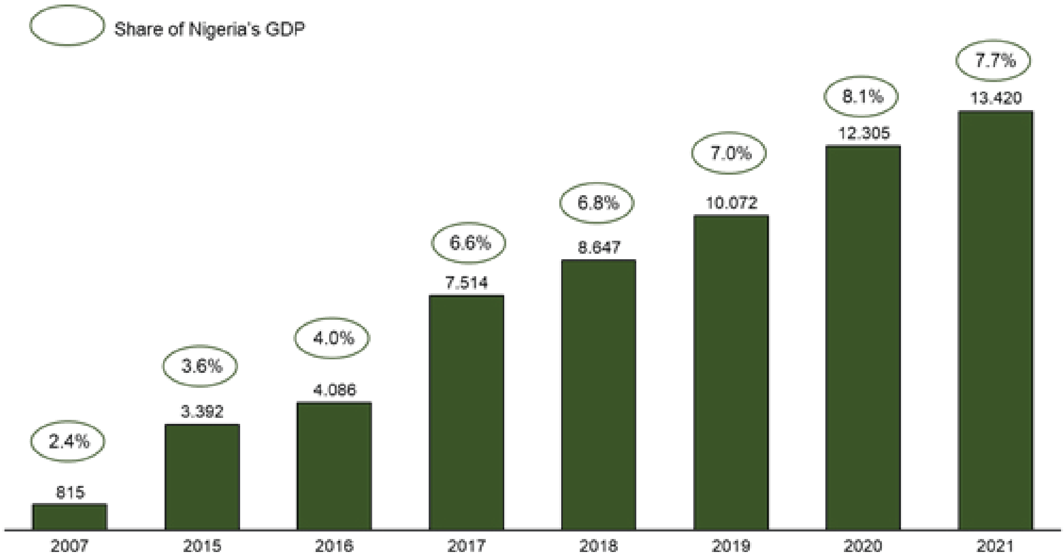
Source: PENCOM 2023.

NIGERIAN PENSION INDUSTRY: GROWTH OF ASSETS AND DYNAMICS OF ASSETS ALLOCATIONS

Nigeria's pension industry has had tremendous performance compared to other emerging markets, especially those countries that reformed their pension system in the 2000s. From 2.4 percent of GDP in 2007, the asset side of Nigeria's pension industry grew to 3.6 percent of GDP in 2015 and climbed to 7.7 percent of GDP in 2021.

The size of the industry's assets is estimated at N13.42 trillion in 2021 from N815.16 billion in 2004 (PENCOM, 2021). This growth performance represents an average annual growth rate of 17.9 percent within the period. The recent growth trend has been rapid due to improvements in the regulations and enforcement of the provisions of the law guiding the operation of the pension industry. From N3.39 trillion in 2015, the Nigerian Pension Industry's assets expanded to N13.42 trillion by the end of 2021. On the other hand, Nigeria can grow its pension fund faster than the other countries by learning from developed countries, particularly the top five, which account for nearly 75 percent of the global pension market.

Figure 39: Growth Trend of Asset of Nigerian Pension Industry (N'Billion)



