



# Unlocking local pension fund capital

FOR SMALL BUSINESS FINANCE

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# Unlocking local pension fund capital for small business finance

## Developed in partnership with

- World Economic Forum Global Alliance for Social Entrepreneurship (Global Alliance)
- Collaborative for Frontier Finance (CFF)
- The Global Steering Group for Impact Investment (GSG)
- Impact Investing Ghana (IIGh)
- Zambia National Advisory Board for Impact Investment (NABII)
- Sustainable Development Investment Partnership (SDIP)

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# Abbreviations

AUM	Assets under management
AOFSA	Asset Owners Forum South Africa
BNSS	Basic National Social Security Scheme
CFF	Collaborative for Frontier Finance
CRGS	Credit Risk Guarantee Scheme
DFI	Development fund institution
ESG	Environment social governance
FCDO	UK Foreign, Commonwealth and Development Office
FoF	Fund of funds
GDP	Gross domestic product
Global Alliance	WEF Global Alliance for Social Entrepreneurship
GSG	Global Steering Group for Impact Investing
IIGh	Impact Investing Ghana
IISA	Impact Investing South Africa
NABII	Zambia National Advisory Board for Impact Investment
NAPSA	National Pension Scheme Authority
OECD	Organization for Economic Cooperation and Development
PE	Private equity
PIA	Pension and Insurance Authority
PIC	Pension Industry Collaborative Ghana
RoI	Return on investment
SDG	Sustainable Development Goals
SDIP	Sustainable Development Investment Partnership
SGB	Small and growing business
SME	Small and medium-sized enterprises
SSNIT	Social Security and National Insurance Trust
USAID	US Agency for International Development
VC	Venture capital
VCTF	Venture Capital Trust Fund
ZAPF	Zambia Association of Pension Funds

# Executive Summary

## Purpose and audience

- The purpose of this report is to highlight some of the work of market builders working closely with pension fund industry bodies to unlock capital for small business finance in Africa. **There is a shortage of growth capital for small and growing businesses (SGBs)<sup>1</sup> in African markets, which can be partially filled by local institutional investors, particularly local pension funds.** While pension funds have historically been deterred by the risk profile, many are considering the de-risked opportunities in this market segment to achieve diversification, returns and local economic development.
- **The report is valuable for market builders and pension funds as they seek to learn from colleagues and peers with regard to this emerging opportunity.**

## Engagement

- **A consortium of international partners** (including [WEF Global Alliance for Social Entrepreneurship](#) (Global Alliance), [Collaborative for Frontier Finance](#) (CFF), [Global Steering Group for Impact Investing](#) (GSG) and [Sustainable Development Investment Partnership](#) (SDIP)) **has been working closely with local market building organisations** (including Impact Investing Ghana (IIGh), the Zambia National Advisory Board for Impact Investing (NABII) and Impact Investing South Africa (IISA)) **and pension fund collectives in three countries** (including Ghana Pension Industry Collaboration, Zambian Pension Industry Association and Batseta/Asset Owners Forum South Africa (AOFSA)) **to explore this potential and drive action.**
- **The aim of the engagements was to identify shared barriers to investment, identify/prioritise collectively driven solutions** (including research, capacity building, policy engagement etc) **and develop investment pipeline opportunities** (including Ghana Ci Gaba Fund of Funds, Zambian Credit Risk Guarantee Scheme (CRGS) and AOFSA co-investment platform).
- **The lessons extracted from those engagements are instructive to local pension funds, pension industry associations, market building organisations, investment intermediaries (such as SGB fund of funds (FoF) and local capital providers<sup>2</sup>) and co-investors (such as development fund institutions (DFIs), development agencies and donors)** as to how pension funds are thinking about their role in SGB finance and how that pathway to funding can be unlocked now or over time.

<sup>1</sup> Commercially viable businesses with five to 250 employees that have significant potential and ambition for growth, typically seeking growth capital from \$20k to \$2m.

## Challenges in context

- **Small business finance means different things in different contexts, which has implications for how pension funds would engage with this market segment.** For example, less developed countries would have fewer opportunities in the medium-sized enterprise market, pushing investors to consider how to service smaller enterprises. Although the country case studies profile works across small and medium-sized enterprises, we are most interested in investment at the SGB end of the spectrum.
- **Barriers to investment are generally categorised according to regulatory, fiduciary, capacity, investment process and pipeline.** Fiduciary duty is paramount, considering downside risk intolerance and high failure rate of small business.
- **As a result, pension funds favour credit investments** (smooth returns/fee structure), **venture capital (VC)** (risk offset by potential high returns), **FoF vehicles** (co-investment and diversified assets) **and infrastructure/real assets** (to support SGB in supply chains and local economies).

## De-risking the SGB investment pipeline

- **Pension funds would consider investment opportunities in this market segment if they have been sufficiently de-risked.**
- **Financial de-risking strategies include utilising credit enhancement, particularly like first loss guarantees** (which cushion downside risk), **investing into FoF/wholesale investment vehicles** (which diversify underlying assets) **and co-investment arrangements** (which enable shared expertise and costs).
- **Non-financial de-risking strategies include adjustment of regulation** (which clarifies fiduciary duty and investment limits), **enhancing investment knowledge and investment skills** (which means building internal capacity or bringing in external expertise) **and/or improving the risk profile of the underlying asset** (either at sub-fund or at enterprises level).

## Opportunities in Ghana, Zambia and South Africa

- Market builders are directly supporting pension fund industry collectives to be able to invest in small business.
- **South African pension funds invested \$8.9bn in private equity (PE)/VC last year but some of the larger public sector funds are skewing that curve.** The majority of pension funds do not invest close to the maximum regulatory limit, for example 15% in PE and 45% in infrastructure. AOFSA represents \$140bn assets under management (AUM), which is half of pension fund AUM in the country. The members are investigating co-investment strategies/vehicles to invest in infrastructure and in small and medium-sized enterprises (SMEs) for the purpose of both returns and local economic development.
- **Ghanaian private pension funds control ±\$3.5m% AUM, growing at a rate of ±30% per year.** Less than 0.03% is invested in alternative assets, despite the fact that Ghana is consistently rated in the top 10 PE/VC destinations on the continent.<sup>3</sup> IIGh has identified an opportunity for a private sector-led SGB<sup>4</sup> FoF to attract and deploy local pension fund monies into small businesses.
- **Public and private Zambian pension funds have invested ±\$12.5m in private or unlisted equity.** Despite underdevelopment of capital markets, pension funds are interested in diversifying their portfolios out of government bonds. The NABII is investigating a credit risk scheme alongside the Zambian central bank that will de-risk small business finance for bank and non-bank lenders. The pension funds have a role to play in commercial capital aspects of the scheme.

<sup>2</sup> An investment intermediary investing between USD50k and USD500k into SGBs using diverse investment theses, tools and instruments, and having deep local knowledge.

<sup>3</sup> Ghana National Pensions Regulatory Authority. (2020). Annual report: 2020. In NPRA (Issue December).

<sup>4</sup> SGB is small and growing business. An SGB fund of funds (FoF) is a vehicle where underlying asset is small business.

