When Two Rivers Cross:

Impact Investing and Philanthropy in Nigeria

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Centre for Strategic Philanthropy
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SMEFUNDNG
NIGERIA'S SME IMPACT INVESTMENT PLATFORM

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Established in 2020, the Centre for Strategic Philanthropy (CSP) at University of Cambridge Judge Business School conducts ground-breaking research, education, and convening focused on philanthropy for international development. The CSP believes that changemakers from the world's fastest growing markets provide vital solutions to societal and environmental problems, and support global development. Consequently, the Centre aims to inform, cultivate and catalyse strategic philanthropy in and from these markets, and encourage collaboration between international and local impact-oriented initiatives. The CSP is designed as a global convening body to research philanthropy, elevate practitioner voices and disseminate best practice in three specific growth markets: Africa, Asia, and the Middle East.

SME.NG is a gender lens impact investment firm in Nigeria that invests in female-owned SMEs. The firm leverages private capital, public sector investments and philanthropic giving to deploy capital to impact-oriented female entrepreneurs. As an indigenous gender lens investor, SME.NG is committed to providing non-financial support to address the challenges women-owned businesses face, alongside financial capital. The objective of Nigeria SME is to support bottom and top of the pyramid women and youth owned SMEs and to transform them into formalised and sustainable businesses that support employment and create a lasting impact. Its vision is to break the poverty cycle in Africa by providing access to financing and capacity to support entrepreneurs and SMEs that create jobs and drive development.

The Impact Investors Foundation (IIF) engages and collaborates with key stakeholders, active in the impact investing space, to unlock private capital for social investments in Nigeria. Its overarching goal is to promote the growth and excellence of impact investing in Nigeria. The Foundation is committed to eliminating barriers to social impact investing by building an effective and supportive ecosystem that supports the growth of investment pipelines and for building sustainable impact. The IIF approaches include critical stakeholders' convenings, facilitation of knowledge exchange, catalyzation of deal flow, capacity building, generating evidence of what works, mainstreaming innovative investment approaches and engendering collective action. Formerly known as the Impact Investing Alliance of Nigeria (IIAN), IIF was founded in 2018 as a multi-sector collaborative comprising the Ford Foundation, Africa Capital Alliance, Businessday Media, Bank of Industry and Dalberg Advisors.

Executive Summary

This report is among the first wide-reaching mixed-methods studies of impact investing in Nigeria, and the first of its nature specifically highlighting entrepreneurs on the 'demand-side' of the Nigerian impact investing model. While an increasingly growing body of impact investing literature has advanced the discourse, particularly in Western contexts, limited interest has thus far been shown in analysing the model from the perspective of social entrepreneurs.

This report is the result of a study conducted by the Cambridge Centre for Strategic Philanthropy (CSP) in collaboration with SME.NG and the Impact Investors Foundation (IIF), which examined social entrepreneurs and their experience with impact investing and philanthropy. The report focuses on how impact investing can serve as an alternative funding source to traditional grants or finance models. Illustrating findings from 750+ Nigerian entrepreneurs, with emphasis on 50+ social entrepreneurs that have specific experience with impact investments, the report finds considerable space for impact investing to grow in the local Nigerian ecosystem. By combining a digital survey with demand-side interviews and supply-side focus group discussions, the report offers multidimensional insights into the benefits entrepreneurs experience as a result of impact investments. In addition, it showcases the challenges that social entrepreneurs continue facing despite diversifying away from traditional philanthropic models.

While the primary purpose of this report is to present the rich data and insights collected from study participants, it also offers recommendations on how to advance best practice in impact investing and philanthropy. The main recommendations can be consolidated into the following five categories:

Impact investing must fill, not exacerbate, gaps left by other financing models

Findings in Chapters 3 through 5 reveal major promise for impact investing to support Nigerian entrepreneurs endeavouring to address the Sustainable Development Goals (SDGs) when there is a clear intention to deliver impact. Geographical considerations, such as supporting organisations in rural areas through impact investments, remain a challenge and actions must be taken to ensure that organisations without a presence in entrepreneurial hubs can access opportunities. Regarding gender considerations, various funding schemes have appeared on the ground to support female-led organisations, but insights from impact investors on the 'pipeline problem' are mixed and inconclusive.

This report also notes a troubling tendency for impact investments to fall short of their full potential, in many cases re-creating challenges endemic in more traditional forms of development funding, such as grants and foreign aid schemes. These include: 1) a persistent focus on investing in urban and reputationally-established or investment-ready organisations, with difficulty in getting financial flows to rural or newly-established entrepreneurs, 2) delays in investment disbursements often lasting many months to a year, which echo funding issues experienced in international philanthropy and aid sectors, 3) a reluctance from impact investors to disrupt the long-standing status quo in the broader international development sector, effectively hindering overarching efforts toward shifting power to local actors. With 76% of investees in this study also relying on philanthropic funding, impact investing can only become impactful by addressing persistent systemic challenges in the broader social entrepreneurship sector.

Non-financial support from investors is often just as valuable as the financing

The large-scale survey reveals the significant value of non-financial assistance offered by impact investors, with 92% of respondents believing that investors should provide at least some additional support. As philanthropic donors and grant-makers rarely offer a wider range of services beyond financing, entrepreneurs were able to identify what types of non-financial support impact investors provide that they cannot access elsewhere. The type of non-financial support entrepreneurs receive, in order of popularity, includes business plan and value proposition development, networking, mentoring, introduction to other investors working in the space, and financial management and governance services. Investors genuinely

interested in transforming and maximising the impact of local social entrepreneurs should not underestimate the wide-reaching value of non-financial support.

Impact investors and sectoral stakeholders must increase the visibility of impact investments and ensure alignment of expectations

A recurring reflection from respondents both in this study and in past CSP research on new instruments in philanthropy reveals that while enthusiasm for impact investing among entrepreneurs is high, a deeper understanding of the model's inner workings and how to access this type of financing remains low. This concern was solidified by survey results, which revealed that only 11% of 753 Nigerian SMEs had ever received an impact investment, and 14% indicated they were unfamiliar with the model. For impact investors currently entering this field, it is important to ensure entrepreneurs' expectations align and there is mutual understanding of what impact investment deals entail. The impact investors interviewed in this study indicated preferring smaller stakes in their investees, allowing entrepreneurs to maintain ownership of their organisation. They also encouraged investees to be more mindful of equity aspects, due to the long-term wealth creation potential they offer. However, investees do not always have positive experiences with impact investors, and at times had to reject impact investments with surprisingly high equity rates. These findings demonstrate the need for greater levels of open communication between all parties at the outset of an investment to ensure expectations are clear.

A call for impact investing to deliver true partnership and increased experimentation

Discussions with the investees proved that agreeing with investors on the terms and metrics of an impact investment is insufficient. The approach taken by individuals in this space is equally important. Power asymmetries between impact investors and their investees exist, with investees calling for an equal partnership throughout these engagements. Investees expressed that they expect impact investors to be intentional about the impact they want to make and the problem they want to solve. Impact investors with extensive experience in Nigeria have also observed the profound differences between investing in one African country versus another. In Nigeria, the vast population and the differences in the Nigerian market require investors to understand the local context and its needs, collect feedback, and iterate as necessary. Impact investors must experiment more frequently, learn from experience, and when one model does not perform, they need to change it and iterate quickly.

Persistent need for inter-sectoral collaboration, hybrid models, and more inclusive research on emerging markets

This study identified numerous opportunities for the philanthropy and impact investing sectors to collaborate toward achieving common goals, including building on concepts like the 'continuum of capital' (detailed further in Chapter 6). Broader collaboration toward the advancement of social entrepreneurship displays great potential, particularly when applying hybrid models like debt-grant schemes. Respondents reflected favourable experiences with these hybrid approaches, where funding is first deployed as a grant to buy down risk, but over time switches to (usually low-interest) debt after initial success. This research also pinpointed several additional lines of inquiry that require investigation not only in Nigeria but in a broader sample of emerging markets. Urgent research is needed to assess structural questions around 1) what constitutes 'social' entrepreneurship in an emerging market context, 2) how inequity in the distribution of impact investments can be imminently and sustainably addressed, 3) the extent to which the role of impact investing can broaden in the interest of achieving global benchmarks like the SDGs.

Most importantly, this report serves as a foundational tool for investors, social entrepreneurs, philanthropy and international development practitioners, and economic policymakers in emerging markets to learn from the experiences of investees and develop tailored, effective best practices for the future of both impact investing and philanthropy.

Chapter 1: Introduction

The impact investing industry is experiencing enormous surges globally, particularly over the last decade. In 2016, the Global Impact Investing Network (GIIN) defines this financial model as "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return". This study targeted the role of impact investing in Nigeria, specifically examining perspectives from the demand side — the social entrepreneurs themselves.

While the opportunities presented by impact investing have been widely touted, in tandem with the growing interest in bringing private capital and partnerships into the international development sector, little rigorous study exists on the needs and lived experiences of 'investees'. Indeed, some of the world's most prominent impact investing pioneers, like the UK's Big Society Capital, have faced scrutiny for not understanding the real needs of social entrepreneurs and the type of support they require to ensure long-term success (Litchfield, 2019).

1.1 Rationale and Structure

While multiple studies exist on global trends in impact investing, and a more limited number focus on the practice specifically in Africa, practitioners remain dissatisfied with the ongoing lack of understanding and available data capturing the needs of investees. This study, among the first to tackle the dearth, did so particular respect to the Nigerian context.

Our report goes one step further to analyse the experience Nigerian entrepreneurs have with both philanthropy and impact investing. Salamon (2014) notes that new social finance practices have appeared along the "frontiers" of philanthropy, with impact investing undoubtedly being one of them. It can be seen as a key source of venture capital that addresses pressing global problems (Cohen and Bannick, 2014), which has become an important financial instrument for stakeholders working toward achieving the United Nations Sustainable Development Goals (SDGs).

Philanthropy and impact investing are often siloed in the eyes of supply-side actors, given the grants-based focus of the former and the debt or equity focus of the latter. However, our data reveals that a significant number of Nigerian entrepreneurs find themselves straddling both financing models, looking for a combination of grants and investments to finance their SMEs. The research findings demonstrate an intrinsic, and perhaps underexplored, relationship between philanthropy and impact investing from the perspective of recipients, an important consideration given that the majority of research on both philanthropy and impact investing has focused on the supply side of these models. These findings resonate with the CSP's report on 'System Change in Philanthropy for Development' (Banerjee, 2022) which discovered an overwhelming interest from philanthropic organisations in impact investing and new financial instruments for philanthropic distribution. Therefore, synergies between the two sectors continue to grow, as reflected in the following chapters of this report.