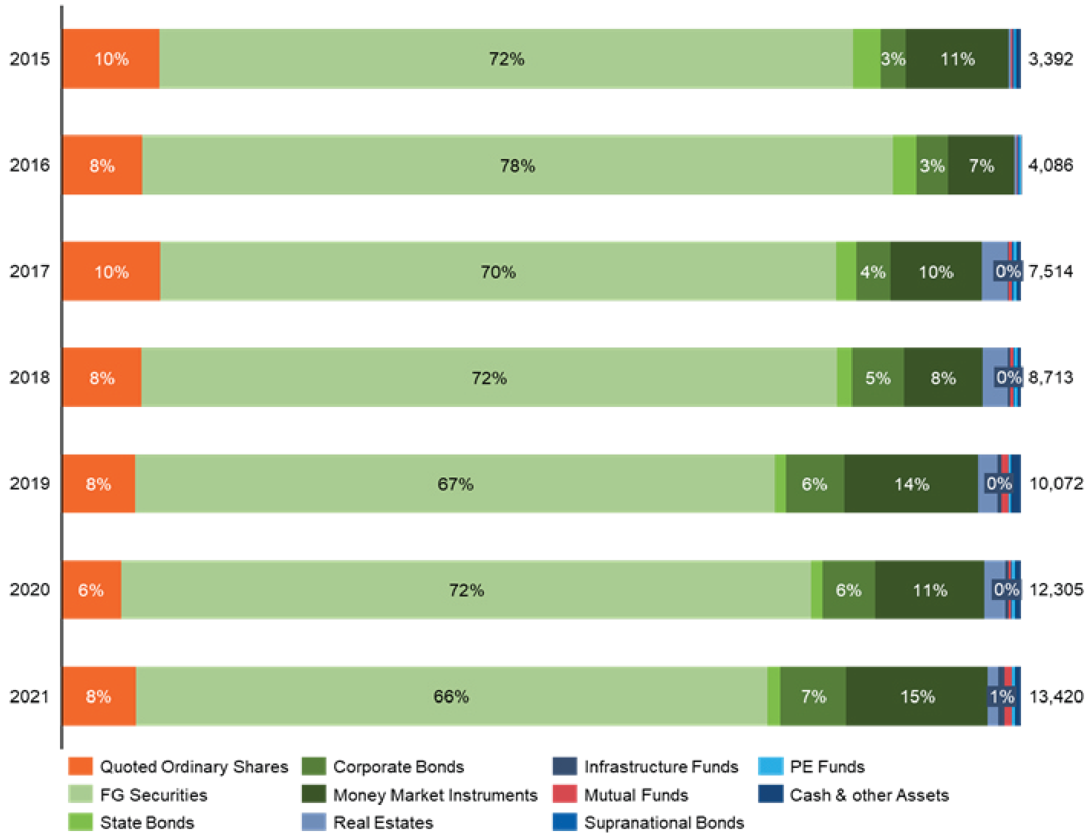
Data: Annual Report, PENCOM, Various Years *Chart & Calculation: NESG Research*

The dynamics of the allocation of these assets also significantly drifted towards government-issued bonds and corporate debt instruments. The high concentration of pension assets in domestic government bonds in Nigeria is due to the financial instrument being considered a haven and best protected. Hence, exposure of pension assets to other forms of investments is restricted, while investments in government bonds are encouraged.

Between 2015 and 2021, government-issued bonds and money market instruments accounted for an average of 75 of the industry's assets. Investments in corporate bonds also increased to 6.9 percent in 2021 from 2.6 percent in 2015, while asset allocation to Quoted companies on the Nigerian Stock Exchange (NSE) and other foreign exchange markets hovered between 6 percent and 10 percent.

Despite the validity of prominent roles in the Impact Investing Market, the Nigerian Pension Industry is missing out on the sectors with a high correlation of induced financial and social returns – Real Estate Investment Trust (REIT) and Infrastructure development. There is low coverage of assets or investments in these sectors. Between 2015 and 2021, both sectors accounted for a low ratio of the industry's assets and averaged about two (2) percent.

Figure 40: Trend of Nigeria's Pension Industry Asset and Investment Portfolio Composition



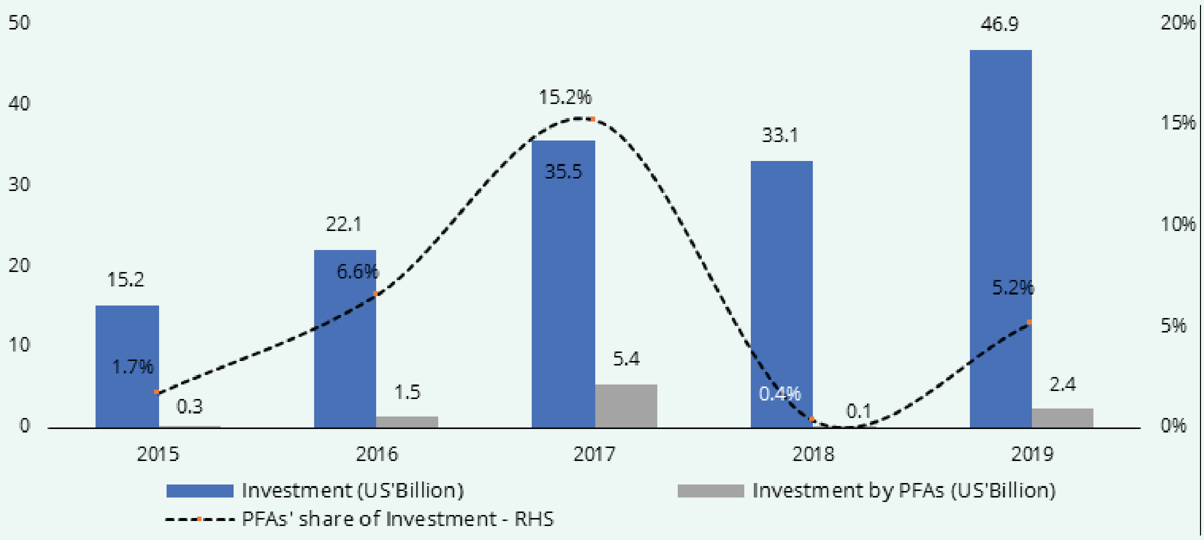
Data: Annual Report, PENCOM, Various Years *Chart: NESG Research*