# 1

## Introduction

A consortium of partners initiated through the [WEF Global Alliance for Social Entrepreneurship](#) (Global Alliance), and including [Collaborative for Frontier Finance](#) (CFF), [Global Steering Group for Impact Investing](#) (GSG) and [Sustainable Development Investment Partnership](#) (SDIP), has been working with local partners in Ghana and Zambia to unlock pension fund monies for small business finance. [Impact Investing Ghana](#) (IIGh) instigated a process with the so-called Pension Industry Collaborative (PIC) to support capacity building and raise capital for a fund of funds structure. The [Zambia National Advisory Board for Impact Investing](#) (NABII) ran an engagement to support allocation of pension fund monies to alternative assets, including the Credit Risk Guarantee Scheme (CRGS). Prior to that Impact Investing South Africa (IISA) had been working with the Asset Owners Forum South Africa (AOFSA) to develop a co-investment strategy to invest in infrastructure and SMEs.

## 2

## Small business finance means different things in different contexts

The smaller and less developed the market, the more likely small business finance encompasses businesses traditionally thought of as small and medium-sized enterprises (SMEs) e.g. Zambia. In larger, more mature economies, medium-sized enterprises are more likely to be served by the banks, private equity (PE) industry and capital markets, whereas small business finance would pertain to enterprises formally classified as small e.g. South Africa. See Table 1 below for an illustration of difference in size between small and medium-size enterprises in Zambia, Ghana and South Africa.

Microfinance is considered a small component of small business finance, pertaining predominantly to microenterprises. Although pension funds are investing in this segment through microfinance institutions, it is not specifically considered in this brief.

<sup>5</sup> Intentionally seeking measurable financial, social and/or environmental returns across asset classes and risk/return spectrum

<sup>6</sup> Varies depending on sector but this gives the range.

Some pension funds may refer to small business finance as impact investing. Because impact is a strategy<sup>5</sup> and not an asset class, market builders prefer to distinguish between these terms. Small business in emerging markets is highly likely to fit the definition of an impact investment, considering the potential for addressing the Sustainable Development Goals (SDG).

**Table 1:** Characteristics of SMEs in three African economies

		South Africa	Ghana	Zambia	IFC	ANDE
Economic status		Upper middle-income	Lower middle-income	Lower middle-income	Emerging market	Small and growing business
Small	Employment	11–50	6–30	11–50	10–49	5–250
	Turnover	\$1.2m–\$3m <sup>6</sup>	\$25k–\$1m	\$8 600–\$17 200	< \$3m	
	Assets		\$25k–\$1m	\$4 600–\$11 500	< \$3m	
	Loan size	Data not available	Data not available	\$4 500–\$11 000	< \$100,000	\$20k–\$2m
Medium	Employment	51–250	31–00	51–100	50–300	
	Turnover	\$5m–\$9.5m	\$1m–\$3m	\$17 200–\$46 000	\$3m–\$15m	
	Assets		\$1m–\$3m	\$11 500–\$29 000	\$3m–\$15m	
	Loan size	Data not available	< \$5m	\$8 500–\$28 000	< \$2m	

## 3

## Pension funds' view of small business finance

- Without exception, the primary concern of pension funds is protecting and growing member assets. There are nuanced views of fiduciary duty, particularly with regard to sustainability,<sup>7</sup> but trustees generally agree that pension funds are bound to maximise financial return.
- Pension funds have been increasing exposure to alternative assets for fiduciary reasons, particularly the risk and return features of the assets, and their low correlation to traditional asset classes. This mainly applies to assets such as infrastructure, real assets and PE but could eventually apply to small business finance.
- Pension funds are also aware that returns are partly based on the economic state of the country they are investing in so, as one of the largest asset owners, it is prudent to grow the real economy. Included in this is investment into small and medium-sized enterprises.
- Because pension funds are primarily concerned about downside risk, the biggest issue investing in small business is the high failure rate (in comparison with more established business).<sup>8</sup> Returns are secondary but, even so, there is insufficient evidence of high returns to compensate for the high risk (barring the as yet unrealised full potential of venture capital (VC) funds).<sup>9</sup> There is evidence to suggest that returns can be made when investment opportunities are sufficiently de-risked.

<sup>7</sup> ESG is considered material to financial return in terms of mitigating risk.

<sup>8</sup> The most reliable data on small business failure comes from the banks, in terms of non-performing loans.

<sup>9</sup> The African VC market is in early stages of development so there is little data available on exits and performance. The most reliable data is likely to come from local sources and only South Africa collects data on a consistent and expanding basis.

- There is emerging data about the performance of small business investment instruments/fund/vehicle types, particularly in more mature markets where there is more differentiation and simply more product/track record that illustrates risk/return/impact over time. In less developed markets this is not the case.
- Small businesses require small ticket sizes, so it is impossible for pension funds to invest directly. Even VC/SME funds tend to be smaller than preferred, considering minimum investment size and limits on ownership of most pension funds.
- Locally, not all pension funds actively implement environment social governance (ESG) financial risk management in their investment strategies, although there is some regulatory momentum to do so. Not to be confused with sustainability/impact where there is currently no legal obligation, but where private funds find it easier to pursue impact objectives compared to their larger public counterparts and where investors usually have more influence due to greater share of investment.
- Political support for alternative investment reflects an effort to boost private investment in public infrastructure, as well as innovation and job creating sectors like start-ups and private equity.
- Pension funds' views of small business is influenced to some degree by the opportunities afforded by the rest of the market; in other words, the perceived opportunity cost offered by less risky asset classes. In most African markets, this is government bonds, while in South Africa, it could be considered public equities. We are in a climate where demand is outstripping supply and these safe havens are showing diminishing returns. As a result, pension funds are turning to the private markets to look for diversification to low-correlation assets such as infrastructure, private equity and real estate.



Anne Marie Chidzero (FSDAI)

# 4

## Preferred small business investment pathways for pension funds

It goes without saying that pension funds prefer pure commercial funds/investment vehicles with a track record but there are few of these available that serve small businesses. Indeed, if there is no evidence of track record, experience and performance of small business finance vehicles within a market then it is a bad investment for pension funds.

Small business investment vehicles mimic those that are set up for other types of assets and so there is some degree of familiarity with risk–return profiles, and preference has been expressed for the following vehicles:

- **SME debt or credit funds:** These funds are perceived as less risky because of the repayment profile, early warning system, collateral requirements and familiar fee structure with known cashflow. Debt funds could be understood to fall within the category of non-bank lenders but these types of facilities could be expanded to include non-bank finance institutions.
- **Equity funds, predominantly VC funds:**<sup>10</sup> There is a growing awareness of the potential for high returns in this asset class, particularly with regard to tech plays. There is a lesser awareness of funds investing equity or quasi-equity into dynamic and livelihood-sustaining businesses.<sup>11</sup> Pension funds are unlikely to invest in these funds directly but rather through a pooled, de-risked structure.
- **Pooled fund of funds (FoF) or wholesale vehicles:**<sup>12</sup> This is where the General Partner is investing in underlying debt or equity funds/ vehicles/platforms. These structures are less common, although there has been growing pension fund interest in countries where they have started to generate a track record, like South Africa.
- **Infrastructure and real assets:** Although these investments tend not to be categorised as small business finance, investment in them tends to have a knock-on effect in supply chains and associated SMEs.

<sup>10</sup> Pension Funds are likely to have some familiarity of PE and would tend to compare VC to these larger investments. The PE market varies significantly between countries depending on the maturity of the market.