Our report reflects findings from primary data collection carried out between March and May 2022. The following section presents a brief geographical context for the study, outlining key insights on impact investing and philanthropy first across Africa and then in Nigeria specifically. Chapter 2 details the methodology implemented by the CSP to carry out the data collection for this study. Chapters 3, 4, and 5 explore specific findings from the data, with Chapter 3 focusing on the demand-side survey of Nigerian entrepreneurs, Chapter 4 discussing qualitative interviews conducted with investees, and Chapter 5 detailing insights from two focus groups with impact investors working in Nigeria. The report concludes with Chapter 6, which emphasises the interconnectivity of philanthropy and impact investing in the Nigerian context and presents opportunities for future inquiry.

1.2. Context: Impact Investing in Africa and Nigeria

As countries across Africa aim to achieve benchmarks ahead of the 2030 global SDG deadline, the concern of unemployment, and broader economic opportunity, remains a persistent challenge for governments to tackle – even more so in the aftermath of the COVID-19 pandemic. In 2021, 53 African nations signed onto the new trade agreement, the African Continental Free Trade Area (AfCFTA), creating the world's largest free trade zone and potentially bringing 450 billion USD to the continent by 2035. AfCFTA further aims to lift 30 million individuals out of poverty, and raise the incomes of a further 68 million (EY, 2022).

Investment in entrepreneurs has been hailed for decades as an important prospect for local empowerment and autonomy, particularly given the propensity for funding dependency that occurs in more traditional international aid or philanthropy. According to EY, impact investors dealing with capital flows to African businesses are particularly looking to finance organisations working in three thematic areas: healthcare, financial technologies (FinTech), and renewable energies.

However, despite an investment uptick in entrepreneurs by both international and domestic actors, coupled with a more enabling trading environment, a 2015 study by the GIIN identified several barriers facing social enterprises and commercially-oriented SMEs in Africa. Financial literacy and awareness of the numerous funding options available features as a key issue identified in the report, with SMEs often select informal lenders pooled from their existing networks. In many cases, entrepreneurs in the GIIN study were not aware of financing alternatives beyond commercial banks, offered debilitatingly high collateral requirements for finance, limiting access potential for a large number of entrepreneurs.

Moreover, disparity persists in the distribution of investment capital across the continent, with impact investing flows reflecting this inequity. The 2020 GIIN global survey found that while 43% of impact investors indicated some allocation to Sub-Saharan African (SSA), only 11% of finances actually flow to the region. The survey further notes that 77% of impact investors are based in developed markets, with only 7% headquartered in SSA. More promisingly, 52% of respondents indicated that they plan to increase their African allocations over the next five years. Impact investment in West Africa is steadily growing, with Nigeria and Ghana serving as the two largest regional destinations for investors. Although Nigeria has experienced a challenging macroeconomic climate in recent years, with volatile rates of unemployment, the IIF (2019) discovered increases in impact investing capital coming into the country.

As impact investing becomes more widespread, recent developments have enhanced the ecosystem. For instance, the recently created Nigerian National Advisory Board for Impact Investing (NABII) ensures that Nigeria maintains a dynamic environment for impact investing, and that the demand and supply of impact investments continued to increase. The NABII also joined the Global Steering Group for impact investment (Obi, 2021). In addition, the Federal Government recently announced its collaboration with impact investors for the creation of a 'fund of funds' for early-stage organisations, with the first close in June 2023 and a final close in December 2024 (Onyedinefu, 2022).

As participants in this study note, Nigeria represents vast potential for investors given the large population and robust commercial environment in large urban centres like Lagos and Abuja. However, advisors and participants highlighted disconnect in urban versus rural economic development, particularly the Northern states, where investment and economic infrastructure remain troublingly low. The CSP carried out the study within this unique Nigerian context where impact investing is on the rise, despite the broader macroeconomic instabilities and systemic inequities.

Chapter 2: Methodology

2.1. Overview

This study employed a mixed-methods approach to create a robust dataset on the demand side of Nigerian impact investing. Prior to data collection, the CSP consulted a group of impact investing advisors, all of whom have extensive experience working in Nigeria. They provided recommendations during project development and for the design of data collection. To collect quantitative data on a large number of relevant social SMEs, the CSP designed a digital survey which was circulated across a large network of Nigerian entrepreneurs. To gain further insights into both the demand and supply sides of Nigerian impact investing, semi-structured interviews and virtual focus group discussions were used to gather data on lived experiences.

2.2 Data Collection

Demand-side survey	To collect data on the Nigerian SME sector and the influence of impact investing on social entrepreneurs, the authors created a survey on the software platform 'Qualtrics'. This survey was reviewed and tested by faculty at the Cambridge Judge Business School and leading industry experts in Nigeria. Once tested, the virtual survey was deployed by SME.NG, one of Nigeria's most prominent SME networks, and circulated widely on social media to attract a wide range of respondents. The survey remained open for 12 weeks from March – May 2022. A total of 753 respondents participated in the survey, with 110 responses on both impact investments and philanthropy collected. A surprising finding from the survey analysis showed that many respondents who indicated an interest in impact investing and started filling out the survey had not previously received an impact investment. Therefore, only those respondents who expressed that they have both received an impact investment and indicated impact investment as a significant funding source were included in the dataset.
Interviews with investees	After collecting quantitative data through the digital survey, remote semi-structured interviews were conducted with Nigerian social entrepreneurs with varying degrees of experience with impact investments. These interviews allowed deeper exploration of key impact investing aspects and 'demand-side' perspectives on the impact investing ecosystem. The CSP interviewed a total of 9 entrepreneurs during this data collection phase.
Focus Group Discussions with investors and intermediaries	While the main focus of this report is indelibly the demand side of impact investing, this study used a holistic approach to capture diverse perspectives. Therefore, the CSP held two virtual focus group discussions with 6 impact investors and intermediaries to gather their insights, specifically on Nigerian social entrepreneurs. These Nigerian and international participants have distinctive experience with investing in Nigeria or facilitating impact investing in the Nigerian entrepreneurial ecosystem.

Limitations: Although this research attracted attention from sectoral and academic communities, which allowed rich and wide-reaching data collection, it is important to acknowledge certain limitations in the study. All data collection was conducted remotely due to ongoing institutional advice on travel restrictions, and the CSP's short time frame. Survey data was collected via virtual software (Qualtrics), while interviews and focus group discussions took place through online platforms (Zoom/MS Teams). This approach inherently indicates that social entrepreneurs without readily available internet access were excluded. Participation in the survey, interviews, and focus group discussions was entirely voluntary, and data collection was time-bound to six months. Hence, only individuals with the time and digital access during that specific period participated in the study. Despite these constraints, the Centre and its collaborators aimed to create as inclusive a dataset as possible. The data sampling ensured equal gender representation and collected data from a wide variety of geographic regions in Nigeria.

Chapter 3: Impact Investing and Social Entrepreneurship in Numbers

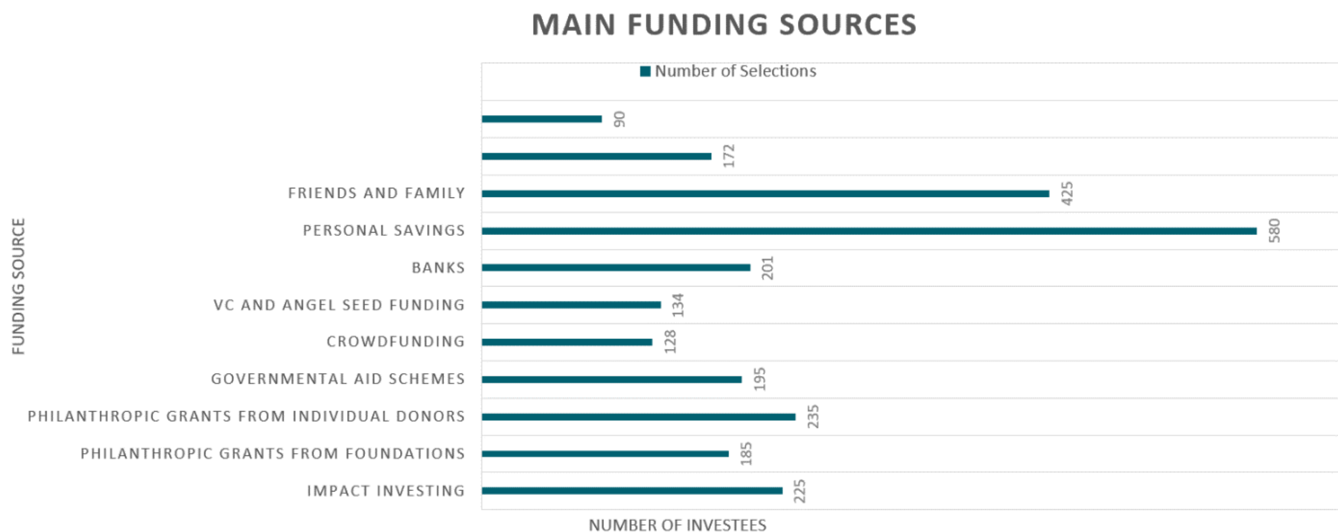
3.1. Survey Overview

In collaboration with SME.NG, the CSP conducted a large-scale online survey to gather Nigerian investee experiences with financial instruments they use to fund their organisations. The CSP's survey focused on identifying entrepreneurs' experience with impact investing versus philanthropy (grants/donations) and the various forms of non-financial support investees receive from their funders.

Through the online questionnaire, the CSP discovered key insights into funding streams used by Nigerian SMEs, and information on how impact investing and philanthropy fit into the broader social entrepreneurship ecosystem. The study found that the most popular funding source for SMEs is *personal savings*. The second most popular funding source is *friends and family*, followed by *philanthropic grants from individual investors*, with *impact investing* as the fourth most popular choice (Figure 1).