PENSION INDUSTRY AND GLOBAL Impact Investing MARKET

In the last decade, Pension Fund Administrations (PFAs) are increasingly becoming one of the primary drivers of the global Impact Investing market, aside from the DFIs, philanthropic bodies and banks. The PFAs explicitly focus on impact projects on social infrastructure and affordable housing development, linked with SDGs 1-17.

The total global investment in the impact market in 2019 was estimated at US$46.9 billion, with PFAs accounting for 5.2 percent of the investment. PFAs' share of total investment activity in the Impact Investing market has increased by 56 percent on cumulative annual growth rate (CAGR), from US$264 million in 2015 to US$2.43 billion in 2018 (GIIN, 2016; 2019). A similar pattern can be seen in the total Asset Under Management (AUM) for the Impact Investing market, which is a proxy for market size. With an AUM size of US$715.0 billion in 2020, the PFAs account for 3.0 percent of the market size. This performance is a significant milestone compared to its 1.5 percent share of the US$77.5 billion Impact Investing market in 2015. (GIIN, 2016; 2019).

Many advanced and developing economies adjust their public pension funds to accommodate capital injections into projects that satisfy environmental, social and government (ESG) criteria. In 2019, the UK's government introduced climate risks and ESG factors into PFAs' investments requirement. Also, the country's Pension Schemes Act 2021[84] requires pension fund schemes to consider climate-related investment and risk[85].



Source: GIIN, Annual Impact Investors Survey Report, Various Years

[84]Investment DC pension schemes. The Pensions Regulator https://www.thepensionsregulator.gov.uk/en/trustees/managing-dc-benefits/investment-guide-for-dc-pension-schemes-.
[85]Pension Schemes Act 2021. https://www.legislation.gov.uk/ukpga/2021/1/contents/enacted.

REGULATIONS ON ASSETS ALLOCATION AND SECTORAL EXPOSURE

As noted above, investment exposure and portfolio structure of the pension industry are determined by regulation developed by the industry regulator to optimise returns on RSAs and minimise potential risk. In Nigeria, The Regulations establish a maximum investment as a percentage of pension fund assets to be allocated to the following financial instruments:

» Ordinary Shares with a Quote
» FG Securities
» Bonds issued by the State governments
» Bonds issued by private corporations
» Instruments of the Money Market
» Mutual Funds
» Real Estate Investment Trusts (REITs)
» Infrastructure Funds
» Supranational Bonds/SUKUK
» Private Equity Funds.

The PFA's investment regulation limited pension fund exposure to less than ten (10) percent for infrastructure funds but 100 percent for federal government bonds (see Table 6). In addition, RSA funds can only invest about 30 percent in the equities market, including the Nigerian Stock exchange. These regulations contrast the top five countries, which have more than half of their assets in equities: the United States (52 percent), the United Kingdom (56 percent), Japan (51 percent), the Netherlands (52 percent), and Australia (52 percent). Investments in REITs were pegged between 0 and 30 percent.

Considering the volatile state of the Nigerian macroeconomic environment, the regulatory restrictions on asset allocation could be beneficiary to safeguarding the industry. However, these regulations have been found to stifle the industry's potential growth by preventing fund managers from exploring the creative and innovative deployment of the fund to create both social and financial benefits. Some of the constraints of the current regulatory constraints include the following:

» Create limited room for asset allocation flexibility and deprive fund managers of an opportunity to optimise portfolio mix.
» Rigidity reduces the efficiency of risk management strategies of the fund managers.
» There is limited room for long-term investment activities. Restrictions mainly favour short-term investment activities.