<sup>11</sup> CFF. (2022). Fund of Funds Vehicles for Small and Growing Businesses: Role, opportunity and design considerations.

<sup>12</sup> Reference FoF report.

## 5

## De-risking small business finance pathways for pension funds

In cases where there is a gap between perceived and actual risk, there is an opportunity to de-risk investments in the short and medium term in order to build a track record of performance. In cases where there is a socioeconomic benefit outside of the financial performance of an asset then it could be considered worthwhile by a society to underwrite that market segment over the long term. This could be viewed as ‘paying for impact’.

Because pension funds are seeking uncorrelated returns and their members benefit from better economic conditions afforded by a thriving small business segment, they can and are playing a judicious and catalytic role in building the market. The following financial and non-financial de-risking strategies are being used to do so.

<sup>7</sup> ESG is considered material to financial return in terms of mitigating risk.

<sup>8</sup> The most reliable data on small business failure comes from the banks, in terms of non-performing loans.

<sup>9</sup> The African VC market is in early stages of development so there is little data available on exits and performance. The most reliable data is likely to come from local sources and only South Africa collects data on a consistent and expanding basis.

### a Financial de-risking

Pension funds use financial de-risking mechanisms such as credit enhancement, aggregation of assets and co-investment strategies to mitigate the risk of small business financing transactions.

#### Utilising credit enhancement

Because a pension fund's priority is to limit downside risk rather than achieve high returns, the first loss guarantee is emerging as credit enhancement of choice.

- Because there is little market precedent, the manager who has structured the fund/ vehicle would need to have put in place a compelling argument about the level of first loss, complete with transparent and well-evidenced assumptions. Trustees would quite often then rely on internal investment teams or third-party asset consultants to test those assumptions.
- The size of existing first loss guarantees vary, although there is some precedent emerging in FoF structures<sup>13</sup> where the first loss amounts to 10–30% of the total obligation.<sup>14</sup>
- Guarantees are more suitable for debt than equity funds, where they are currently used to de-risk both fund types. It is much trickier to design a guarantee for an equity product and, because of the nature of the asset, most would benefit from return enhancement rather than capital protection. Nevertheless, guarantees are being used in both cases. For example, while Ashburton Credit Enhancement Fund is a credit fund and 27four Black Business Growth Fund is an equity fund, both are underwritten by a South African government guarantee.
- First loss providers do not want the investment to be risk free for pension funds, but rather that they have skin in the game, leading to more sustainable engagement in the market. On the other hand, because risk has been limited, some first loss providers may choose to cap returns to other limited partners. Others stipulate on-lending terms, wanting to see small businesses benefitting from the flexible capital they are providing.
- First loss providers want to establish a new pool of capital comfortable with small business finance. They may approach this, as described above, by building a track record of performance or ‘paying for impact’. Notwithstanding, some are approaching these investment opportunities with a commercial lens. In other words, they see the growth opportunity in asset class and, while they are willing to take the downside risk, they expect to see returns and price for upside, benefiting in the waterfall structure if returns expectations are met.

*Example: As part of their market building endeavours, IIGh is building an FoF that incorporates a 30% first loss guarantee. In this way, they hope to attract commercial capital from local private pension funds. The Ghanaian government-led Venture Capital Trust Fund (VCTF) attracted local institutional investment during its initial capital raise in. The NABII in Zambia is designing a credit risk guarantee facility, alongside the central bank, where they will carve out a role for local institutional capital.*

### Investing into FoFs/wholesale investment vehicles<sup>15</sup>

These types of investment facilities are applying particular strategies/design components to attract commercial capital, particularly domestic institutional capital.<sup>16</sup>

- Providing an efficient capital mechanism to address mismatch in ticket size;
- Standardising and simplifying the investment process for the pension fund investor, considering the varied nature of the underlying funds. By applying standardised underwriting terms, FoFs are able to pool these heterogeneous models under one umbrella, simplifying the investment process for pension funds;
- Diversifying risk across multiple funds, fund structures and regions, and thus underlying small businesses;
- Supporting market building by sharing data, attracting concessionary capital and supporting local fund managers.

*Example: The number of FoF vehicles have raised pension fund capital, including Thuso Incubation Partners, SASME Fund II and 27four Black Business growth Fund. Part of the multipronged approach to market building undertaken by national advisory boards in Ghana and Zambia includes the development of blended finance vehicles to attract pension fund monies; these being the Ci Gaba Fund of Funds and Credit Risk Guarantee Scheme, respectively.*

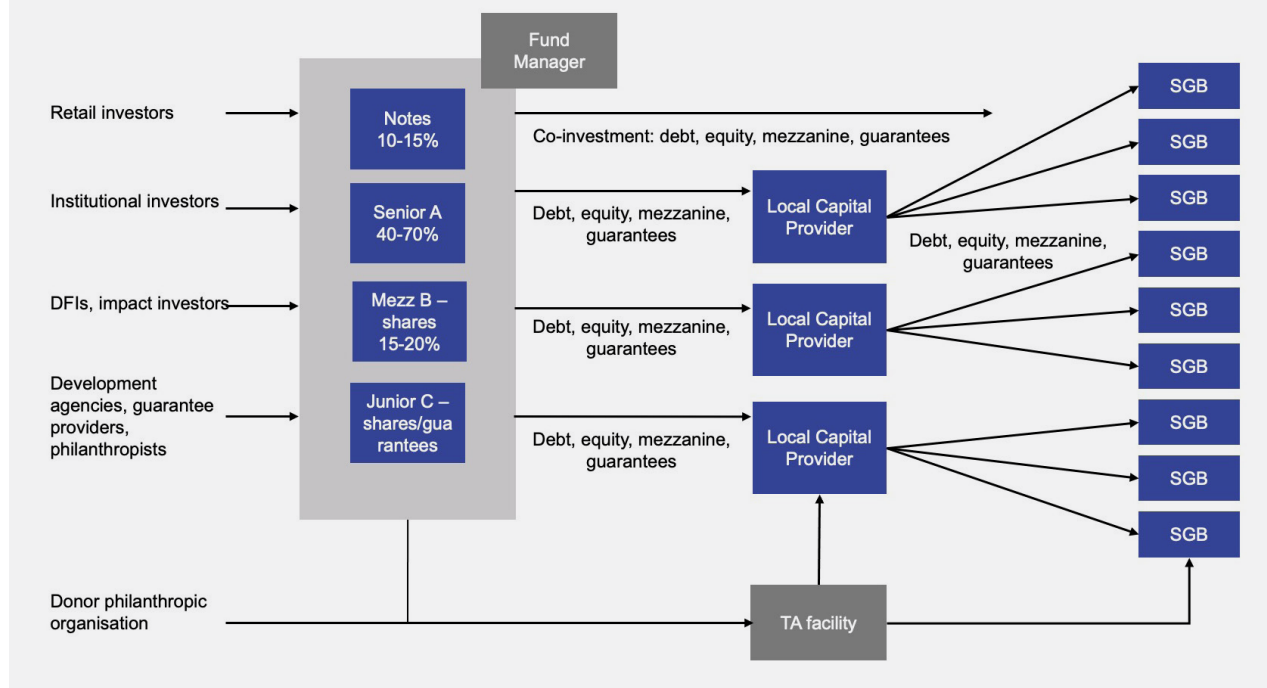
<sup>13</sup> CFF. (2022). *Fund of Funds Vehicles for Small and Growing Businesses: Role, opportunity and design considerations.*

<sup>14</sup> In our experience this level is not always underpinned by evidenced assumptions and should be regularly reviewed.

