

STABILITY IMPACT FUND AFRICA

INVESTING IN ENTREPRENEURS WHERE IT MATTERS MOST

The Stability Impact Fund Africa (SIFA), managed by Cordaid Investment Management (CIM), contributes to economic development in local communities. It creates scalable and sustainable social impact in fragile and conflict-affected countries in Africa. The Fund is open to impact investors who share our strong belief in the potential of micro, small and medium-sized enterprises (MSMEs) to create jobs and spearhead inclusive economic growth. SIFA pays special attention to creating access to finance for women and youth.

Creating opportunities in fragile regions

Fragile and conflict-affected countries lag far behind on nearly all development indicators. The 1.5 billion people who live in these countries have not benefited from the worldwide reduction of poverty achieved in the past two decades. Economic development is urgently needed but requires a healthy and inclusive financial sector, which is missing in nearly all fragile and conflict-affected countries in Africa. Young entrepreneurs who are eager for change lack access to finance as well as the skills to grow their businesses. This is why we set up the Stability Impact Fund Africa (SIFA). We know that 9 out of 10 jobs in fragile regions are created by MSMEs. SIFA provides these enterprises with **access to inclusive finance** as well as **business development services**. So that they can fulfil their potential and help bring an end to the vicious circle of conflict and poverty.

Our target investees

SIFA focuses on Sierra Leone, Ethiopia and the Democratic Republic Congo. We also target South Sudan, Burundi, Nigeria, Liberia and Guinea. In these countries, the Fund invests in all

segments of the MSME sector: micro enterprises, XS enterprises and SMEs. The Fund reaches its investees directly, or through local financial intermediaries (MFIs) (see table on p.2).

A third of SIFA's funds will be used for direct investments in what we call 'XS enterprises'. These very small companies, referred to as 'the missing middle', suffer the most from a non-functioning financial sector and a lack of capital. We strongly believe that, even if financial risks may be high and the management relatively expensive, these XS enterprises have the biggest social impact potential in terms of creating jobs and stabilizing economies.

SIFA facts and figures*

Achieved to date (since inception in 2014):

- 8.4 mln committed to investees
- 47,000 micro entrepreneurs reached through investment in MFIs
- 60% of micro entrepreneurs reached are women
- 110 XS entrepreneurs in Ethiopia and Sierra Leone received RBDS
- 11 XS entrepreneurs received investments in Sierra Leone

Targets for the fund life:

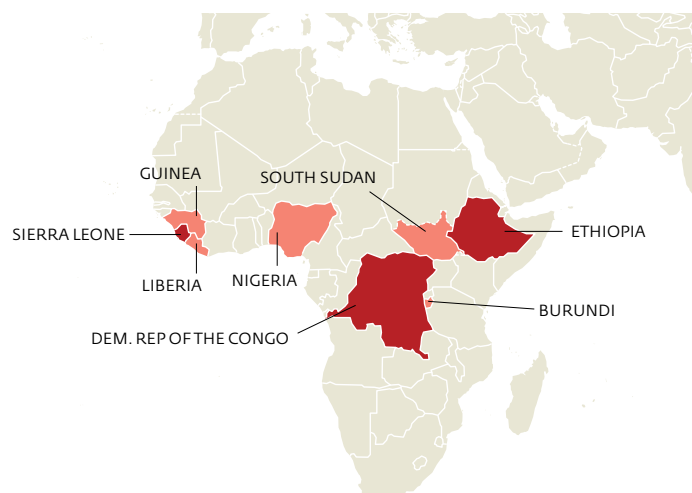
- 50,000 micro entrepreneurs reached, of whom > 50% women and > 35% youth
- 100 XS entrepreneurs received investments
- 15 SMEs received investments
- 10% annual income increase for XS entrepreneurs
- 1,500 new jobs created

Fund characteristics:

- Investment vehicle: FGR (*Fonds voor Gemene Rekening*)
- Targeted fund size: 40 mln EUR
- First loss provision: 20% (up to 8 mln EUR)
- Anchor investor: Cordaid Foundation (20% of which up to 50% first loss (max 4 mln EUR))
- Maturity: 10 years
- Financial return IRR: 6.4% net of management fee (3%)
- First closing: 2019

* based on unaudited figures of December 2017.