UNLOCKING NIGERIA'S PENSION FUND FOR IMPACT INVESTING PRODUCTS AND MARKET PARTICIPATION.

Pension fund investment guidelines and regulations in Nigeria have notably and silently identified key activities that fall within the Impact Investing markets. These activities include infrastructure funds, REITs, and Private Equity Funds. However, the allocation of pension fund investment to the Impact Investing-related asset class has been significantly poor. Some conditions that hinder the massive allocation of funds to these asset classes are regulatory induced (see Table 6), while others are associated risks with these financial instruments or products.
As highlighted by Nigeria's Minister of Works and Housing, the government had long sought to deploy the pension fund for infrastructural development in the country. However, a scarcity of projects compiled with Pencom's regulations for pension fund investments in infrastructure funds has been a major impediment[86]. Taking cues from other emerging markets and developed economies that have achieved significant successes in integrating impact-investing criteria in the investment guidelines for pension funds (Box on Impact Investing AND CHANGING PENSION INVESTMENT REGULATIONS).

The following are strategies to unlock the pension fund for the Impact Investing market in Nigeria.

- Inclusion of Impact Investing criteria in investment guidelines for pension fund
- Increase asset allocation to Impact Investing products such as Sukuk Bond, Infrastructure projects, and private equity.
- Upgrade of Fund I and Fund VI for Impact Investing market.
- Approval of direct investments in companies, especially listed local companies and MSMEs.

Table 6: Maximum investment as % of pension fund asset by the regulations

		Quoted Ordinary Shares	FG Securities	State Bonds	Corporate Bonds	Money Market Instruments	REITs	Infrastructure Funds	Mutual Funds	Supranational Bonds/ SUKUK	PE Funds
CPS	Fund I	30%	60%	10% of ISPOs Backed & 3% of not-ISPOs backed.	35%, with a maximum of 25% for Infrastructure bonds	30%	25%	10%	25%	20%	10%
	Fund II	25%	70%	15% of ISPOs Backed & 3% of not-ISPOs backed.	40%, with a maximum of 20% for Infrastructure bonds	30%	25%	5%	20%	20%	5%
	Fund III	10%	80%	20% of ISPOs Backed & 3% of not-ISPOs backed.	45%, with a maximum of 20% for Infrastructure bonds	35%	10%	0%	10%	20%	0%
	Fund IV	5%	80%	20% of ISPOs Backed & 3% of not-ISPOs backed.	45%, with a maximum of 10% for Infrastructure bonds	35%	5%	0%	50%	20%	0%
	Fund V	5%	60%	15% of ISPOs Backed & 3% of not-ISPOs backed.	35%, with a maximum of 10% for Infrastructure bonds	60%	0%	0%	0%	0%	0%
	Fund VI (Non-Interest)	25%	70%	15% of ISPOs Backed & 3% of not-ISPOs backed.	40%, with a maximum of 10% for Infrastructure bonds	30%	20%	5%	20%	20%	5%
CPFAs		25%	100%	20%	30%	35%	30%	30%	5%	25%	
AES		25%	100%	20%	30%	35%	30%	30%	5%	25%	

Source: NESG Research & NNABII

[86]Key Informant Interview with Pension Fund Operators Association of Nigeria (PENOp).

Impact Investing AND CHANGING PENSION INVESTMENT REGULATIONS

The regulatory landscape of the global pension industry has witnessed a paradigm shift to allow participation in the Impact Investing ecosystem. Regulations guiding the investment pursuit of Pension Fund Administrations (PFAs) are being adjusted to emphasise allocating funds to Environment, Social and Governance (ESG) compliant projects. With these regulation changes, PFAs are increasingly focusing on impact projects on social infrastructure and affordable housing development, which are linked with Sustainable Development Goals (SDGs) 1-17. This situation has, therefore, positioned PFAs as one of the primary drivers of the global Impact Investing market, aside from the Development Finance Institutions, philanthropic bodies and banks.

Evolution of PFAs Investment Regulations & Impact Funds

Source: Charlie McGrath (2020), Investors Integrating ESG Can Indeed Do Well by Doing Good

In 2019, the Government of the United Kingdom also introduced climate risks and ESG factors into PFAs' investments requirement. The country's Pension Schemes Act 2021[87] require pension fund schemes to consider climate investment and risk in their investment decisions and portfolio analysis[88].