<sup>15</sup> FoF is a pooled investment facility that invests in other types of funds/vehicles, while a wholesaler/wholesale investment vehicle is an investment facility that makes both indirect and direct investments.

<sup>16</sup> CFF. (2022). *Fund of Funds Vehicles for Small and Growing Businesses: Role, opportunity and design considerations.*

**Figure 1: Typical Fund of Funds structure** <sup>17</sup>



### Setting up co-investment strategies

By pooling their resources, pension funds can leverage their cumulative experience and risk appetite, and invest in a variety of deals, diversifying their portfolio and potentially gaining a better, more stable longer-term return than would be possible if investors were to invest in deals by themselves. They will be able to take advantage of the following:

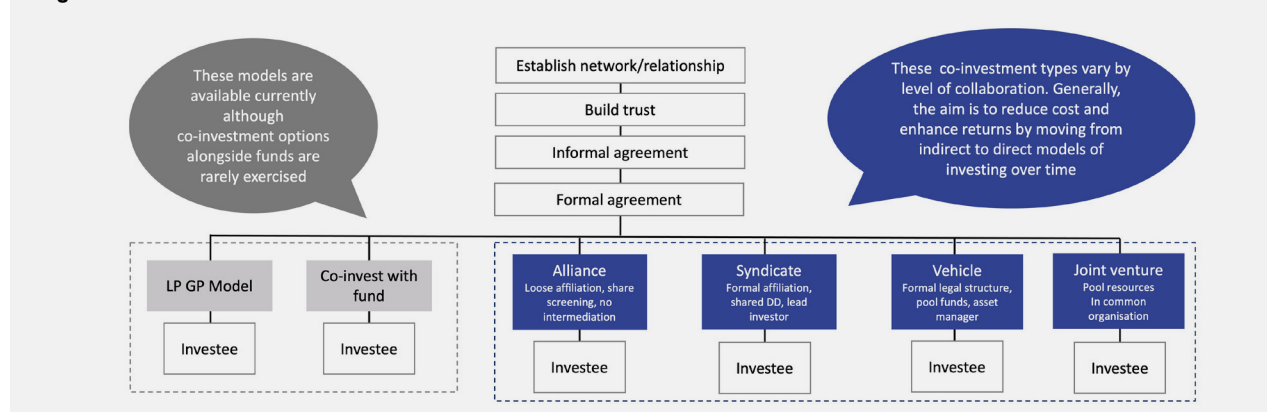
- Pooling skillsets, deal pipelines and networks, as well as exchanging local expertise and asymmetric information.
- Sharing investment risk, due diligence costs, increasing access to investor capital and improving marketing and investor relations.
- Enhancing negotiating power with intermediaries and reducing reliance on advisors over time.

<sup>17</sup> Adapted from König, A.-N., Club, C., & Apampa, A. (2020). *Innovative Development Finance Toolbox*. October.

<sup>18</sup> Adapted from Monk, A. H. B., & Sharma, R. (2015). *Capitalising on Institutional Co-Investment Platforms*. SSRN Electronic Journal, 1–32.

*Example: The small number of co-investment platforms that have been set up across the continent focussed on infrastructure, with the intention of diversifying into SMEs once the model has been proven. These include AOFSa and the Kenya Pension Funds Investment Consortium.*

**Figure 2: Co-investment vehicles for institutional investors** <sup>18</sup>



## **Non-financial de-risking**

Pension funds use non-financial de-risking mechanisms such as regulation, investment skill/knowledge and demand side technical assistance to mitigate the risk of small business financing transactions.

### **Adjusting relevant regulation**

Enabling regulation can trigger investment. This is one of the key areas of intervention for market builder's to support.

- Well-developed regulation is an enabler in this market. This means that that fundamentals are in place, with clarity of asset definitions also taking into consideration that many alternative assets span asset classes such as SME or infrastructure investing.
- Regulation should not be restrictive, allowing for pension funds to invest in alternatives with adequate minimum limits in areas such as private equity, unlisted investments, offshore allocations (which enable regional investments).
- Regulation should preferably not be directive. Fiduciaries should be able to engage with fundamentals of the investment properly and not be forced into making decisions that may not be in the best interest of their members.
- Regulation should prompt good behaviour, for example sustainable investing through ESG guidance. Although, strictly speaking, ESG is not impact intentional, ESG risk management forms an integral part of fiduciary duty. The ESG conversation tends to be a gateway to conversations about impact.
- Regulatory and policy support can be applied at the sectoral or sub-sectoral level, unlocking and de-risking pipeline opportunities to attract private investment.

*Example: This is one of the key areas of intervention for market building activity, although it is usually a long, slow process that is driven by the regulator rather than by the market. In each country profile below, the teams have advocated with regulators for change ranging from increasing investment limits in South Africa; to streamlining offshore investment authorisation in Zambia; to accelerating fund set-up processes in Ghana.*

### **Enhancing small business investment skills/knowledge**

Building internal competencies to evaluate the risk of the underlying asset:

- Nothing replaces the fundamental requirement of evaluating a potential investment having the capability to do so, either internally or externally.
- Considering that investments are likely to be indirect, pension funds would need to be convinced of the investment strategy and deal pipeline of the vehicle and the track record of the fund manager.

Bringing in competencies from international development fund institutions (DFIs), among others:

- While pension funds can provide local currency financing solutions at suitable scale and tenors, international DFIs can contribute risk assessment and structuring expertise.
- The mandates of DFIs usually stipulate that they would need to achieve additionality related to their investment capital. This can be achieved by leveraging local institutional capital from pension funds.
- Having DFIs as co-investors provides reassurances to institutional investors and also helps to gain access to prospective investment opportunities.

*Example: There are a few examples where cross-border partnerships have played catalytic roles and, although DFIs are doing this at scale, they are not focussed on the small and growing business (SGB) market segment. For example, MiDA is a USAID-funded organisation supporting local pension funds in South Africa and Kenya to co-invest with guarantors and US pension funds. In addition, the Emerging Markets Loans Fund enables European institutional investors to co-invest alongside FMO in loans to financial institutions, renewable energy projects and agribusiness companies in frontier markets.*

Building understanding of asset class:

- For pension funds to become comfortable with investing in small business, it would be beneficial for them to become deeply familiar with the risk, return and impact profile of these investments.
- However, this is not always easy. Small business finance does not fall within a homogenous asset class, although some work has been done to try and distinguish between business types.<sup>19</sup>
- These distinctions may become more apparent in certain verticals where there are known business models, such as renewable energy.
- Fund managers or local capital providers apply diverse investment theses and investment/financing tools and instruments. There are emerging distinctions that can be used to bucket some of these models. such as VC funds.

### Changing risk profile of the underlying asset

Supporting the fund manager:

- Most pension funds would only consider investing in a fund manager on either their second or third fund and, even then, they would usually only provide  $\pm 30\%$  of the investment, only after fund managers had secured 2–3 other investors.
- So, providing flexible or anchor capital is usually not within the purview of these asset owners, unless financially de-risked.
- There are some examples of where large public pension funds have broken this chicken and egg scenario, taking the first step so that others will follow. For example the Government Employees Pension Fund in South Africa has set up the Isibaya Fund to invest in a number of alternative assets for the purposes of socioeconomic development.
- Pension funds would also take into account whether a fund manager is being supported in their risk assessment – be they first time or experienced managers.
- This could range from strengthening the investment committee, to negotiating preferential back office rates, to supporting data analytics or impact management systems.