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SIFA focus countries: Sierra Leone, Ethiopia, DRC

Other target countries: South Sudan, Burundi, Nigeria, Liberia, Guinea

Blended funding for a two-track approach

Enterprises operating in fragile and post-conflict regions have very specific needs. We therefore support MSMEs in such countries with an innovative two-track strategy. Track 1 involves grant funding to support business development services (RBDS), local coaching and technical assistance (TA) for current and potential investees. Track 2 leverages the success of RBDS by providing investment capital (debt and/or equity) to selected MSMEs in order to catalyze business growth. Through this two-track approach, capital is allocated more effectively to those enterprises that have the capacity to create sustainable social impact while generating competitive financial returns. CIM designed a blended funding model to finance this two-track strategy: track 2 is financed directly through SIFA; track 1 is entirely grant-funded and managed independently by Cordaid.

CASE: ETHIOPIAN SKIN BEAUTY SECRETS



Photo Annelien Meerts, Cordaid

Soaps, shampoo and conditioner, bath oils, skin moisturizer and herbal acne powder. All cosmetics that the young female entrepreneur Yordanos Goushe sells are organic and hand-produced at her production facility in Addis Ababa. She started her company ESB Secrets in 2015 and already employs fourteen women, ten of them full-time. Yordanos joined Cordaid's RBDS program because she wanted to improve her financial management skills. She ended up learning just as much about human resource management and marketing. Yordanos: "I used to focus all my attention on my two shops, waiting for customers to come. The program helped me consider other sales strategies. I improved the packaging and labelling and started taking my cosmetics to spas and beauty salons across the city. Since then the daily sales have gone up with at least 10,000 birr and I've been able to hire a fulltime sales person." ESB Secrets has also started selling to wholesalers, imports shea butter and coconut oil from Ghana, and exports the very effective herbal acne powder. Yordanos wants to take her enterprise to a next level. The RBDS program taught her what needs to be done to bring her finances, book keeping and budgeting up to scratch to become eligible for a bank loan. She has hired a part-time accountant to help her achieve this. Yordanos' ambition, however, goes beyond being successful. "I want my company to help change the image society has of women. The women I employ are becoming financially independent. Looking pretty is a nice thing, but earning your own money is empowerment."

Resilience Business Development Services (RBDS)

Cordaid has over a decade of experience in providing business development services (BDS) in fragile and post-conflict contexts. Since 2015, we provide our tailored and company-specific Resilience Business Development Services (RBDS) program to carefully selected XS enterprises and SMEs in the SIFA focus countries Ethiopia and Sierra Leone. The six-months' program is designed to improve financial, social and environmental business performance and geared towards making the enterprises 'investment ready'. It involves group training (within a particular value chain, sector or locality), individual coaching, expert meetings and peer consultations. Where possible we recruit local trainers and experts, who combine a thorough understanding of the local business challenges with international best practice. The curriculum is a mix of technical input and know-how, business skills and support for attitudinal change through work on soft skills. The RBDS program supports the creation of a potential pipeline for direct investments by SIFA in the 'missing middle' segment.

Strengthening investee performance

The grant-funded activities (Track 1) are provided to the different categories of investees as follows:

- MFIs may receive technical assistance (TA) to help them introduce and/or improve specific products offered to micro-entrepreneurs, or to build the capacity of the MFI itself (e.g., governance, management, social performance)
- XS enterprises may receive pre-investment RBDS to make them 'investment-ready', local coaching to help steer the process of growth, and TA in the form of post-investment RBDS (e.g., follow-up training on marketing or procurement).
- SMEs may receive local coaching and TA (e.g., procurement and maintenance of equipment, training of staff).