In Africa, South Africa offers a classic example of how to use regulations to unlock the Pension Fund for social and Impact Investing. This makes South Africa the second country, (after the United Kingdom), in the world to formally encourage institutional investors to integrate ESG considerations into their investment decisions with the launch of the Responsible Investing in South Africa (CRISA) Code in 2011. The country's Regulation 28 of the Pension Funds Act was revised to direct retirement fund administrators to invest their assets in ESG-compliant projects and sectors. The pension Industry in Nigeria is also moving close to unlocking PFAs' assets for Impact Investing with the new Framework for Co-Investment of Pension Fund by the National Pension Commission (PENCOM) in 2022. The new guideline allows pension funds to co-invest in private equity funds with the expectation that enabling pension funds to co-invest with qualifying private equity funds will increase pension fund exposure to private equity and the use of special purpose vehicles (SPVs).

CHAPTER EIGHT

Policy Recommendations

Investing activities for impact and beyond financial returns are relatively young in Nigeria. Hence, there is still a long way to go in improving awareness, stakeholders' acceptance and building an enabling ecosystem, including developing fit-for-purpose enterprises for Impact Investing products and other structured intervention funds by government, private and donor organisations.

This section of the deep dive study provides the critical findings that Impact Investing activities in the focus sectors (see Table 7). In addition, notable gaps in product availability, regulations & incentives, product awareness and capacity building for MSMEs in Nigeria are identified. The other segment provides key policy recommendations and a framework to guide the implementation of the suggested policy recommendations.

SUMMARY OF FINDINGS OF DEEP DIVE STUDY

The main objective of this project is to provide an in-depth understanding of the financing needs of MSMEs and social enterprises in the priority sectors. From the landscaping of the investment ecosystem and enterprise development activities in the priority sectors, it is found that the Nigerian enterprise ecosystem is well-developed and provides an enabling environment to attract various forms of funding, especially impact-related investments. However, the country's financing landscape primarily focuses on commercial lending and investment activities. As a result, the financial market has limited capacity to cater for MSME demands as its offerings focus more on large corporations than small enterprises' needs.

Table 7: Summary of Findings from the Deep Dive of Impact Investing in Focused Sectors

<table>
<tr><th></th><th>Agriculture</th><th>Education</th><th>Health</th></tr>
<tr><td>Financing need of MSMEs</td><td>» Equity funding
» Grants
» Low-cost debt financing (loans)
» Hybrid – grant & equity</td><td>» Equity funding
» Grants
» Low-cost debt financing (loans)
» Hybrid – grant & equity
» Patient capital</td><td>» Huge and patient capital is required.
» Low-cost debt financing (loans)</td></tr>
<tr><td>What has worked - Strengths of existing Impact Investing products & interventions</td><td>» Financial products & intervention funds covered all segments of the Agriculture value chain.
» Lower interest rates than the market rates
» Combination of access to finance and business supports to MSMEs.
» Provision of credit guarantees on loans by PFIs.
» Working with trade groups, BMOs and cooperative societies.</td><td>» Combination of access to finance and business supports to MSMEs.
» Lower interest rates than the market rates
» Longer moratorium on loans.
» Provision of credit guarantees on loans by PFIs.</td><td>» Combination of access to finance and business supports to MSMEs.
» Lower interest rates than the market rates
» Longer moratorium on loans.
» Provision of credit guarantees on loans by PFIs.</td></tr>
<tr><td>What has not worked – Weaknesses of existing Impact Investing products & interventions</td><td>» Providing cheaper funding to farmers through rebates (as opposed to lower interest rates offered) has had limited success.
» Government intervention funds which have allowed banks to ‘opt in’ have been less successful.</td><td colspan="2">» The reach of most programmes is limited and focused only on funding.
» Limited exit opportunities for VC/PE investors
» Requirements (documentation, collateral) are out of reach for most MSMEs in the sector.
» General lack of awareness about products and programmes.</td></tr>
<tr><td>Observed Gaps</td><td colspan="3">Product availability
» Lack of wholesale impact funds.
» Limited long-term intervention funds by government and private / donor programmes.
» Scarcity of investable social enterprises or projects.

Policy & regulation
» Weak regulations and incentives for Impact Investing products or funds.
» Integration of CSR components in investment and asset deployment.
» Absence of a National Impact Investing Framework for the private sector and investors.

Awareness
» Lack of awareness of the importance of Impact Investing products.