Figure 1

Main Funding Sources for Nigerian SMEs



By taking a closer look at these results, it is evident that impact investing is beginning to gain traction among Nigerian entrepreneurs, but it is not yet a widespread funding source. To highlight this observation, only 11% of survey respondents have received impact investments. Meanwhile, 75% have not received impact investments yet and 14% indicated they were unfamiliar with the model. This data shows that 89% of total survey respondents are either unfamiliar with this funding model or have not yet received impact investments (Figure 2).

Figure 2

Experience and Attitudes towards Impact Investments

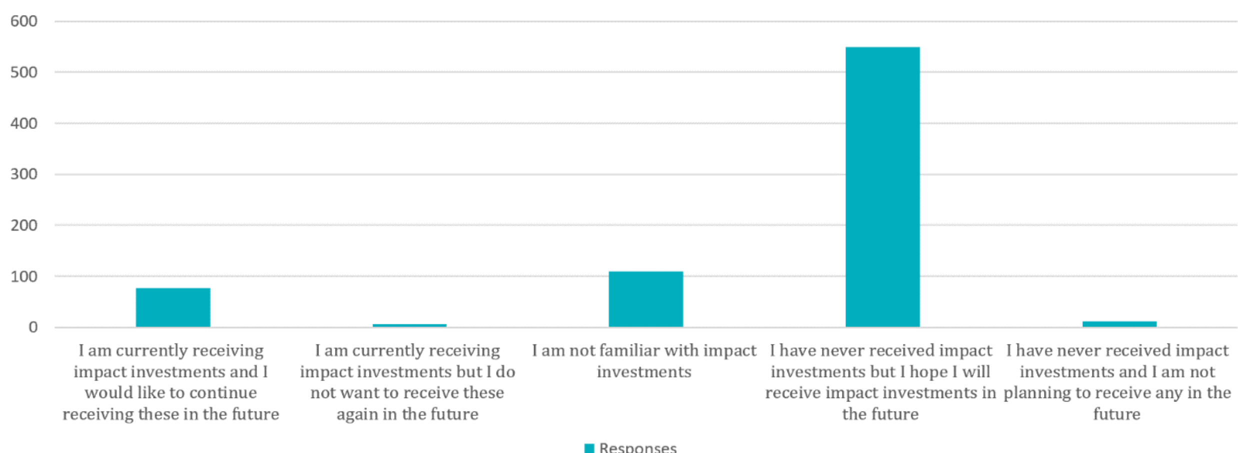
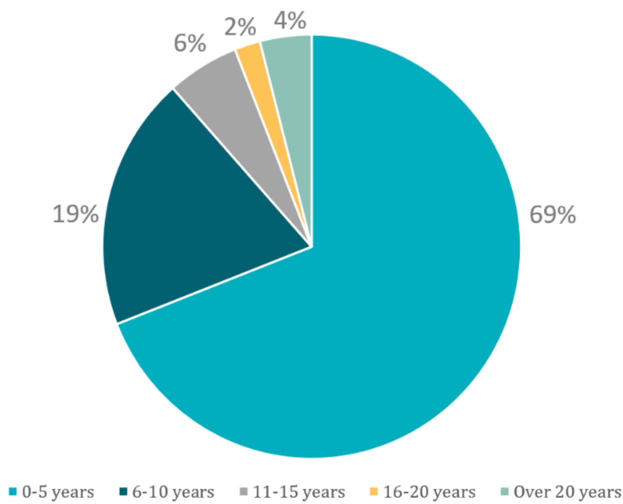


Figure 3

Operational Age of Respondent Nigerian SMEs



Another crucial finding is the age of organisations represented in this study. The majority of respondents lead early-stage SMEs. 69% of respondent organisations have been operating for 0 to 5 years, 19% between 6 and 10 years, 6% between 11 and 15 years, 4% over 20 years, and 2% between 16 and 20 years (Figure 3). This organisational demographic is both troubling and encouraging. Positively, it indicates that there has been a significant surge in interest among entrepreneurs in recent years, a hopeful statistic for regional network organisations, local stakeholder bodies, or philanthropic foundations that are investing in Nigerian start-up companies.

However, this may also indicate that SMEs in Nigeria find it difficult to achieve sustainable returns in the early years of operation, with the majority potentially failing to remain viable beyond five years.

3.2. Particulars of Impact Investing in Nigeria

As previously mentioned, only 11% of survey respondents indicated active experience with impact investments. These 54 organisations proved to be geographically diverse, with 17 states and the Federal Capital Territory (FCT) represented in the sample. The highest concentrations of impact investees were found in Lagos State (17), followed by Abuja FCT (9) and Rivers State (5). The areas are indicated in Figure 4.

Figure 4

Recipients of Impact Investing per Nigerian State

NOTE: Respondents could choose more than one area if they operate in various geographical locations. Darker areas on the map indicate survey respondents who receive impact investments. Areas in orange indicate that no respondents selected those locations.

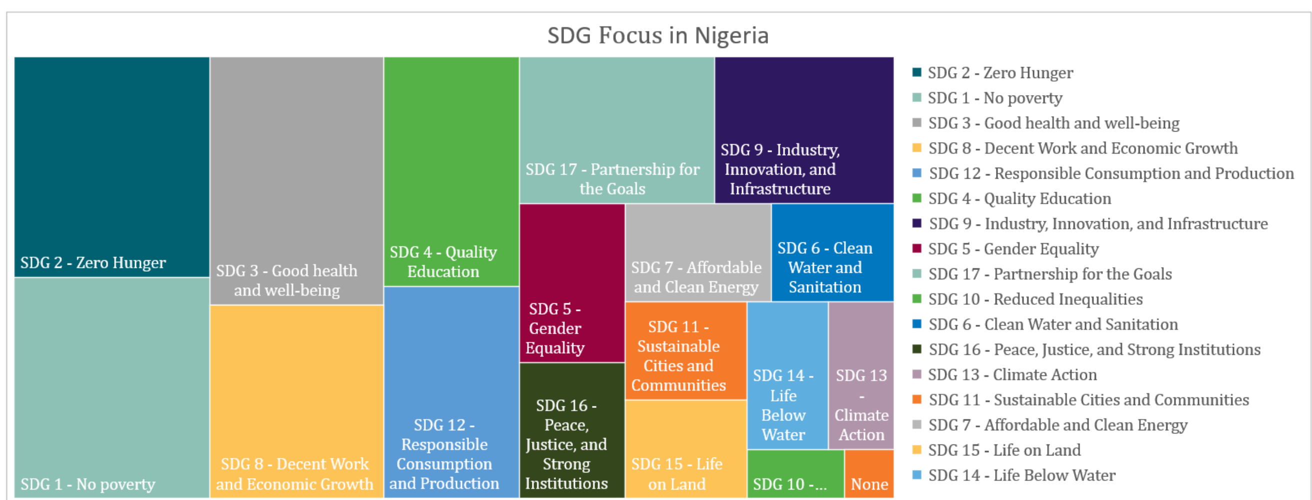
As this study was concerned with how organisations support the broader international development indicators in Nigeria, the survey further asked impact investees to indicate whether or not their SME supports the achievement of the UN's Sustainable Development Goals (SDGs). Respondents could select an and all SDGs they support (Figure 5).

The five most popular Goals, as indicated by percentage of selections, among respondents were:

- SDG 2 – Zero Hunger (33%)
- SDG 1 – No Poverty (33%)
- SDG 3 – Good Health and Well-Being (33%)
- SDG 8 – Decent Work and Economic Growth (26%)
- SDG 4 – Quality Education (24%)

Figure 5

SDG Focus of Nigerian Impact Investees

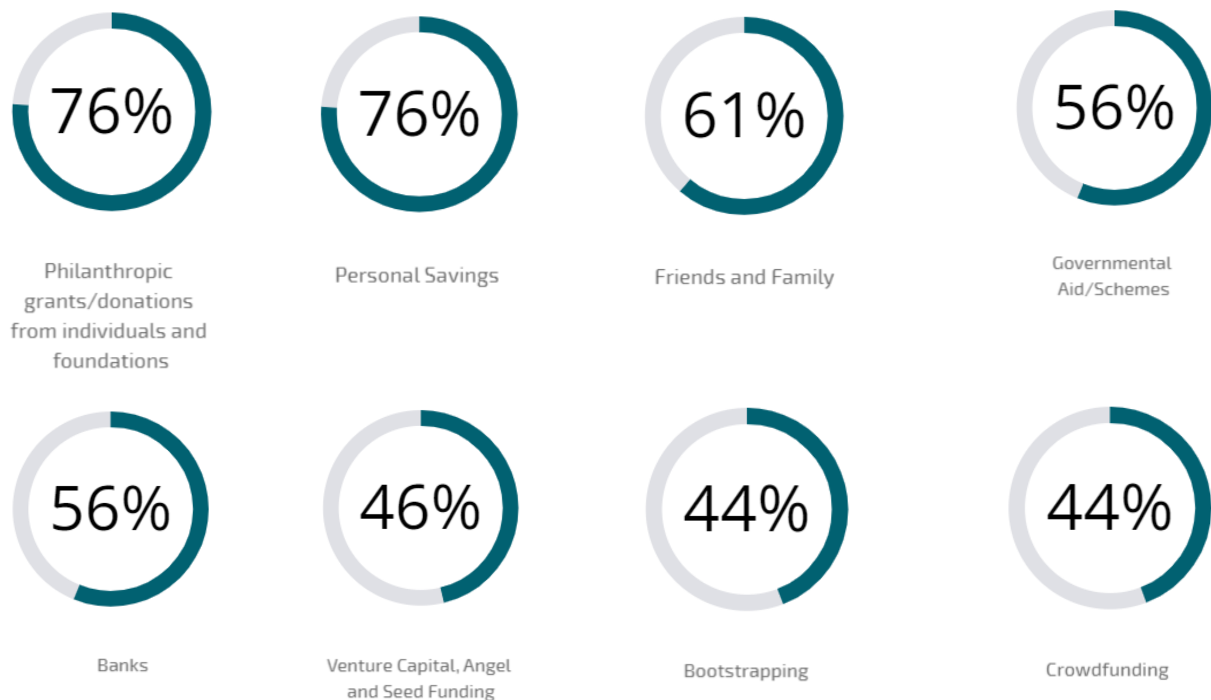


3.3 Financial and Social Findings on Impact Investing

Funding Sources

The survey aimed to ascertain what other funding sources the 54 investees were receiving beyond impact investments. The survey presented respondents with a list of the most common funding sources for Nigerian SMEs, and they choose as many options as were relevant to their organisation. Based on the results, recipients of impact investments also receive:

Figure 6
Other Funding Sources of Impact Investing Recipients



Social Vs Financial Focus

The survey asked impact investing recipients about their priorities regarding social versus financial goals. Overall, the majority of investees who responded to this question indicated that they are most satisfied when an impact investment achieves both financial and social goals equally (25 respondents). Other respondents noted they are most satisfied when an impact investment has a greater financial return for the investor than a social return (15 responses) and 3 investees responded that they are most pleased when an impact investment has a greater social return than financial return. This set of findings is particularly intriguing, as it seems to contradict previous studies (Bolis et al, 2017) that indicate that the intentionality to achieve impact is getting side-lined.