RBDS and TA services are provided by Cordaid and grant-funded completely independently from SIFA. The local coaching is provided by the in-country SIFA Investment Manager, but also grant-funded independently from SIFA.

	MICRO (MFI)	XS	SME
Countries	Focus Countries + South Sudan, Burundi, Nigeria, Liberia, Guinea	Focus Countries: Sierra Leone, Ethiopia, DRC	Focus Countries + Liberia, Guinea
Targeted % SIFA portfolio	33%	33%	33%
Investee	MFIs	XS enterprises	SMEs
Investment size per investee	EUR 200K - 2M	EUR 10K - 300K	EUR 300K - 1.5M
Access to finance entrepreneur	EUR 500 - 10K	EUR 10K - 300K	EUR 300K - 1.5M
Investment products	Debt, max. 10% equity (limited time)	Debt, max. 33% equity (limited time)	Debt, max. 33% equity (limited time)
TA/RBDS/coaching (financed through grants, not by SIFA)	5-10% of investment amount	25-40% of investment amount	10-20% of investment amount

XS investing in Sierra Leone

Cordaid has been present in Sierra Leone since the early 1990s. In 2002, the civil war came to an end and the country's economy started to grow fast at 6% average per year. The outbreak of Ebola in 2014 dealt a massive blow to these positive developments. Cordaid Investments responded by helping its investees – at the time mostly micro-finance institutions – survive and recover from the crisis. In 2015, SIFA started directly investing in XS enterprises in Sierra Leone, which are vital for generating jobs in a country where 75% of the population is younger than 35 years.

Since 2015, sixty enterprises have participated in the RBDS program in Sierra Leone. By December 2017, SIFA had provided loans to eleven XS Enterprises and SMEs, five of them are graduates from the RBDS program.

CASE: MAYEFEH FARM

In 2013, Mr. Foday Kamara started a piggery and layer poultry business in Makeni (Bombali District), called Mayefeh Farm. The business was growing fast until Ebola struck in May 2014. The layer poultry business had to be suspended because of the interrupted supply of maize, the main ingredient of poultry feed. The piggery business continued on a small scale.

Mr. Kamara participated in Cordaid's first RBDS program in Sierra Leone. "The course on internal management was especially helpful," says Kamara, "the business now benefits from much more effective team work. The program also helped me make the necessary changes in business practices to become eligible for investment." In September 2016, SIFA provided a four-year debt finance to Mayefeh Farm to construct additional poultry and piggery buildings, acquire a new stock of layers and to finance working capital. In a country where 80% of the demand for protein is met by imported products, a business like Mayefeh Farm has considerable growth potential. Customers value the fresh domestic pork meat and eggs, and increasingly question the quality of products that have spent time at sea being shipped from abroad.

Thanks to the business expansion financed by SIFA, Mayefeh Farm can employ eight additional farm workers. Kamara also intends to engage ten local women in a piggery outgrower scheme. Mayefeh Farm will provide the women with a pair of piglets each to grow and breed. Kamara: "We are working hard to increase employment especially for youth and to contribute to sustainable growth in our area."

CASE VSL TRAVEL



VSL (Visit Sierra Leone) is a tourism and travel services company based in Freetown. Like all businesses in the sector it was hard hit by the Ebola crisis. But VSL survived and tourism is gradually picking up. VSL offers a full package of services to foreign visitors, from airport transfers, vehicle rentals and hotel bookings, to visa processing, excursions and guided tours. In 2015, company owner Mr. Bimbola Carrol participated in Cordaid's RBDS program. Carrol: "The program was incredibly useful in helping me see my business from the honest perspective of a neutral third party. It made me rewrite our marketing strategy, focusing much more on the personal touch in our customer approach that makes us unique."

Mr. Carrol had started the business in 2004. He was in his twenties at the time and tourism was only a nascent sector in Sierra Leone. His company now manages the two most successful travel websites in the country: visitsierraleone.org and VSLtravel.com.