*Example: Thuso Incubation Partners, set up by Eskom Pension and Provident Fund, invests into funds on a commercial basis but provide technical assistance to first-time fund managers by funding an analyst during the first two years, making their shared services platform available at preferential rates and introducing pipeline.*

Supporting small business:

- The underlying businesses can be supported directly or by the fund manager.
- Either way, if a third party is contributing business development services, the limited partner stands to gain.
- Although this is further removed from the pension fund and, thus, more difficult to incorporate in a due diligence, there is a growing familiarity with these models of de-risking.
- Indeed technical assistance partners can be brought in to support specific gaps, using longitudinal models of support before, during and after the investment has been made.

<sup>19</sup> Dalberg, & Collaborative for Frontier Finance. (2019). *Closing the gaps: Finance pathways for serving the missing middles*. Collaborative for Frontier Finance, January.

## 6

## The role of market builders

Market building can be undertaken by third-party organisations as well as by the investors themselves. In the three case studies below, the focus is on third parties in the form of the impact investing national advisory boards. There are differing levels of engagement that are partially dependent on depth of relationship, resources, value proposition and need.

Market builders can support pension funds in the following ways:

- Advocate for regulatory change.
- Work across silos, within or between stakeholder groups to share learnings, tools and processes.
- Bring concessionary funders into the mix to support pipeline development.
- Build the case for small business finance by collecting and disseminating data.
- Support capacity building of trustees and managers to build an understanding of the sector.

The success of this strategy over the next 10 years will be determined by the number of pension funds investing in this sector and the returns that they have been able to generate for members as a result!

### Engagement with pension funds in three countries

Three national bodies formally associated with the GSG engaged with their local pension fund industries in line with respective strategies on unlocking the supply of impact capital.

- National Task Force for IISA engaged with AOFSA.
- IIGh engaged with the PIC.
- The NABII engaged with pension funds through the Zambian Pension Fund Association.

Batseta, the Council for Retirement Funds in South Africa, established AOFSA to support infrastructure and other private market investments by the pooling of pension fund assets for long-term sustainable socioeconomic development in South Africa and in the region. MiDA Advisors has provided some financial support and linked the group to US pension funds and guarantors. IISA worked through Tshikululu Investments, funded by the UK's Foreign, Commonwealth and Development Office (FCDO) IMPACT Programme, to develop a co-investment and market-building strategy for AOFSA.

**The objectives of the engagement:**

- Develop an executable strategy aligned with the constitution of AOFSA
- Build an implementation plan.

**Engaging stakeholders:**

Approximately 12 pension funds representing almost half of pension funds' assets under management (AUM) in South Africa, and including the two largest asset owners, namely the Government Employees Pension Fund and Eskom Pension and Provident Fund. These funds are predominantly state/industry/bargaining council sponsored funds with no commercial umbrella funds represented.

**Link to small business finance:**

The co-investment strategy is primarily focused on infrastructure and real assets initially, but the constitution enables AOFSA to pursue other alternative investments, which include SMEs, either through direct or indirect investments. Small and growing businesses are not a direct focus of this group, although this could be considered as part of a debt or equity fund portfolio.

Apart from the co-investment mechanism itself, which could either be an alliance, syndicate or vehicle (see Figure 2), the group is committed to sharing best practice and pooling together of resources (i.e., data, knowledge, processes, systems and/or tools). The strategy includes jointly advocating to government, influencing the investment value chain, building mutual capacity and driving sustainability.

**Table 2:** Barriers to retirement fund investing in alternative investments in South Africa.

Element	Challenges
Regulation	The regulatory framework is enabling and has been recently updated to clarify asset classes in increase limits.
	Pension fund governance and investment processes are not fit for purpose – lack of professional and/or full-time members, personal liability for negligence and high turnover.
Investment process	Asset consultants (ACs) are not incentivised to identify alternative investment opportunities and, consequently lack the capacity to do so.
	There is a mismatch in ticket size and lack of sophisticated understating of how alternative assets fit into a portfolio. Preferred ticket sizes reach \$5.5 million with added requirement to contribute < 20% to fund, meaning only funds in excess of \$55 million AUM can apply – this is out of reach of most PE funds.
	Liquidity is in issue inasmuch as remaining members are disadvantaged if other members leave the fund and that residual portfolio still subscribes to mandated asset allocations.
	Disproportionate amount of time required for governance, due diligence and management of alternative assets.
Capacity	There is significant mistrust and lack of knowledge with respect to valuations and fee structures of alternative assets.
Pipeline	Asset managers (AMs) cite quality/bankability and regularity of pipeline as biggest constraint to investment.
Data	Pension funds cite lack of convincing performance data about alternative assets. The evidence that is available does not bear this out, although there is a lack of performance data, especially with regard to infrastructure.
Impact	There is a lack of diversity at the level of asset consultants and fund manager.
	Not all alternative investments result in sustainable, inclusive economic development . For example, PE funds have a history of value destruction with regards to jobs in many cases.

**Table 3:** Key pillars of the AOFSA strategy

AOFSA strategic pillars	
<b>Co-investment</b>	Via alliance, syndicate or vehicle – alternative intermediation maximising returns, minimizing cost and reducing risk.
<b>Advocacy</b>	Promoting and protecting the common interests of AOFSA and government, particularly with regard to enabling investment into alternatives.
<b>Market Influence</b>	Building the market beyond individual members by attracting local and international co-investors and positioning as investor of choice.
<b>Thought leadership and capacity building</b>	Supporting members and the wider market to make informed investment decisions regarding alternative asset investing.
<b>Sustainability, transformation and impact promotion</b>	Driving change at micro and macro level through targeted engagement and leading by example.

## **b Pension Industry Collaborative Ghana**

The potential of private pension funds to attract capital in Ghana into private funds has yet to be tapped. These funds control 66% of the > \$5.5bn pension fund AUM, growing at a rate of  $\pm 30\%$  per year. Despite an investment limit of 15% in alternative assets, there is currently only a  $\pm 0.03\%$  exposure.<sup>20</sup> Ghana is consistently rated in the top 10 PE/VC destinations on the continent, attracting over 35% of the investment in West Africa over the last 5 years. Seventy per cent of that capital comes from international investors, mainly from DFIs, with the remainder from the government-funded VCTF. IIGh has identified an opportunity for a private sector-led FoF to attract and deploy local pension fund monies into small business.

One of the resolutions from the Impact Investors Leaders Forum for CEOs of pension trustees and fund managers facilitated by IIGh was to define impact investing, as it pertains to different contexts, and to determine the characteristics of investment vehicles/products in which pension funds might be comfortable investing. It is with this in mind that they constituted the PIC.

### **Engaging stakeholders:**

IIGh convened representatives of seven of the largest private pension funds<sup>21</sup> for a series of three workshops with the aim of developing partnerships and taking collective action to increase pension investments in profitable alternative investments for Ghana's development. The group did not include the public pension funds, the largest of which is managed by Social Security and National Insurance Trust (SSNIT).