Further supporting this surprising result, when investees were asked whether their impact investors focus more on social or financial achievements, the most popular response was that funders focus equally on social and financial goals (13 investees). Investors with goals that are 'mostly social but somewhat financial' and 'mostly social' received 7 responses each, and finally, investors with goals that are 'mostly financial' received just 4 responses.

Who Are The Impact Investors?

The survey asked investees to select all relevant categories for their investors. The study found that impact investors working with the respondent social entrepreneurs are predominantly wealthy individuals aiming to bring change to Nigeria through impact investments and social financing (28 selections). Beyond this group, the most common selections were 'private equity and venture capital' followed by 'other' sources and 'foundations' (Figure 7).

Figure 7

Categories of Impact Investors

Debt Vs Equity

A persistent question in the impact investing space revolves around whether equity or debt models are more popular or yield more effective outcomes. In the survey, respondents could select one or both options depending on what model they use for their impact investments. Our results demonstrate that when it comes to impact investments, both equity (38 selections) and debt (36 selections) are chosen in almost equal measure. What remains to be explored is whether equity or debt models are more effective in the long term, particularly given that most surveyed entrepreneurs run early-stage organisations. Future research should aim to determine whether debt-based or equity-based financing is more sustainable for companies as they move beyond the early stages of developing their organisations and focus on long-horizon planning.

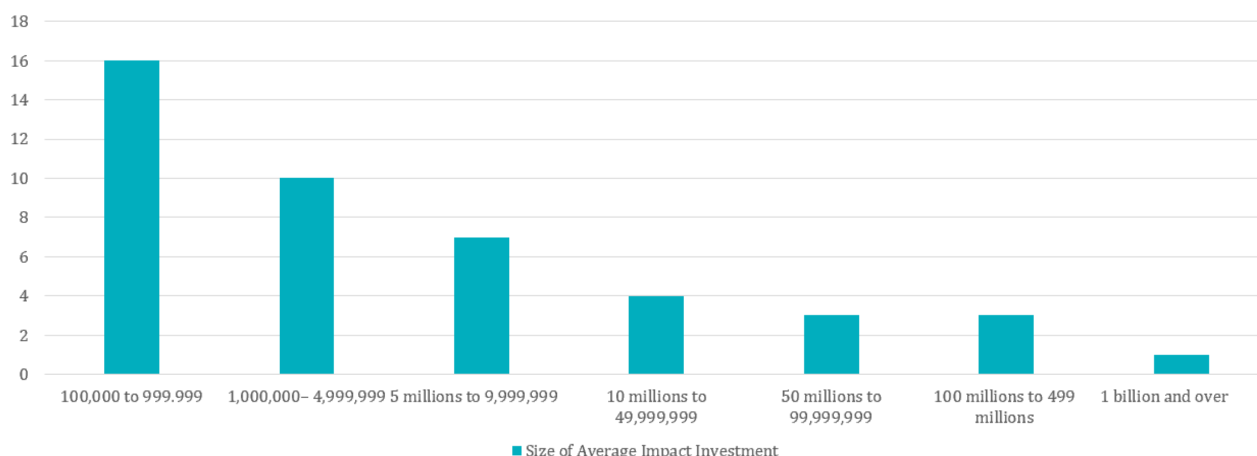
Size of Average Impact Investment

Respondents also indicated how much funding, on average, they were receiving as impact investments in Nigerian Naira (NGN). The most popular impact investment band is 100,000 to 1 million NGN (approx. $226 to 2,260 USD), followed by 1-5 million NGN ($2,260 to 11,304 USD), and 5-10 million NGN (11,304 to 22,608 USD).

75% of respondents fell within these three bands, indicating that the vast majority of impact investing respondents have received less than 10 million NGN (approx. 22,608 USD) as impact investments for their SMEs (Figure 8). These results demonstrate that impact investments do not always equate to large amounts of financing. Moreover, these results also support previous findings that reveal how investees generally do not feel that impact investing provides them a sense of financial security, compared to other funding sources.

Figure 8

Size of Average Impact Investment in Naira (₦)

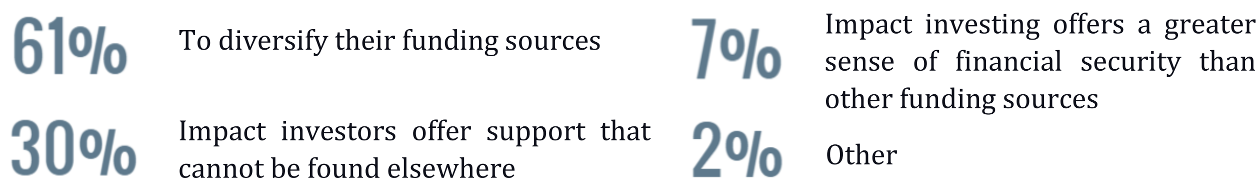


How Easy Is It to Find Impact Investors?

Seeing as large number of individuals completed the survey despite only a small proportion of them having actual impact investment experience, understanding more about the ease of finding these funding opportunities offers beneficial insights. Respondents were divided when asked how easy it is to find impact investments, with 48% expressing it is 'extremely easy' or 'somewhat easy' and 46% selecting that it is 'extremely difficult' or 'somewhat difficult'. The remaining 6% indicated that it is 'neither easy nor difficult'. Although these findings do not determine why the responses were divided, future research should explore whether entrepreneurs who are successful in securing an impact investment approach the same impact investors with whom they have previously collaborated, or if they actively seek out new opportunities.

Why do SMEs Seek Impact Investments?

Respondents indicated what best describes their motive for receiving impact investments. The responses were as follows:



These results demonstrate that social entrepreneurs prefer to diversify their funding streams in order to avoid an overreliance on a particular funder or model. However, it seems that despite the great potential of impact investing to serve as an alternative to more traditional funding models, the lack of confidence from investees that impact investing actually offers greater financial security (only 7% of respondents) as compared to other funding sources is a noteworthy result. This further emphasises that future impact investing studies must take demand-side experiences into account, as existing literature on the field mostly centres on investors' perspectives and risks ignoring entrepreneurs' concerns.

How Do Investees Select Impact Investors?

We asked respondents to choose which factors they consider to be the most important when selecting an impact investor (multiple selection allowed). In percentage of selections, investees' top priority when evaluating an impact investor is the amount of money the impact investor is willing to invest (~23%), followed closely by the financial rate of return impact investors expect from their investment (~21%), and the ease of communication and collaboration with them (~18%). Investees also value additional business development services (~10%), the personal interest of impact investors in the goals of the their organisation (~10%), and the personal interest of impact investors in the social aspect of the investee organisation (9%). The reputation of the investor (~6%) and impact investing being a good funding choice for those seeking funding sources (~6%) also play a role in the investees' decision-making but to a much lower degree (Figure 9).

Figure 9

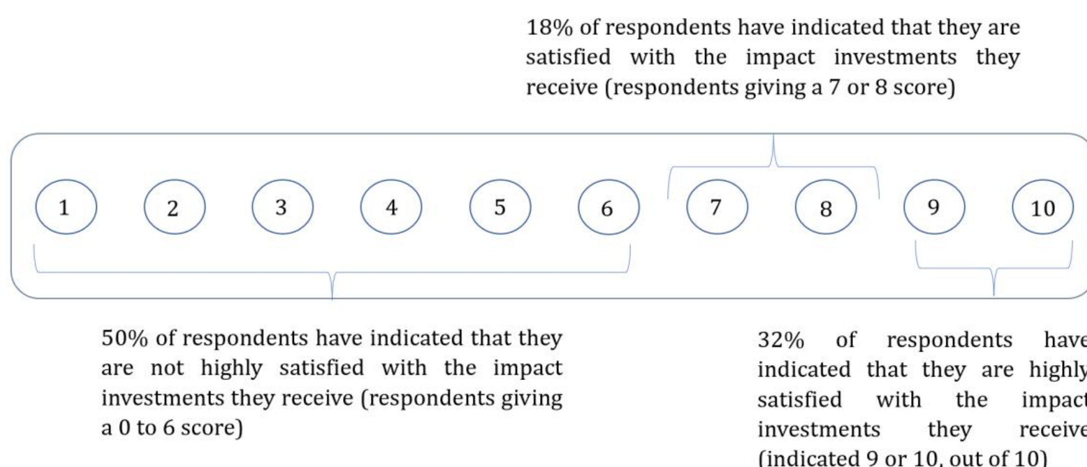
Factors Influencing the Selection of Impact Investments

Statement	Number of Selections
The amount of money they are willing to invest	22
The financial rate of return they expect from their investment	20
It is easy to communicate and collaborate with them	14
They offer additional business development services (e.g., coaching)	10
They are genuinely interested in the goals of my organisation	10
They personally care for the social aspect of my organisation	9
They or their organisation are reputable	6
I am looking for various funding sources for my organisation and impact investing is a good choice	6

3.4 Investee Satisfaction with Impact Investing

When asked about their satisfaction with impact investments, the survey responses were divided (Figure 10). 50% of investees indicated that they are not highly satisfied with the impact investments they receive (scoring their experience at 6 or below on a 10-point scale), while 18% said they are satisfied (7 or 8) and 32% rated their experience highly satisfactory (9 or 10). While it may be encouraging for investors to see half of respondents reacting favourably to their experiences, it should also be concerning that the other half are not very satisfied with this type of financing.