SIFA recognized VSL's potential and provided a five-year debt finance in local currency in June 2016. The capital will be used to upgrade the company's fleet with new vehicles as well as for local and international marketing activities. The company's turnover in 2016 is expected to be at least 25% higher than in 2015. Through job creation for drivers and tour guides the investment also has a social impact. VSL has already hired three new people, the target for the investment period is eight. In five years, at least a third of VSL's staff should be women and two-thirds youth. Micro-entrepreneurs selling handicrafts as well as community-owned tourism projects will indirectly benefit from the promotion of tourism in Sierra Leone that this SIFA investment contributes to. Carrol: "To us the SIFA investment is a vote of confidence in our achievements, financial standing and growth potential. It makes me even more committed to doing what I love: helping people from across the world enjoy the beauty of our country."

Responsible Impact Investing

CIM is a social impact investor. Measuring impact is not merely a matter of ticking the boxes. Rather, it is an ongoing process that directly influences what is done, and how. Doing no harm is not good enough. Creating social impact is CIM's leading principle in the initial screening of potential partners, and throughout the investment process and the long-standing cooperation that follows.

CIM has an integrated environmental, social, and corporate governance approach and uses Social Performance Assessments tools developed in-house. In the case of MFIs, alignment is checked with the Universal Standards of Social Performance Management, including the Client Protection Principles. Products are mostly offered in local currency, and investees are not overcharged as a result of hedging costs.



Cordaid Investment Management

CIM is the asset management branch of the Netherlands-based Catholic Organization for Relief and Development Aid (Cordaid) and a frontrunner in opening markets to impact investment since 1997. CIM manages thematic investment funds that foster Cordaid's multidisciplinary approach to development and that catalyze grant-based activities in the field of agriculture (Rural and Agricultural Finance Fund – RURAF) and entrepreneurship (Stability Impact Fund – SIF). The Stability Impact Fund Africa (SIFA) will be a carve-out of SIF specifically focusing on Africa. CIM provides access to finance using a mix of instruments: patient capital (equity and subordinated debt) and senior debt including loans with longer maturities. Cordaid Investments works with a professional investment team of 20 persons, who have earned their stripes in the world of banking and development aid. CIM is currently active in 20 developing countries in Africa, Asia and Latin America. CIM is a 100% daughter of Cordaid Foundation.

Presence on the ground

SIFA builds on the extensive experience, knowledge and networks that Cordaid has built up during more than 100 years of development work and 20 years of investing in scalable and sustainable economic models. Cordaid field offices in Africa have built steady relationships with local partner organizations, which have an in-depth understanding of socio-political dynamics and local economic and currency markets. Their commitment, and the trust they enjoy from local communities and businesses, provides SIFA Investment Managers with extensive networks and entry points to create a substantial pipeline of (potential) investees.

CORDAID INVESTMENT MANAGEMENT FIGURES 2017*

64 mln EUR

Total portfolio

59 mln EUR

Total outstanding

71

Investees

0.9 mln EUR

Average investment size

20

Investment professionals

22

Countries

Since 1998:

> 2 mln

entrepreneurs directly impacted since 1998

> 250

partners financed

> 470

investments made totaling EUR 203 mln

ABOUT CORDAID

Cordaid is the Catholic Organization for Relief and Development Aid, with headquarters in The Hague, the Netherlands. Cordaid is inspired by compassion, solidarity and subsidiarity. Its mission is to reduce fragility and the vulnerability of people where it is most needed and most difficult: in fragile and conflict-affected societies. Cordaid is a founding member of Caritas Internationalis.

CORDAID KEY FIGURES 2017*

> 100

years of experience

249

partners

10

country offices

48

countries

268,000

individual donors

254

projects funded

126.7 mln EUR

spent on projects directly

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**CARE.
ACT.
SHARE.
LIKE CORDAID.**

* based on unaudited figures of December 2017