### **Objectives of engagement:**

- Outline clearly what the problems are and why the industry is not investing in alternative assets.
- Outline clearly what would be needed (training/capacity building/ratings/regulations etc) for the industry to begin to engage in alternative investments.
- Provide input into what the design/requirements/characteristics of a financial vehicle, institution or product that could meet the risk–return profile of the industry would need to be.
- Provide feedback on the definition of impact investing for their respective industries and what activities and investments should be considered as impact investing.
- Provide feedback on next steps and IIGh's long-term engagement strategy.

### **Link to small business finance:**

As one of its flagship initiatives, IIGh has designed a FoF vehicle to invest in emerging and experienced fund managers deploying small ticket sizes<sup>22</sup> into small businesses in Ghana. As part of the investment thesis, they identified an opportunity to unlock private pension fund monies. This vehicle will complement the government-led VCTF and other FoFs in the market to service the 'missing middle'.

<sup>20</sup> Ghana National Pensions Regulatory Authority. (2020). Annual report: 2020.

<sup>21</sup> Axis Pensions, Petra Trust, Enterprise Trustees, Glico Pensions, Databank, I C Securities and Stanbic Investment Management Services.

<sup>22</sup> \$50k–\$2m.

**Table 4:** Ghana's pension fund profile, taken from CFF's 'Doing Small Business Finance Framework'

	Indictor	Measurement	Observations
Quantum	How does the size of the channel compare to peers?		
	AUM	\$5.4bn <sup>23</sup> overall • \$1.84bn (33%) public • \$3.58bn (67%) private	• 3 Tiers: Mandatory public funds <sup>24</sup> , mandatory private occupational fund and private voluntary fund. <sup>25</sup> • 1 Public, 226 Private pension and 29 Informal sector schemes. <sup>26</sup> • \$589m (upper most estimate invested in SMEs) with 32.89% of public pension funds \$1.84bn AUM invested in unlisted equities and 0.03% of private pension funds. \$3.58bn AUM invested in alternative assets.
	AUM as % GDP <sup>27</sup>	5.7% (2020) <sup>27</sup>	
Performance	How have pension funds performed?		
	Rol private	9.57 nominal/-0.325 real Public (2020) <sup>28</sup>	• Private funds have outperformed public funds by ±2:1 with 30% growth year-on-year public pension fund growth boosted by sale of xx in 2020. • No data on private pension fund performance.
	Growth in assets	27% All (2020) <sup>29</sup> 34% Private (2020) <sup>30</sup> 26% Public (2020) <sup>31</sup>	
Regulation	What part of regulatory framework inhibits investment?		
	Investment limit on alternative assets (private)	< 15% invested in alternative investments <sup>32</sup>	• Public fund does not have restriction on investment limit. • Offshore investment limit of 5% is low considering regional funds considered to be offshore. • Private funds have high allocation to government securities but since coupon rate dropped over last 5 years becoming less attractive. • Market considers that there is sufficient clarity on subclasses within the alternative asset bucket.
	Investment limit on offshore assets	< 5% invested offshore	
	Sustainable investment regulation	No pension fund-specific regulation	
Terms	Which practices/infrastructure support investment?		
	Strategic Asset Allocation public pension funds	32.89% unlisted equities (BNSS) 49.49% listed and unlisted equity (SSNIT) <sup>33</sup>	• The Basic National Security Scheme (BNSS) and SSNIT report on asset classes within strategic asset allocation differently to each other and do not pars out alternative assets as a separate category. Considering alternative assets are made up predominantly on unlisted equity that is what has been shown. • Market too small for robust advisory intermediary layer so decisions taken at trustee level within pension funds. Twenty-eight licensed corporate trustees, 38 pension fund managers and 14 pension fund custodians. <sup>34</sup> • Most significant challenges to allocation to alternative assets include inadequate alternative asset investment options, inadequate specialised rating systems, lack of trustee capacity, unrealistic expectations about individual, product risk/return, cumbersome regulatory environment, high rate of Treasury Bills and inadequate incentives. <sup>35</sup> • Multiple initiatives from FSDAi and IIGh in supporting pension funds to allocate to alternatives.
	Strategic asset allocation of private pension funds	0.03% alternative investments <sup>36</sup>	
	Investment advisors/asset consultants	Few active intermediaries at this layer in market. Investment decisions taken solely by trustees and pension fund managers	
	Industry associations	Chamber of Corporate Trustees	
Data	• The Organization for Economic Cooperation and Development (OECD) surveys investment regulation of pension funds and other pension providers on an annual basis. Although much of this information is easily found in the local regulatory briefs, it is possible to compare jurisdictions by using this publication, specifically with regard to investment allocation limits. <sup>37</sup> • Ghana: The National Pensions Regulatory Authority publishes an annual report the last being in 2020 that relates information on both the BNSS and private pension funds. <sup>38</sup> Some of the regulatory information is only available through the various guidelines including ‘Guidelines on Investment of Pension Scheme Funds’. <sup>39</sup> • Data gaps: (i) performance data on asset classes; (ii) alignment of reporting against same asset classes between public and private funds; and (iii) Rol of private funds.		

<sup>23</sup> Ibid.

<sup>24</sup> BNSS managed by the SSNIT.

<sup>25</sup> <https://rb.gy/rnjbx5>

<sup>26</sup> (DAI Sustainable Business, 2021).

<sup>27</sup> <https://rb.gy/3hxpzu>

<sup>28</sup> Ghana National Pensions Regulatory Authority. (2020). Annual report: 2020. In NPRA (Issue December).

<sup>29</sup> Ghana National Pensions Regulatory Authority. (2020). Annual report: 2020. In NPRA (Issue December).

<sup>30</sup> Ibid.

<sup>31</sup> Ibid.

<sup>32</sup> No more than 10% of pension funds shall be invested in any sub-asset class, except external investment, which shall be a maximum of 5% (OECD. (2021). Annual survey of investment regulation of pension funds and other pension providers.

<sup>33</sup> SSNIT. (2020). Social Security and National Insurance Trust Financial Statements.

<sup>34</sup> Ibid.

<sup>35</sup> Feedback from seven participants in PIC managed by IIGh.

<sup>36</sup> Ghana National Pensions Regulatory Authority. (2020). Annual report: 2020. In NPRA (Issue December).

<sup>37</sup> OECD. (2021). Annual survey of investment regulation of pension funds and other pension providers.

<sup>38</sup> Ghana National Pensions Regulatory Authority. (2020). Annual report: 2020. In NPRA (Issue December).

<sup>39</sup> Ghana National Pensions Regulatory Authority. (2016). Guidelines on Investment of Pension Scheme Funds.