Figure 10
Investees' Level of Satisfaction with Impact Investments



3.5 Business Development Support

When the concept for this study was developed in 2020 by the CSP team and impact investing experts, it was clear that the research must consider the significance of non-financial support that investees receive from their impact investors. This aspect is particularly notable in comparison to more traditional forms of philanthropy (further discussed in Chapter 7), considering grant allocation models rarely allow donors to offer a wider variety of support services to their recipients. To capture the importance of these non-financial benefits, survey participants selected the all relevant types of support they receive from investors who go beyond financial investments.

As evidenced in Figure 11 based on number of selections, a majority of investees indicated that they received support from investors on business planning and value proposition development (23), networking (19), and mentoring (17). Less frequently chosen categories that were still significant include financial planning and management, connections to other investors, business administrative support, and continuous relationships with relevant ecosystem actors.

Figure 11

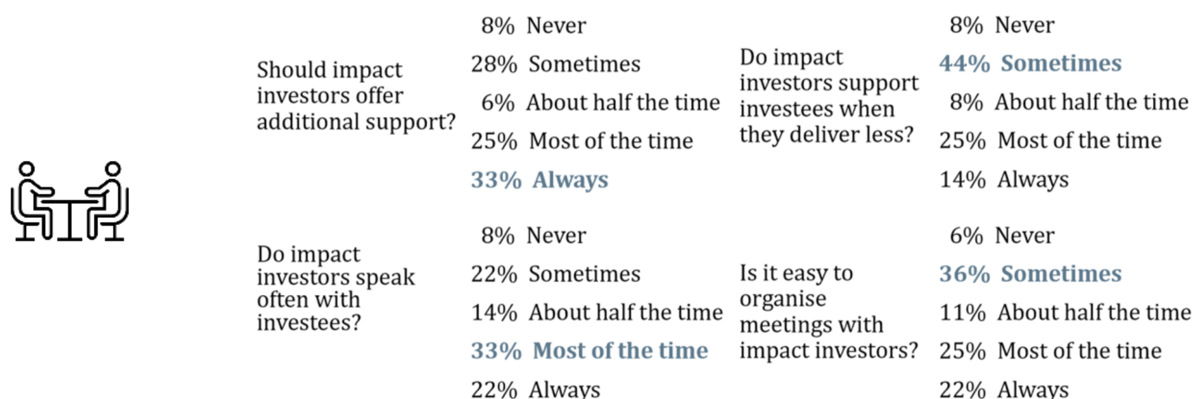
Type of Non-Financial Support Received by Investees

Type of non-financial support	Selections
Business plan and vale proposition development	23
Networking	19
Mentoring	17
Connections to other investors	13
Financial planning and management, governance, and structure	13
Business administrative support (e.g., registration facilitation, tax waivers, etc.)	12
Continuous relationships with relevant ecosystem actors (e.g., benefit from sector-wide interventions including policy advocacy support and value chain development)	12

Although the need for non-financial support was well-documented by experts in the impact investing and philanthropic fields, we sought data from Nigerian investees to determine the desire for additional support. When asked about their thoughts on how investors should interact with investees, 58% of respondents believe impact investors should 'always' or 'most of the time' offer additional support. Given the high risk of investing in early-stage Nigerian organisations, the survey asked investees whether impact investors support them when they under-deliver on agreed terms. The responses were almost equally divided, with 52% expressing that they 'never' or 'sometimes' receive support, while the remaining 47% noted that they receive support about 'half the time', 'most of the time', or 'always'. When it comes to communication and collaboration with impact investors, 33% of respondents indicated they speak often with their impact investors, while it is harder to organise meetings with them. The remaining majority of investees expressed that it is 'sometimes' easy to schedule meetings. Detailed data are available in Figure 12.

Figure 12

Communication and Collaboration with Impact Investors



Chapter 4: Investee Perspectives on Impact Investing and Philanthropy

4.1 Plurality of Meanings and Definitions

After completing the large-scale digital survey (Chapter 3), the CSP conducted in-depth interviews with social entrepreneurs and SME founders that received impact investments. This mixed-methods approach aimed to delve deeper into findings revealed by the survey and achieve a more robust understanding of the circumstances in which Nigerian entrepreneurs find themselves. The survey revealed several pertinent disconnects between investees and their funders, a familiar challenge in both impact investing and philanthropic spaces. This chapter explores the qualitative reflections shared by Nigerian investees, highlighting their diverse ways of understanding impact investing and its purpose.

Although impact investing is being practised across many regions and continents, what form it takes and the meanings derived by those who engage in it varies greatly from place to place. The interviews made it evident that livelihoods hold a prominent role in the Nigerian context. Investees in this study frequently emphasised the link between impact investing and livelihoods, not only when defining impact investments but also when talking about the impact of their work:

> *"I will define impact investment as investment that is given so that people can actually help in building people's livelihoods and make things better. So like I say, impact businesses are doing business for good. I will also say impact investment is investing money for good." (Investee 1)*

The interviews placed particular focus on what impact means to investees. The impact term was directly linked to the purpose of the investees' organisations. For an impact investment to be truly impactful, investees believe that investors must be specific about the problem they intend to solve. This requires patience, commitment to intrinsic collaborations with their investees, assumption of risks, and in certain scenarios, placing impact over profitability:

> *"Okay, impact investment for me means you're taking impact over profitability. For the women that we lend to, we are going beyond giving them loans. [We are] going into these women's communities. We go into their communities, we train them on financial literacy, we're doing business development training. We are going beyond what a FinTech should do. […] The ability to balance, to say you prefer impact over profitability for me is key." (Investee 6)*

Moreover, impact investments seem to have a synergistic relationship with acceleration programmes and competitions. Several investees indicated that their first experience interacting with impact investments was through an acceleration programme or competition, and interviewees signalled that impact investments are especially needed at the early stages of an organisation. These reflections offer a potential explanation of the survey findings, which delineate that the majority of organisations that received impact investments were within the first five years of operation.

4.2 Delays in Disbursements

The interviews also demonstrate that investors and investees value not only the actualisation of the deal but also efficiency in funding disbursement. If the time between investment deal-making and the disbursement becomes overly lengthy, the burden then falls on the shoulders of investees.

Early-stage organisations strongly depend on grants or impact investments to survive, since the revenues derived from their activities remain insufficient for self-financing and any potential delays pose a major risk to their survival. Other significant issues include the fluctuations in exchange rates between the Naira and foreign currencies (usually US Dollars or Euros) and the local inflation in Nigeria,

which can cause a loss of real-term value for investees. These challenges mean that making on-time disbursements is even more crucial to mitigate any wider volatilities:

> *"It'll be good if investors could offer funding at the relevant time. Because I did have an impact investor […] but by the time the funds came, inflation and everything happened, it was just a little bit difficult to get into the swing of things. Yes, we do understand that there's a lot of due diligence to sort out but I think working promptly[...] you have some investors who would say they will release XYZ to you within the first three months and they will release another [instalment] to you, maybe 12 months later. But that gap in between— life happens, economic life happens. So by the time you're getting the funds, maybe everything has gone up, maybe the dollar has gone up, you can't get the equipment anymore. So you're a bit short, I've found that to be a challenge in the past. (Interviewee 8)*

The reality of delayed funding disbursements poses real difficulties for investees, particularly those specifically looking to use impact investing as a means to diversify their funding sources. It may be particularly challenging for organisations that rely on funding streams like grants and philanthropic funding, which also historically come with disbursement challenges. Investors looking to provide entrepreneurs with an alternative to more traditional funding models should consider the expediency of their disbursements as a key factor for SMEs.

4.3 Revenue for Cost or Impact for Cost?

When calculating the moment an impact investment becomes valuable, investees have found themselves at times trapped in a paradox. On the one hand, investors seek and select organisations with an existing track record, or those that show evidence of being 'investment ready'. The discussions with the investees, however, direct attention to the early stages of the venture, when an organisation is still struggling to survive and bring itself to investment readiness. Investees have mentioned that impact investments are particularly needed at the early stage of their organisations, before they attempt to access venture capital funding. Certain investees also indicated that they will seek out impact investments to a lesser degree as their organisation starts scaling.

> *"Maybe the problem is that [investors] are looking for people who are already made, they're looking for revenue, they are looking for revenue for cost [return on investment] rather than actual impact for cost [social return on investment]. They are trying to balance both. When they are trying to do that, they tend to swing to one, and they are not actually solving the problem they're trying to solve. So I think that's the reality of what I've seen so far." (Investee 4)*

These findings indicate that impact investors may need to rethink their frameworks and their role as investors in early-stage organisations. The focus on investment readiness together with the small size of the average impact investment also reveals that investees must constantly seek funding, including writing grant applications and spending disproportionate time on securing resources over running and growing their business.

Investees' remarks on the challenging space between the seed-funding phase and growth capital align with broader conversations on (social) entrepreneurship. This gap between seed and growth capital, termed the 'Valley of Death' due to the high risk of organisational failure, has led to the creation of funds that combine various financial sources, including grants, equity investments, and loans (Schaffer, 2015).

This study also found a combination of funding sources in the Nigerian context. When asked about the impact investments they receive, investees mentioned grant-debt schemes multiple times during the interviews. A grant-debt model sees financing come first as a grant, helping entrepreneurs cover the initial costs necessary to set up a business, and later becomes a loan, usually with a low-interest rate:

"The reason it's structured that way is to try to force young businesses to employ good governance and structure to their business. Because if it was just grant money, you can literally throw it away by mistake, right? You can have all good intentions but you might throw it away by mistake versus when you structure as a loan you know that you need to pay, like, half of it back. So even though the interest rate is very low, you still have in the back of your mind as a business that okay, I need to come up with commercially viable investments, to make sure that we're able to return the funds on this portion of capital. So it's trying to make sure that you grow sustainably rather than growing on projects that can only work if there's impact investment or non-economic investment in that, which I thought was actually very good. Because if you're trying to really do impact, businesses need to be able to stand on their own two feet and deliver the impact. So forcing a business to think that way while helping them when they're young is a very good way to do it." (Investee 5)

While not the most traditional form of impact investing, the grant-debt model does not fall under the umbrella of traditional philanthropic funding either. Investees cannot find this type of scheme through philanthropy or traditional grant-based funding because in this model, grants are given only at the beginning. Soon after, a financial return is expected by investors either in the form of equity or debt, making it similar to a traditional investment. Furthermore, tracking impact and all parties agreeing on metrics early on in the deal-making phase makes this funding scheme an impact investment rather than any other form of traditional investment.