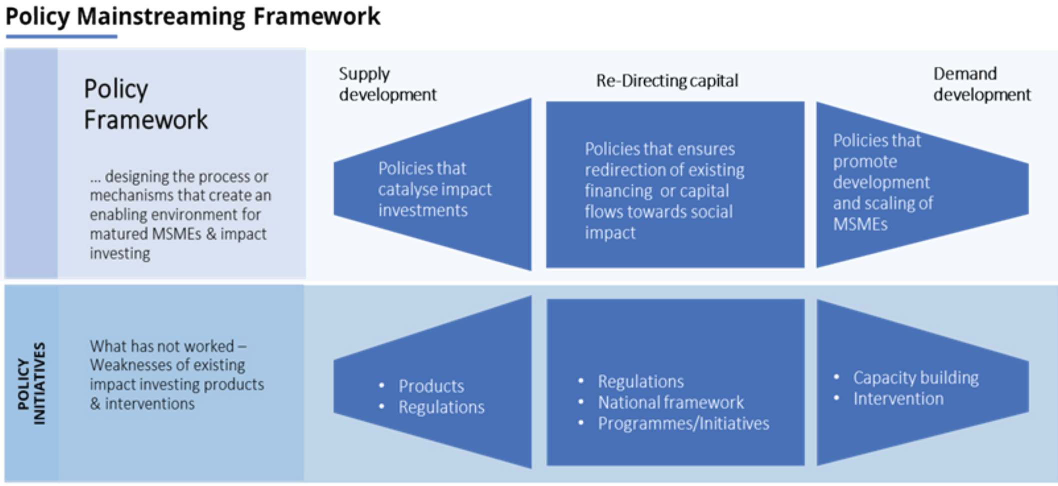
Enterprises Capacity Building
» MSMEs’ capacity building tends not to be a key focus area in intervention funds and investments by the private sector.</td></tr>
</table>

POLICY RECOMMENDATIONS AND WAY FORWARD

The section will focus on providing a framework that would help to engender effective and focused policies and initiatives towards addressing issues around the Impact Investing market approaches that have not worked. In addition, the framework will help to develop ways to close the observed gaps highlighted in the previous section. The policy mainstreaming framework suggested entails three critical components – supply development, re-directing capital and demand development. The policy framework approach contextualises the daunting challenges affecting Nigeria's market. These challenges cut across all components of the market.

The supply development entails regulations to be developed by the government towards easing the current barriers and enabling impact-investing products to meet the development priorities in Nigeria. The second sub-section is to be coordinated jointly by the government and private sector. This is Impact Investing product developments for broad and specific sectoral needs and priorities. This component aims ***to increase the supply of capital from investors, government, foundations, banks, philanthropical bodies, investment and retirement funds in Nigeria.***