**Table 5: PIC challenges and solutions** <sup>40</sup>

	Challenges	Solutions
Pipeline and rating	Inadequate alternative asset investment options with comprehensive business models, strong governance frameworks and transparent management systems that pension funds can invest in. The lack of attractive alternative asset classes in the industry hampers diversified resource allocation.	Ensure a pipeline of institution-grade investment options that can meet the risk–return requirements of pensions by collaborating with other industry players and interest groups, such as IIGh.
	Inadequate specialised rating systems and independent assessment of alternative investment options to drive improved business models, strict adherence to standards and transparency.	Transparent, independent rating of alternative investments in collaboration with other industry players and existing rating efforts.
Knowledge and capacity	Inadequate knowledge to assess alternative investments: Pension trustees and fund managers do not fully understand the risk–return characteristics of alternative investments. There is a lack of expertise in alternative investments vested in boards and senior management, which leads to risk aversion.	Increase the capacity of pension funds, trustees and fund managers to understand and assess alternative investments to be able to evaluate the impact of their investments. Emphasise that diversifying assets can help to optimise financial returns especially with de-risking mechanisms, tax breaks and other incentives.
	Unrealistic client expectations about individual product return: Clients of pension funds, especially employer-sponsored schemes, have expectations that each individual product will have a positive return rather than looking at the return of the whole portfolio; this makes it hard to take a portfolio approach and invest in riskier alternative assets. The culture of having a guaranteed return on each product diminishes interest in alternative assets.	Conduct continuous education for clients of pension funds to reduce risk aversion and create a deeper understanding of the long-term benefit of taking a portfolio approach to increasing returns. There is a need for support and education to translate the impact of alternative assets in a way that can shift the prevalent risk-averse mindset. This should include public education to help the public appreciate impact investing and manage their expectations.
	Alternative Investments are perceived to be too risky: History of non-compliance by issuers (i.e., deviations from an agreement in a prospectus) do not inspire investor confidence. Past losses and repayment challenges with alternative assets deter asset managers. International financial reporting standards make issuance to government the safest option.	Research and amplify successful cases: Focus on creation of some strong alternative asset wins and build cases around them, as well as cases from other countries. Explore other ways of collaborating, for example on due diligence, and build capacity through shared learning and research.
Regulation	Slow and cumbersome regulatory environment for licensing of funds and alternative investments. The challenges of seeking regulatory approval discourage fund managers and investment advisors from setting up funds.	Advocate for an improved regulatory environment to encourage the setting up of more alternative asset funds with the right governance and management.
	High rate of government treasury bills: The high treasury bill rate provides a risk-free asset that pensions can depend on. Government, therefore, crowds out the private sector. Alternative assets need to provide exceedingly high yields to warrant the additional risk.	Lower treasury bill rate and develop a business friendly fiscal environment. The rates on government fees must be reduced to incentivise investment capital flow in relatively riskier alternatives. Collaboration with other industry players on the rating of alternative investment options and increase transparency and accountability.
	Inadequate incentives for alternative investments: The incentive systems set up across the industry are also not fully aligned to encourage alternative investments. Reintroduction of taxation on venture funds and lack of other incentives make alternative investments unattractive.	No recommended solutions

**Table 6: Stakeholder roles in PIC action plan** <sup>41</sup>

Stakeholder	Role
IIGh	Project management
PIC	1. Strategic direction, 2. Accountability 3. Take action on activities of interest
Chamber of Pensions Ghana	Key execution partner
Ghana Securities Industry Association	Key execution partner
Ghana Venture Capital & Private Equity Association	Key execution partner
VCTF	Key execution partner
Ministry of Finance and Minister of Finance	Support and take action to secure support from Securities and Exchange Commission
Securities and Exchange Commission	Take action on regulatory environment
National Pensions Regulatory Agency	Take Action on regulatory environment

<sup>40</sup> Taken from 3rd meeting of PIC facilitated by IIGh.

## **c Pension Fund Collective Zambia**

In Zambia, the NABII identified the need to unlock local institutional capital to increase the capital supply for alternative investments particularly those intentionally seeking to create positive social or environmental impact.

### **Engaging stakeholders:**

The NABII engaged the pension fund collective in five one-on-one interviews<sup>42</sup> and three round tables over a two-month period. They accessed 12 pension funds and pension fund managers via their own networks and the Zambia Association of Pension Funds (ZAPF).<sup>43</sup> The ZAPF undertakes advocacy, networking and capacity building of fund managers on behalf of pension funds. The largest public pension fund, National Pension Scheme Authority (NAPSA), is not a member of the ZAPF and is not regulated by the Pension and Insurance Authority (PIA).

### **Objectives of engagement:**

- Identify main barriers to investment into alternative assets, specifically SMEs.
- Identify and prioritise potential solutions to address main barriers, including research, capacity building, pipeline development, policy engagement etc.
- Develop action plan for 2022 to be facilitated by the NABII in partnership with market builders.
- Develop actionable proposition for pension fund engagement in Credit Risk Guarantee Scheme.

### **Link to small business finance:**

As one of its flagship initiatives, the NABII is currently working with the Bank of Zambia to develop a credit risk guarantee scheme (CRGS) to augment the targeted medium-term refinancing facility. The guarantee will underwrite loans to bank and non-bank lenders who can then extend appropriate investment terms to small businesses. The Bank of Zambia is establishing partnerships with commercial and concessionary capital providers to ensure sustainability of the facility. This includes engaging pension funds to invest in and/or underwrite the facility. Pension Funds may be able to provide a guarantee using the 5% of capital that is mandated for socio-economic development.

<sup>42</sup> Including the PIA (regulator), NAPSA (public pension fund), Capital Markets Association and Zambia Association of Pension Funds.

<sup>43</sup> The PFA did not engage past the introductory call.



Regina Nyakinyua (MEDA)

**Table 7: Zambia pension fund profile, taken from CFF 'Doing Small Business Finance Framework'**

Pension Funds			
Quantum	How does the size of the channel compare to peers?		
	AUM	\$605m with \$165bn (27%) in public fund (NAPSA) and \$440m (63%) in private funds	<ul style="list-style-type: none"><li>• 3 Tiers: Mandatory public funds (NAPSA),<sup>44</sup> private occupational funds and individual voluntary funds</li><li>• 3 Public funds (unregulated) and 244 registered pension fund schemes regulated by PIA<sup>45</sup> with majority of AUM managed by ±20 pension funds and pension fund managers.<sup>46</sup></li></ul>
	AUM as % GDP	2.69%	
Performance	How have pension funds performed?		
	RoI private	Private 13% nominal/5.1% real (2018) No data on public funds	<ul style="list-style-type: none"><li>• NAPSA (public pension fund) controls ±27% of that with asset growth reduced from ±10% to 3.6% from 2018 to 2019.</li></ul>
	Growth in assets	Private 3.6% (2019) <sup>47</sup> Public 3.6% (2019) No data on public funds	
Regulation	What part of regulatory framework inhibits investment?		
	Investment limit on alternative assets	Public: No limits Private: 15% Private investment funds/unlisted securities	<ul style="list-style-type: none"><li>• Public fund does not sit under regulator but rather guided by separate Act (National Pension Scheme Act).</li><li>• NAPSA cannot co-invest with either commercial or concessionary funders<sup>48</sup> and has minimum ticket size of \$10m.</li><li>• Private fund investment limits recently reviewed in 2021 increasing potential allocation to private investment funds/unlisted securities from 5% to 15% – lack of clarity around exactly what this constitutes, for example, there is crossover between private funds and collective investment schemes that can contain private funds.</li><li>• Offshore allocation remained at 30%, which is considered low as this applies to public as well as private markets. Most of Zambia PE/VC would be invested from regional funds.</li><li>• Pension Scheme Regulation Act is currently under review again, with focus on governance.</li></ul>
	Investment limit on offshore assets	Private: < 30% invested offshore	
	Sustainable investment regulation	No ESG-specific regulation	
Terms	Which practices/infrastructure support investment?		
	Strategic Asset Allocation public pension funds	NAPSA (2020) - 9% Infrastructure - 7% Greenfield - 4% Private equity <sup>49</sup>	<ul style="list-style-type: none"><li>• NAPSA ran an request for proposals for PE fund managers in 2021 to invest on behalf of the scheme but none selected – opinion varies as too why, but reason given by NAPSA is that performance fees were too high.</li><li>• NAPSA guidelines preclude co-investment with either commercial or concessionary funders.</li><li>• 45% of NAPSA AUM invested in government bonds with 4% in private equity. NAPSA has indicated a further \$300m would be available for private market investments.</li><li>• No third-party advisors with investment decisions made in-house by pension funds or pension fund managers.</li><li>• ZAPF providing advocacy, networking and capacity building for pension fund managers. No additional data collection.</li></ul>
	Strategic asset allocation of private pension funds	- 6.14% Offshore - 4.21% Collective investment schemes - 1.35% Unlisted equity <sup>50</sup>	
	Investment advisors/asset consultants	8 Registered pension fund managers managing umbrella funds <sup>51</sup> No regulated independent third-party advisors	
	Industry associations	ZAPF	
Data	What is the source of data and where are the gaps?		
	<ul style="list-style-type: none"><li>• The OECD surveys investment regulation of pension funds and other pension providers on an annual basis. Although much of this information is easily found in the local regulatory briefs it is possible to compare jurisdictions through this publication, specifically with regard to investment allocation limits (OECD, 2021).<sup>52</sup></li><li>• Zambia: The PIA's report was last published in 2019 (PIA, 2019).<sup>53</sup> Although the report features both public and private pension funds, data information on the allocation was only available in the NAPSA quarterly newsletter of 2021 (NAPSA, 2021).<sup>54</sup></li><li>• Data gaps: (i) Performance data on asset classes; and (ii) Alignment of reporting against same asset classes between public and private funds.</li></ul>		