4.4 Impact Investors are Being Scored, Too

Capital may be flowing from the supply to the demand side, but various investees also find themselves feeling empowered. Impact investors face the challenging task of evaluating organisations; they look at potential investees' work and impact to decide whether to invest, how much to invest, and when to invest. By contrast, entrepreneurs must also evaluate whether an impact investment and a specific impact investor are the right fit for their organisation at their current operational stage. Even when a deal has substantial funding, investees indicated they may be willing to turn it down if the makes unreasonable demands, like asking for surprisingly high equity. Although investees in Nigeria do not always have many choices in the current funding environment, the track record of impact investors and how they utilise their funds is important for them:

"You see, an investor saying 'I have a billion dollar fund but I only have 10% utilised'— why is it not utilised? That should be the question that goes back to those impact investors. Is it that the conditions are too strict? They need to relax a bit and take more risks, or take more debts on these companies. Because if you have a billion dollars to invest and you only utilise 10%, I don't see that as a good score for you as an impact investor." (Investee 4)

"I think the most important thing is the financial instrument. The second is the track record of the investor. If they have invested in several other start-ups, I'll be very happy to speak to those start-ups to ask what they brought on board aside from financing, and how much they were able to improve on the systems and the processes of the company. And the top thing I really look at is, what are they offering aside from the investment? What is the non-financial support they are coming in with? Are we going to get support to build our marketing and business development team? Are we going to get support to build our technical team? Really boiling down to, aside the money, what else are you bringing?" (Investee 7)

Moreover, investees strongly expressed that value alignment with an investor is a critical criterion, from deal negotiation to the impact investing relationship. Misalignment of values or a different understanding of impact by either party can be detrimental to the investor-investee relationship:

“I want to look at the people and environment, and the economics. If those align properly, then I'm going to do business with the impact investor. So if I have a bunch of them, I'm going to have to do a benchmark based on those criteria.” (Investee 2)

4.5 Diving into Untapped Opportunities

Investees may take structural approaches to impact, to account for both the direct and indirect effects of impact investing on society. One investee shared the key question that goes to impact investors:

> “What is the impact you want to make and the problem you are trying to solve?”

In certain instances, some investees believe that impact investors are not going far enough to provide systemic solutions through their financing:

“Most people are focused on rural electrification and for lack of a better word, it's just a story that times tugs on the heartstrings, when you're saying, ‘we are providing light to kids in the village for them to read at night’ and things like that. Which is fair and is true in some cases. The problem is, it doesn't necessarily have, in my opinion, the economic benefit, when those people still have to find jobs. So having light doesn't change the economic situation. Unless you are funding impact on productivity and creating jobs, then just giving someone light doesn't give them anything significant in terms of benefit, in my opinion.” (Investee 5)

Missing the middle: Impact investors’ criteria in selecting investees may also be limiting investments made in impactful organisations. Due to the direct impact that investors want to see from their investees, they risk investing in organisations that have a direct connection with beneficiaries, while missing important intermediary players identified by several entrepreneurs. These actors serve a significant enabling role in the ecosystem and value chain for a given development issue (e.g., a B2B organisation).

The picture becomes even blurrier with organisations that are concurrently impact investing recipients but also behave as impact investors. For example, one investee had a business model where the organisation was receiving impact investments and would then give out grants and low-interest loans as further impact investments to their beneficiaries. A significant barrier for this type of organisation is the rate of financial returns. If the investee receives an impact investment with a medium rate of return, then the investee will not be able to offer a low-interest rate loan to their beneficiaries. This scenario adds significant pressure on investees. For this particular investee, the beneficiaries were low-income women in rural areas who would be significantly affected by non-favourable financial terms and conditions of a deal.

4.6 A Call for Partnership

The demand-side interviews have also unravelled power asymmetries between investees and investors. Experiences of investees indicate that while a balanced relationship is nearly always sought by investees, these egalitarian aspirations are not consistently being met by investors.

Investees expect a ‘hands-on’ approach by investors that goes beyond the financial investment. Above all else, investees frequently expressed a desire for the investor to serve as a ‘partner’ first and foremost. Being a partner also entails offering investees support for business growth, including financial advice, business development or marketing support, market access, and visibility:

“I like my impact investor to be there with me, in case any anything like a force majeure happens. I want them to be able to understand with me and know my pains and what I'm going through, and they'll be able to renegotiate.” (Investee 2)

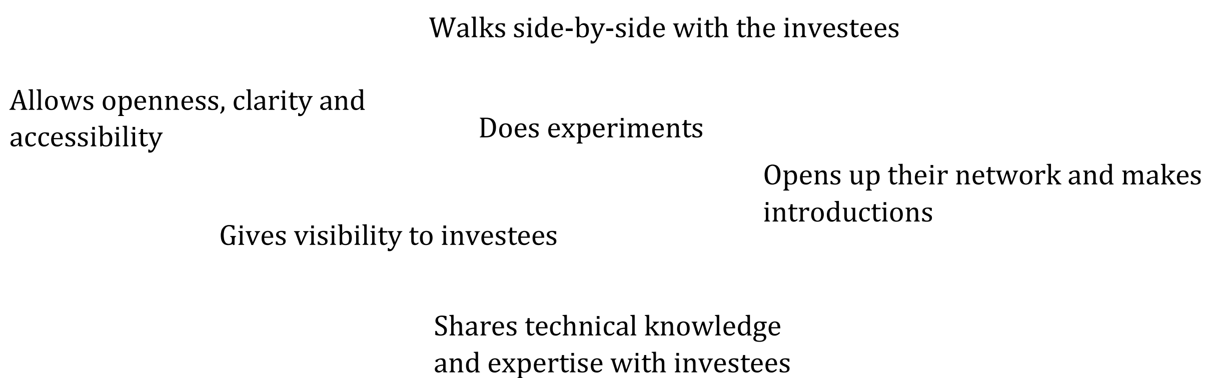
“So an ideal impact investor for me will be someone that's willing to do a lot of experiments. [...] It is a very broad ecosystem, so I need to work with people who can give me the right introductions. [...] Because partnership is key for what we are trying to do”. (Investee 4)

We all have these financing instruments on the table, but what is most important to is really to have the right investor as a partner. The kind of work being done by start-ups is not always just raising money but also having an investor who will make introductions, improve systems, structure, and processes of the company, that has a wealth of knowledge and experience in the area that you are trying to make change. That has incredible experience either in the technology or the services that you are trying to provide.” (Investee 7)

Figure 13
Key Characteristics of An Ideal Impact Investor

What Comprises An Ideal Investor?

The ideal investor is, first and foremost, a partner



Chapter 5: Insights from Impact Investors and Intermediaries

While this study aimed to capture the lived experiences of entrepreneurs in Nigeria, it is imperative to discuss and cross-reference their perspectives with impact investors working directly to support entrepreneurs on the ground. Five impact investors and one representative of an intermediary organisation participated in focus group discussions in April and May 2022. Within the sample, investors came from sectors including renewable energy and healthcare, while two of the investors identified themselves as being 'sector-agnostic' in their selection of SMEs for funding.

Below we explore their reflections and points of (dis)agreement on the shape and direction of impact investing in Nigeria.

5.1 Major aspects of impact investing, as told by investors

Regulations, Policies, and Investment Access: Impact investors in this study expressed their perspectives on systemic and ecosystem-based factors that affect operations. The investors shared their views on regulations and policies, and how thes frameworks affect investment access. One impact investor who is focused on the renewable energy sector emphasised the detrimental consequences lack of energy access has on Nigerian development. These outcomes are particularly caused by the spill-over effects poor grid access often has on other sectors, including education, healthcare, or the size of the economy (Impact Investor 1).

Ethics and compliance also arose as a topic of discussion. An investor highlighted their focus on ethics and compliance for potential investees, particularly given certain issues present in Nigeria concerning adherence to codes and compliance mandates. The individual highlighted their efforts to ensure investees adhere to the highest standards possible and "cascade this kind of thinking across their companies" (Impact Investor 1).

Another participant highlighted the need for actions that will make policy more enabling for SMEs and allow the entire economic system around them to move forward but noted the unfortunate lack of prominent international figures who are willing to fully advocate for this type of progress:

> *"When you're earning a nice salary tax-free, and danger pay in the country, you're not incentivized to rock the system or question that system. So the policies that come down and how those policies are actually applied don't actually lead to benefits, so real impact on the ground becomes just doing enough to keep your existence afloat. I've seen this time and time again, from projects and big infrastructure to small venture to impact. The idea is to just stay part of the conversation, but don't shake the boat too much" (Impact Investor 4).*

This reality will be discussed further in Chapter 7, which explores the challenging synergies between philanthropy and impact investing. One of these is the lack of appetite for 'shaking the boat' from international organisations present in emerging markets – a trend occurring both in the traditional philanthropy sector and in the impact investing space.

Applicability of SDGs in Early-Stage Organisations: As indicated in Chapter 3**,** alignment with the UN SDGs has been influencing the impact investing sector but their applicability for early-stage organisations may be questionable from an impact investor's perspective. For example, one participant highlighted that small organisations with only 2-3 people on staff might have difficulty applying broader policy ideas to their work:

> *"We've committed ourselves to higher standards, and then there was this momentum in 2018 to align with the UN SDGs which, obviously, we're happy to do. But practically speaking the*

applicability of the SDGs when it comes to an early stage business of three people— you have a wide chasm in applying those. And so we've worked with some of our investors to do this better but I think it's still very much more art than science." (Impact Investor 4).

Looking back to Chapter 3, nearly all survey respondents that received impact investments indicated that they are tackling at least one SDG. However, from Impact Investor 4's perspective, working towards goals as broad and overarching as the SDGs might be far out of reach for new, under-resourced organisations.

Learn and Iterate: Throughout the discussions with the impact investors, it was frequently mentioned that investing in Nigeria is completely different from similar processes in other African countries. Given the diversity of the continent, having contextual knowledge of how to invest in one specific country does not subsequently lead to understanding the investment landscape in another African nation:

"The number one thing: I am Nigeria focused. I don't have a mandate for the continent of Africa or the rest of the world. My focus is purely on Nigeria. The number one thing I tell everybody who comes in from any part of the African continent, is Nigeria is a different animal[...] The opportunities are huge, it has a big population. This also has its own unique issues. You need to sit down and respect the market and let that market speak to you and take that feedback and iterate as quickly as possible to learn from it. You need to drop your ego[...] If your model is not working, change it. Do what needs to be done to ensure that you are successful." (Impact Investor 1).