Figure 41: Policy Mainstreaming Framework for Impact Investing Market in Nigeria

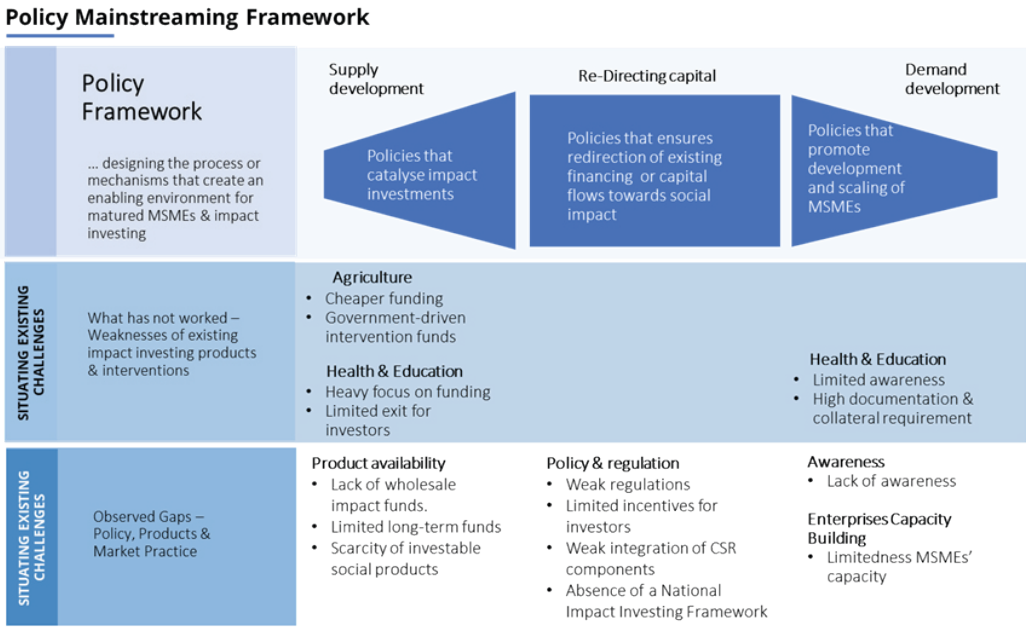


The second component of the policy framework is the Re-directing capital. This component would be collaborative efforts of the Nigerian government, private sector, and international development community. The critical sub-sections include regulations, national framework, and programmes/initiatives on Impact Investing products. The overall goal of this component is ***to ensure effective and efficient re-directing of capital towards Impact Investment products through platforms or projects governed by socially and commercially viable terms.***

The last component is demand development which is mainly enterprise development centred. Activities within this component target evolving MSMEs ready to attract Impact Investing funds or participate in such programmes/initiatives. The two key sub-sections are capacity building and interventions by the government, private sector, and international development community in Nigeria. This component aims ***to increase demand for impact capital by companies, projects, and other platforms in Nigeria.***

Using the framework, we fitted existing issues and challenges classified as approaches that have not worked and existing gaps within the three key components (see Figure 42). This approach allows for a proper understanding of the issues, adequate policy framing, and identification of the relevant stakeholders for policy implementation.

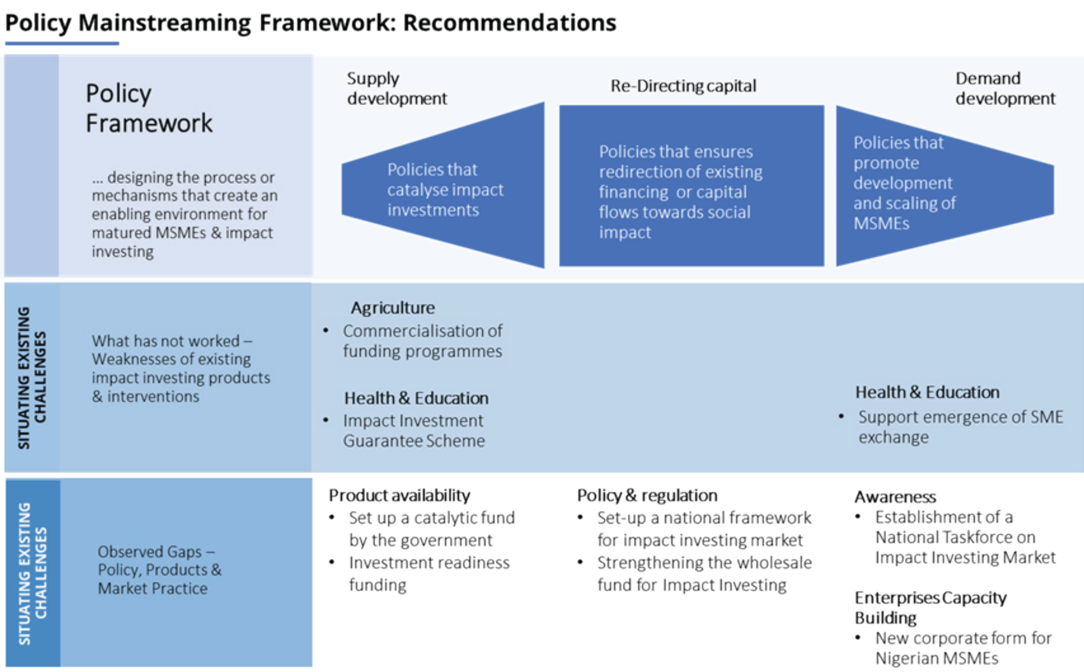
Figure 42: Policy Mainstreaming Framework & Issues Affecting Impact Investing Market



POLICY RECOMMENDATIONS

Building on Figure 42, nine (9) crucial policy interventions and action points are highlighted to enhance participation in the market and increase the availability of resource deployment by government, investors, companies and other stakeholders through improved regulations and market infrastructure development for Impact Investments and market to grow. The following recommendations are generic and targeted at improving the market.