<sup>44</sup> BNSS managed by the SSNIT.

<sup>45</sup> [www.pia.org.zm](http://www.pia.org.zm).

<sup>46</sup> ZAPF.

<sup>47</sup> NAPSA, 2020.

<sup>48</sup> Interview with NAPSA.

<sup>49</sup> NAPSA, 2020.

<sup>50</sup> Ibid.

<sup>51</sup> Afife-African Life Financial Services (Z) Limited has 65% market share.

<sup>52</sup> OECD. (2021). Annual survey of

investment regulation of pension funds and other pension providers. <https://rb.gy/z9fgbr>

<sup>53</sup> Pensions and Insurance Authority. (2019). PIA Annual report 2019. <http://cashewindia.org/uploads/userfiles/Annual Report.pdf>.

<sup>54</sup> NAPSA. (2021). NAPSA News 1st Quarter 2021.

**Table 8: Challenges and solutions<sup>55</sup>**

	Challenges	High level solutions	Prioritising action <sup>56</sup>
Regulation	<ul style="list-style-type: none"> <li>Offshore allocation regulation limits investment into private funds by (i) delaying investment decisions; (ii) limiting quantum of investment; and (iii) creating opportunity costs as all offshore investments lumped together.</li> <li>Lack of regulatory guidelines with regard to alternative investments.<sup>57</sup></li> <li>Lack of ESG regulation, which (i) increases risk in market; and (ii) penalises first movers as they absorb implementation costs.</li> <li>Restrictions around co-investment.</li> </ul>	<ul style="list-style-type: none"> <li>Advocate for improved regulatory environment.</li> <li>Work with regulator to outline key issues.</li> </ul>	<ul style="list-style-type: none"> <li>Not priority.</li> <li>Engage in existing regulatory processes: <ul style="list-style-type: none"> <li>Capital markets and PE guidelines under development.</li> <li>Raise awareness of new regulations with constituents.</li> <li>The group can still work with regulator to ensure interests align.</li> </ul> </li> <li>PIA addressing offshore bottlenecks: <ul style="list-style-type: none"> <li>Offshore limits of 30% not reached yet, so no change is envisaged.</li> <li>Work underway to streamline decision making.</li> </ul> </li> <li>ESG: <ul style="list-style-type: none"> <li>Provide expert submissions to regulator and facilitate or participate in associated workshops.</li> </ul> </li> </ul>
Investment process	<ul style="list-style-type: none"> <li>Lack of internal capacity on boards and investment teams to evaluate alternative investment deals.</li> <li>Investment bottlenecks between trustees and pension fund managers because of (i) a lack of capacity; and (ii) a lack of clarity around decision making authority.</li> <li>Lack of alternative investment experts in market to support investment decision making and investment. advisors/ consultants are not regulated.</li> <li>Low ability and opportunity to co-invest.<sup>58</sup></li> </ul>	<ul style="list-style-type: none"> <li>Improve capacity of trustees, internal investment teams and fund managers to evaluate alternative investment opportunities.</li> <li>Strengthen links between asset owners and asset managers.</li> <li>Support the development of layer of an alternative investment experts.</li> <li>Identify co-investment opportunities between pension funds and with concessional funders.</li> </ul>	<ul style="list-style-type: none"> <li>Expert local/international training/ workshops, as well as peer-to-peer learning and case studies required for trustees: <ul style="list-style-type: none"> <li>NABII to identify scope of need and raise awareness of existing trainings/materials.</li> <li>Engage ZAPF to set up peer-to-peer sessions, expert training and master classes at conferences.</li> <li>NABII likely to focus on impact/blended models/SME and PFA focus more broadly on PE/infrastructure/valuation etc.</li> </ul> </li> </ul>
Pipeline	<ul style="list-style-type: none"> <li>Lack of investable pipeline because of (i) a lack of track record; (ii) a lack of records; and (iii) high risk (perceived and real).</li> <li>Limited exit opportunities, resulting in deterioration of legacy assets over time.<sup>59</sup></li> <li>Lack of comparators in the market against which deals can be benchmarked, and lack of published performance data at an organisational and aggregate level.</li> <li>No large proactive anchor investor in market.<sup>60</sup></li> </ul>	<ul style="list-style-type: none"> <li>Support development of blended finance investment opportunities.</li> <li>Produce research on alternative asset financial and non-financial performance.</li> </ul>	<ul style="list-style-type: none"> <li>Limit NAB involvement in direct pipeline development to CRGS.</li> <li>Raise awareness of and mobilise resources through other organisations building pipelines, such as Impact Capital Africa, Prospero, Enterprise Fund, Zambia Development Agency etc.</li> </ul>

<sup>55</sup> From round-table sessions.

<sup>56</sup> While the resource constrained team was not in a position to lead new activities without additional, dedicated funding, they are able to join existing initiatives and provide thought leadership within their realm of expertise, which is impact investing, specifically convening and awareness raising.

<sup>57</sup> NAPSA guidelines in process of being revised to explicitly include impact as an asset class (in global markets, impact investments are not considered an asset class but rather an investment strategy).

<sup>58</sup> NAPSA cannot invest in syndicates or co-invest (with either commercial or concessional funders) – they either need to take the whole deal or take nothing.

<sup>59</sup> Listing fees are too high (% balance sheet), so few IPOs, according to some.

<sup>60</sup> NAPSA preference for direct deals largely because of high fees in 2&20 model.



Bart Schaap (Nyala Venture) and Anthony Annan (Impact Capital Advisors)



**COLLABORATIVE**  
FOR FRONTIER FINANCE

Evelyn Diah (WIC)