In short, investors cannot and should not apply a 'one size fits all' approach. In Nigeria, the vast population and the differences within the market require new investors to first understand the market and its needs, collect feedback, and iterate whenever necessary.

5.2 Impact Investing as a Spectrum

Existing literature on impact investing has noted that the 'appetite' for impact over financial returns varies from investor to investor. Impact investors interviewed for this study also expressed similar views, while highlighting the need for clarified categories of impact investing and knowing where each investor is positioned within that spectrum. As one investor noted:

"It would be helpful if there were different categories around impact investing, because I think that the definition of what it means sometimes is different[...] And there's the other side of the spectrum where we're not as focused on making the money but still have that focus on impact and the challenges. I think that more funders are further towards the profit side, which is fine, but for those of us working in the field, we don't know kind of where on the spectrum people are and then it's really hard for us to target the right type of people and set those expectations" (Impact Investor 3).

The investor reflections demonstrate a prominent and lingering uncertainty around the impact investing space, much of which gets wrapped into the reality of the impact investing model being constructed as a spectrum. What seems clear, however, is that there is often a lack of clarity around what constitutes an impact investment, with one investor even sharing dissatisfaction with the 'impact investing' term at large. Their frustration stems from the belief that that impact is a by-product of good investment, and the new terminology exists due to Western investors entering non-Western contexts:

"I think the label 'impact investing' came because of Western investing in non-Western geographies. I believe that investing becomes impactful when you are very deliberate with your mandates. So our mandate is to invest in Africa. We don't need to focus on impact, we just make good investments, and good investments should result in impact. So that's the approach, that's my own personal philosophy. And that's the reason why we keep the venture capital arm separate from the Innovation Hub separate from the business development side." (Impact Investor 2).

This investor's perspective sees clearly defined terminology and practice, coupled with equally defined siloes within an investor's organisation, as absolutely critical to any potential success or impact an investment will generate over time. Their critique of 'impact investing' as a term and practice constructed in the West and applied to non-Western geographies also warrants attention and introspection from investors. A lack of synergy in this area could lead impact investors toward the same pitfalls that have plagued traditional foreign aid and grants-based programming for decades.

5.3 Currency and Equity

As has been the case for investees, the currency used for impact investments can pose a significant challenge. Impact investors interviewed for this study also referred to this issue, particularly those who represent subsidiaries of other international funders. They had therefore experienced the difficulties of accessing finance in Naira rather than foreign currencies.

Further complicating matters, the Naira is losing around 25% of its value each year when compared to the USD. One investor mentioned that it would be useful to explore opportunities for collaboration with local banks and international foundations to make local currency financing available. Another investor shared their story of collaborating with a bank to give an impact investment to investees. However, the bank insisted on using Euros, resulting in a lengthy and tiresome process for those involved.

When it comes to the financial aspects of the impact investments, investors mentioned that they aim to keep the percentage of equity they have in their investee organisations low. Impact Investor 2 also mentioned that sometimes investees are not aware of the value stocks can have on their wealth long-term. Impact Investor 6 noted that they prefer being a minority stake investor, as they believe the founder should be the person primarily in control of their business. This investor ensures that conversations around equity start early with their investees as they aim to stay involved for 5-7 years before exiting.

Finally, another impact investor emphasised that some investees may not be aware of what comes with equity and how this translates to their daily lives in other non-financial terms:

> *"I think it's important to help a founder understand what they're signing up for—including learning what ESG is and its importance. I may own 5% of your business, but I if I'm on the board, I have rights that make me appear as if I own more than 5%. I could be involved in decision-making around key hiring and best practices[…] So helping founders understand what it is that they're signing up for: What the charter actually means, what does the board need. What does your fiduciary duty mean to shareholders beyond just a company? Yeah, that's a lot of work. It's certainly challenging" (Impact Investor 4).*

The investors' remarks around equity mirrored key points raised by investees, as mentioned in Chapter 4. Investees highlighted the invaluable effects of non-financial support on their early-stage organisations and indicated that it can often be as beneficial as finance itself. The aforementioned comments from the impact investors indicate that they are aware of the value of non-financial support for investees. Several of them have even expressed their aim to start conversations on how to ensure the most equitable outcomes at an early stage with potential investees.

5.4 Job Creation, Job Quality, and Wealth Creation

Job creation proved to be an integral part of the 'impact' of impact investing. Impact Investor 6 expressed that they would not invest in an organisation unless it has social business potential, transformational potential, and potential to create jobs. Impact Investors 3 and 4) mentioned that job creation is a key metric for them. Of these two investors, one works specifically with women founders, and while they indicated that job creation is their most important metric, identifying women-led organisations from areas such as Northern Nigeria that meet their essential criteria can be very challenging.

“Because we focus on women founders, and specifically looking at job creation, we do have a challenge just with sourcing because while we know that there's tonnes of female founders out there, their jobs tend to be more focused on smaller operations, especially in the North. And so it's hard to find companies that meet those key criteria.” (Impact Investor 3)

Impact Investor 2 emphasised that their firm’s mandate focuses on creating 1 million jobs, which explains their unique organisational structure, which includes a separate ‘business development arm’ focusing on helping ventures grow, while their ‘venture capital arm’ offers financial support. This model was particularly interesting because it demonstrates an investor’s equal commitment to the financial support necessary to fund early-stage organisations and also the crucial non-financial guidance investees require.

However, impact investing can also lead to trade-offs that cause adverse effects. One investor offered the example that may occur in a project (e.g., job losses), and indicated that deciding on the necessity of certain trade-offs depends on where the investor falls on the impact investing spectrum.

“When you have an investment in the space and then you need to do an optimization where you have to automate[...] yes, it improves the IRR of your project but then you lose 500 jobs or 600 jobs. How do you then sit down and as an investor decide to make those trade-offs? How true do you stay in terms of your mandate? Those really are the times when you decide what is important to you. But of course, it’s a spectrum. You have people at the other end, who are saying that anything I do in this case is going to impact them. Anything I'm doing at all is going to create jobs, I’m going to pay taxes, it's going to help the economy in some shape or form.” (Focus Group 1, Investor 1).

Even among investors, finding cohesive agreement around outcomes that seem to be universal best practices – like job creation – remained difficult,.

5.5 On Gender

Investor Focus on Gender: As noted above, one investor who participated in this study is focused on investing in female founders, while another expressed that they found it hard to identify women entrepreneurs in more remote areas like Northern Nigeria that meet key investment benchmarks. A third investor said that gender balancing is not part of their investment criteria, but their organisation tracks the number of women going through the pipeline. Another investor focused on job creation and alignment with a pre-identified minimum requirement of gender equity across the portfolio. Finally, a fifth impact investor mentioned a gender lens and ESG requirements that guide their selections.

However, despite all efforts to embed more women founders into the impact investment pipeline, challenges remain. Investors acknowledge that some organisations use specific quotas for female-led investees, which almost immediately brings up pressing concerns:

“How do we improve our pipeline to introduce either more female founders into existing companies into a C-suite role, or to catalyse and actually support female founders at the early stage when we invest to seed, pre-seed? It's dual-pronged for us, we have a target of 35% of our portfolio being female-led. That means, one co-founder that is a woman[...] It can be difficult, but I look at it from an asset manager perspective[...] So it's not just something like us looking to back more female founders, but how do you change the actual people that are making decisions of where capital goes, and we've prided ourselves on having a very diverse team. Diversity in skin colour, diversity in experiences and backgrounds, but we've not fully achieved gender diversity.” (Impact Investor 4)

Impact investors themselves shared some challenges that are faced by investees. For example, one investor faced gender bias in their fundraising efforts.

“So we experienced that, from a fundraising perspective— it was very difficult. It was the whole use case of, you know, accessing finance for women. We experienced exactly what we're trying to solve for investees. What we experienced while raising the funds was ridiculous. We were getting all kinds of biased questions like ‘what's your husband's role in the business? You know, all kinds of things.” (Impact Investor 6)

While challenges in the gender diversity of investees endure, focus on representation goals among investor portfolios should remain a key priority according to relevant investors. One investor emphasised their efforts to ensure they have female talent even within their impact investing organisation:

“Female talent is very critical for us. We do a lot of work in that regard: 45% of our leadership team is female.” (Impact Investor 1)

A Pipeline Problem or Not? Views were mixed regarding whether or not access to impact investments by female-owned businesses is a pipeline problem. Although gender is not part of their criteria for investing, one investor is still tracking the number of women-led ventures that come through their pipeline. Based on their observations, they do not believe there is a pipeline problem but that the systemic issue is a function of the existing limited funding:

“So for me, I want to be able to say hey, it's not a pipeline problem. It's more a function of our organisation limiting funding and we can’t invest in everybody.” (Impact Investor 2)

On the other hand, Impact Investor 1 insisted that a pipeline problem exists in the (renewable) energy sector.

“And also we have a pipeline problem. If you have 100 companies coming to your committee or pipeline, maybe 6 or 7 or 10 are female-led[...] As a result of us forcing a few of these companies to develop and giving them the capacity, the support they need to actually get up, I see quite a few of them taking that challenge and doing what needs to be done. So I think for us those really are the key things.” (Impact Investor 1)

Gendered challenges within the Nigerian SME sector, coupled with those in the impact investing space, have been well-noted. The results of this study show that investors seek out women-led businesses to fund and make substantial efforts despite the hurdles that remain.

Chapter 6: Comparing Impact Investing and Philanthropy

6.1 The More Things Change, the More Challenges Stay the Same

Systemic challenges that face international development efforts transcend sectors, and similarly, tackling these challenges requires a multi-sectoral approach. The World Bank has identified a multi-trillion dollar funding gap in achieving the SDGs, making it imperative that more capital be directed into economic and social development activities, particularly in emerging markets.

As the Centre for Strategic Philanthropy conducted this study, the authors' interests in impact investing remain deeply embedded in exploring new financial instruments that may potentially accelerate and augment philanthropic impact. In recent years, philanthropists around the world have been encouraged to explore financial models for funding distribution that go beyond traditional grant-making, including impact investing.