Figure 43: Recommendations and Policy Actions



I. RECOMMENDATIONS TO BUILD SUPPLY CAPITAL

1. The commercialisation of funding programmes. The government needs to review the regulations around current agricultural schemes to make them more attractive for banks' participation. In addition, the guidelines need to be flexible to potentially benefit from the participation of other stakeholders looking to invest and finance productive activities in the Agriculture sector. Alternatively, a joint venture between the government and private sector can establish investment-readiness funding, through a public funding scheme, to impact enterprises that need to upskill and build capacity within their organisation.

2. Establishment of Impact Investment guarantee scheme. There is a need to establish incubators for impact-driven businesses for all stakeholders, especially in the Health and Education sectors. Beyond interventions such as grants, the government and private sector stakeholders can set up investment guarantee schemes targeted at these impact-driven businesses. With these schemes, banks and other financial institutions would be less risky to maintain and less adverse on their balance sheet.

3. Set up of catalytic fund by the government
Government must make direct investments by funding existing or new Impact Investments vehicle or funds in Nigeria. This move will help to spur private sector participation and the growth of related funds that generate social impacts and financial returns. Such government funding may be equal to or subordinated to other investors (to incentivise investors further), and it can also work in tandem with favourable tax breaks.

4. Impact Investment readiness funding assessment. There is a need to conduct detailed Impact Investment funding readiness assessment for Nigeria and other crucial sectors with substantial social impacts. This assessment will help to identify fiscal and other constraints impeding the activities of investors and entrepreneurs in Nigeria.

II. RECOMMENDATIONS FOR RE-DIRECTING CAPITAL

1. Set up a national framework for the Impact Investing market
There is a need to develop a conventional framework to guide the government towards eliminating policy barriers to Impact Investments and help companies evaluate their investment activities in Nigeria. The government can create tax incentives for companies with significant social and environmental impact in a fiscal year with this national framework.

2. Strengthening the wholesale fund for Impact Investing
The government needs to support the ongoing efforts towards operationalising Wholesale Impact Fund in Nigeria. These initiatives and similar moves will help to attract private investments to impact sectors that could create more jobs. Aside from becoming a funding partner, the government needs to incentivise the ecosystem regulations, preferential access to financial markets and provision of an enabling environment.

III. RECOMMENDATIONS FOR ENTERPRISE DEVELOPMENT

1. Support the emergence of MSME exchange
There is a need to increase the establishment of platforms that create opportunities for SME-specific stock exchanges in Nigeria. There is only one such exchange or platform in Nigeria., the NASD OTC Securities Exchange, with few MSME participants or listing on the exchange. The availability of multiple MSME exchange platforms and Nigerian MSMEs listing will create Investment Exit options for both local and foreign investors.

2. Establishment of a National Taskforce on the Impact Investing market
An Impact Investing task force is needed at national and sub-national levels to strengthen the collaboration between the government and private sector stakeholders. This task force is needed for the following reasons – explore the country-relevant definitions and classifications for Impact Investing, identify the country-specific potentials and impact sectors and create awareness about activities of the Impact Investing market in Nigeria.

3. New corporate form for Nigerian MSMEs
There is a solid need to evolve many enterprises with sufficient requirements and readiness to attract social impact funds. With the availability of these firms, the challenges of effectively channelling funds to limited liability or not-for-profit entities would be resolved. This policy may require the government to adjust current regulatory requirements for the emergence of these new forms of corporate entity that are better suitable for impact funds and generate adequate social impacts as well as financial returns.

ABOUT THE NESG

The NESG is an independent, non-partisan, non-sectarian organisation committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought to explore, discover and support initiatives to improve Nigeria's economic policies, institutions and management.

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ABOUT NIGERIAN NATIONAL ADVISOR BOARD FOR IMPACT INVESTING (NABII)

The Nigerian NABII is established to catalyse and promote a dynamic ecosystem for Impact Investing in Nigeria, driving economic growth and improving quality of life in an inclusive and sustainable manner through increasing Impact Investment flow and sector diversification in alignment with key SDGs. Through its various initiatives, the NABII is transforming the Nigerian investment landscape by fostering a sustainable and equitable economy. The NABII is implemented as an initiative of the Impact Investors Foundation.

The Nigerian NABII is one of the 36 National Advisory Boards for Impact Investing spread across 41 countries under the aegis of the Global Steering Group for Impact Investment (GSG).

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