System change? Perhaps not yet: To what extent can impact investing transform the philanthropic sector? As evidenced throughout this report, the Nigerian case reveals several intriguing opportunities to mirror the two practices against each other. The survey results, as discussed in Chapter 3, show that the vast majority of Nigerian SMEs have a great deal of interest in impact investing as a new form of financing, but only a small fraction of participants had ever actually received an impact investment. Most SMEs rely heavily on more traditional forms of financing, including grants and personal savings.

Percentage of impact investing recipients receiving philanthropic grants

This potentially indicates that entrepreneurs across Nigeria must achieve a greater understanding of how to successfully access impact investments, but may equally demonstrate that impact investors are not achieving a significant level of penetration with their financing. Similar issues have long plagued the philanthropy sector, with smaller, under-resourced organisations on the ground often unable to garner the attention of large international donors.

Other challenges regularly arising in the philanthropic sector were also reflected by investees. For example, due diligence and timely disbursement issues were mentioned by several entrepreneurs who receive impact investments. The traditional philanthropy sector reflects this problem, where grassroots organisations are particularly disadvantaged. Concerns around gender equity and geography have been noted by traditional development agencies for decades, and remain a significant hurdle even when the financing instrument changes to impact investing. Given the relative novelty of impact investing, the opportunity lies in how effectively investors can navigate these challenges compared to more traditional actors operating in Nigeria.

Status quo versus shifting power: Recent movements in the global philanthropy sector have emphasised the importance of shifting the power, particularly away from Western actors. A promising element of impact investing is its potential to shift power away from funders and financiers, particularly once an organisation has achieved success and can deliver returns, as opposed to grants-based models which have been criticised for generating dependencies. However, as investors in this study revealed, a few actors in the impact investing ecosystem are as equally entrenched in traditional power hierarchies as any traditional donor. Just as philanthropic organisations must be more willing to push boundaries

and invest more deeply in local communities, impact investors should take more risks and question the status quo if existing policies or infrastructure are not benefiting the entrepreneurs on the ground.

6.2 New Possibilities and Hybrid Approaches

While the challenges faced by local entrepreneurs are likely to remain, impact investing presents many possibilities and opportunities that philanthropic models lack. The demand-side survey provides evidence in this regard. We were surprised to find that 50% of survey respondents with impact investing experience indicated they are 'highly satisfied' or 'satisfied' with those investments, while 78% of respondents who receive grants or donations (and no impact investments) indicated that they are not highly satisfied with their funding. Although we cannot necessarily assert that enthusiasm for impact investments is high, there is considerable opportunity for impact investors to capitalise on entrepreneurs' strong dissatisfaction with more traditional funding models and structure their offerings in ways that are more beneficial to investees.

Business development and non-financial support: One area where the impact investing sector has an enormous opportunity to transform local entrepreneurship compared to traditional philanthropy is by providing various forms of non-financial support. Historically, grant-making organisations offer minimal support to their recipients beyond funding. Investees who participated in the CSP's digital survey, as well as those interviewed, revealed how crucial support with business development, mentoring, networking, and governance has been for them throughout their relationship with impact investors.

To illustrate these contrasts further, when asked whether they speak often with their philanthropic donors, 40% of survey respondents indicated 'never', compared to 33% of impact investment recipients who indicated that they speak 'often' with their impact investors. As for organising meetings, 36% of impact investment recipients indicated that it is 'sometimes' easy to schedule meetings with impact investors, while 44% of donation/grant recipients indicated that it is 'never' easy to schedule meetings with their donors.

As this is one of the first demand-side studies of impact investing and philanthropy in Nigeria, the authors note great interest in future research that explores reasons behind the high level of dissatisfaction among donation/grant recipients and whether non-financial forms of support, a practice common in the investment sector, is at least partially responsible.

The debt-grant scheme, and models for the future: As identified in Chapter 4, a debt-grant model for impact investment, which arguably captures the most important elements of both practices, has been deployed by investors working in Nigeria and is positively received among investees. In these instances, philanthropy is a part of the impact investment. As one investee noted, even a grant can be seen as a form of investment:

> *"So to me, a grant is still a form of investment, even if the donor's target return is not monetary." (Investee 5)*

Philanthropic organisations and philanthropists themselves face increasing pressure to diversify beyond traditional grants, which can be restrictive and encourage long-term dependency on external funding. However, a debt-grant scheme with an initial grant and a low-interest loan could be a ground-breaking option for foundations and donors that specifically support job creation and economic development. These approaches have been investigated and advocated by international organisations and intermediaries in the impact investing field (e.g. EVPA, 2019; AVPN, 2021), which describe a 'continuum of capital' that spans from philanthropy to socially responsible finance on either end of the spectrum, with impact investing falling in the middle as either an investment *for* impact or *with* impact. If stakeholders want to encourage more philanthropic and financial organisations to adopt practices

within the continuum of capital, then hybrid approaches like debt-grant schemes could be an ideal starting place.

As one local example, the Tony Elumelu Foundation (TEF) in Nigeria has based its entire philanthropic funding model on creating an Entrepreneurship Programme that supports aspiring SME founders across Africa in developing their business ideas. Thousands of entrepreneurs receive significant non-financial support, including training and personal mentoring, with many going on to receive seed funding from the Foundation every year – including several participants in this study. In the TEF case, entrepreneurs learn key skills during the Entrepreneurship Programme and view the seed funding grants as an impact investment in their small businesses, despite there being no expectation of financial returns. More traditional investors or investing-minded philanthropists may choose the hybrid approach of supplying a grant in the first instance, which then evolves into a debt scheme over time.

Concluding by Looking Forward

When incepting and developing this study, the CSP aimed to specifically investigate impact investing and philanthropy from the demand side – effectively highlighting the lived experiences of Nigerian social entrepreneurs creating change in Nigeria. Most studies of impact investing to date, particularly those focused on Western models, have analysed the investors and investment models rather than the investees. By conducting one of the largest studies on impact investing in Nigeria, we drew a variety of initial findings from data collected through the digital survey, interviews, and focus group discussions.

While the findings have been explored in depth throughout Chapters 3 – 5, in summary, the data collected in this study revealed a Nigerian impact investing ecosystem that is both nascent and abundant with opportunity. Discussions with organisations like the Impact Investors Foundation (IIF) have revealed that Nigeria is rapidly developing an impact investing market, with a growing field of resources and prominent actors becoming increasingly involved. The recent establishment of a National Advisory Board for impact investing has been another strong step in advancing and institutionalising the practice within Nigeria.

However, despite the many rapid advances in developing a coherent impact investing ecosystem and an enabling environment for these investors to operate, the study revealed that significant barriers remain in terms of access, allocation, and effectiveness of impact investments. Data collected via the digital survey showed high levels of intent and interest, with entrepreneurs exhibiting enthusiasm for greater engagement with impact investing, alignment of their work with the SDGs, and a desire to move away from over-reliance on traditional philanthropic models. While this intent looks promising, the research findings also demonstrate that moving beyond the intent to successful action remains a significant challenge. The survey had illustrated that only 11% of 753 of the total respondents had ever received an impact investment, and only 50% of those who received impact investments were satisfied or highly satisfied with the impact investments they have received.

To this end, our research reveals that scale and truly intersectional access to financing persist as two of the most prominent barriers to impact investing. Key insights for sectoral actors can be found throughout this report, but we summarise major recommendations as follows:

1. Improved sectoral understandings specifically on the purpose, realities, and broader value of impact investing is much needed, particularly for demand-side social entrepreneurs who are accustomed to the grants versus traditional investment binary. In addition to the investors themselves, this is an ideal area for intermediary network organisations and National Advisory Boards to add value and support bridging gaps in understanding.

2. Since a large number of social entrepreneurs are still dependent on grant funding and suffer the challenges rising from that model, impact investors should aim to avoid recreating similar issues for their investees. Best practice includes avoiding unnecessary delays in disbursement, offering valuable non-financial support, and advocating for policy reformations that create an enabling environment for SMEs.

3. Study participants noted the significant value of investors treating them as partners rather than funding recipients or 'beneficiaries', a relationship that rarely occurs within other financing schemes. Investors should support and encourage mutual trust and relationship-building with their investees, and be willing to learn more about their context. Where necessary and relevant, investors should also iterate.

4. Though the potential benefits of impact investing may be substantial, many structural barriers that afflict the traditional aid and financing spaces are still present. Particularly prominent in Nigeria are issues around equity in geographical and gender-based distribution of funds. These concerns are well-noted in literature on the Nigerian context, and are likely present in many emerging markets; investors and stakeholders must commit themselves to ensuring greater equity among their investees.

5. Not all entrepreneurs understand how impact investment models work, and aspects around equity investments must become more transparent. Few investees expressed that their impact investors asked for exceptionally high equity rates. By contrast, impact investors mentioned that investees might think they prefer equity investments but may be unaware of the long-term benefits and rights impact investors have by holding even a small amount of equity in their organisation. These disconnects indicate necessitate more conversations on what impact investment means in practical terms, along with common understanding and clear expectations.

To achieve these ends, in addition to commitment from investors and prominent intermediary organisations, further lines of inquiry should be opened. Tracking the growth of Nigerian impact investing over the coming years and exploring the forms it takes as a new instrument in the international development space wil also be greatly beneficial. Several subsequent questions require urgent investigation, which could be focused on Nigeria or other emerging markets:

- How can philanthropic actors and those in the impact investing space develop higher levels of collaboration and engagement to support local entrepreneurs?
- Is there an appetite to scale innovative hybrid financing like the debt-grant model, which seems to capture promising elements from both investment and philanthropic schemes?
- Are there feasible mechanisms to mitigate the equity issues arising in impact investing, including gender equality and geographic distribution?
- If scaled effectively, to what extent can (or should) impact investing serve as a vehicle to advance international benchmarks like the SDGs?
- When considering impact investment and social entrepreneurship in an emerging market, what exactly constitutes a 'social' entrepreneur when any enterprising organisation may have the potential to benefit a country's broader social, economic, and environmental goals?

The Centre for Strategic Philanthropy looks forward to playing a role in future research on and within this space, and once again expresses its deepest thanks to the research partners and hundreds of participants whose insights and lived experiences have been shared in this report.

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