



Climate-Smart Impact Investment Fund

Extending Capital to SMEs in Emerging Markets



SEED
promoting entrepreneurship
for sustainable development



Background

Climate-smart small- and medium-sized enterprises (SMEs) – offering climate change adaptation and/or mitigation solutions directly through their products and services – have the potential to drive economic growth and employment as well as combat the adverse effects of climate change. There are many examples in Southern Africa of these small and growing enterprises that incorporate marginalised populations (including women and youth) in their value chains as suppliers, employees and customers. However, entrepreneurship in the region is largely characterised by many micro-enterprises and big corporates, with a general lack of growth stage enterprises. This “missing middle” gap of later stage SMEs, especially climate-smart SMEs, is largely caused by a lack of access to growth capital – with their financing needs beyond the level of microfinance while also being underserved by commercial banks, business angels and early stage private investors.

In developing new opportunities for impact investing that target climate-smart SMEs, many (impact) investors are reluctant to invest in light of the political, economic and legal climate of these emerging markets. Major barriers to impact investing in Southern Africa include, but are not limited to:

- General lack of awareness and understanding of impact investment as a concept and investment practice in emerging markets by policy-makers, mainstream investors and the general public
- Lack of capital supply across the risk/return spectrum
- Difficulty sourcing viable investments that meet both financial and social/environmental objectives
- Limited availability of innovative fund and deal structures
- Inadequate policy and regulatory environment
- Poor linkages between social enterprises, investors and support programs/networks

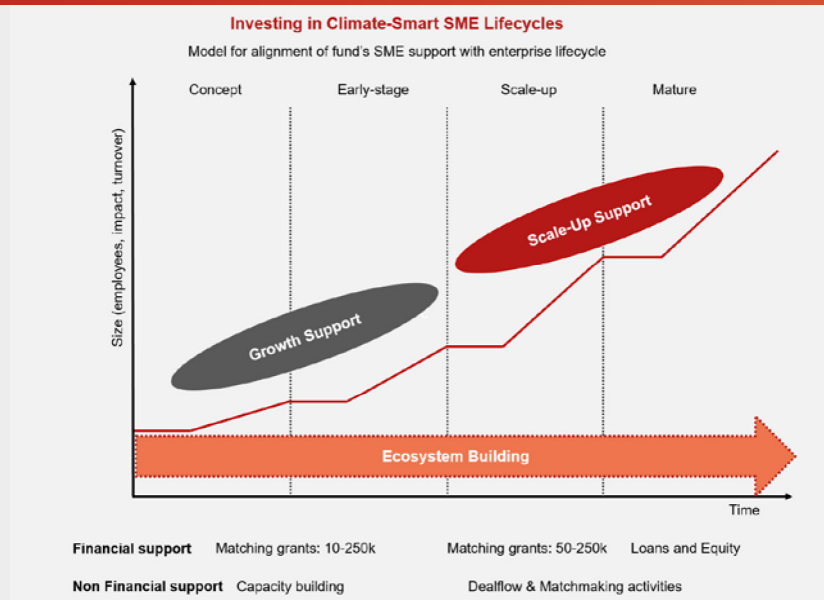
Focus:	Climate Change Adaptation & Mitigation
Ecosystem Impact:	Access to Finance
Lab Cycle:	Climate Finance, South Africa 2019
Challenge Hosted by:	Hivos Impact Investments

Additionally, the emphasis within impact investing on innovation with increasingly complicated financial products under constant development and the dominance of large financial players challenges the capacity of many climate-smart SMEs to understand and access existing investment opportunities that are relevant to their business models.

Solution Overview

In light of these challenges to “missing middle” climate-smart SMEs and the development of relevant impact investing opportunities in emerging markets, the solution for an *Impact Investment Fund for Climate-Smart Entrepreneurial Solutions* brings together networks of active impact investors and potential future investors to de-risk and deliver equity to climate-smart SMEs in their efforts to reach commercial scale. This impact investment fund will:

- **Create a collaborative impact-investing ecosystem for climate-smart entrepreneurship** through ecosystem building activities that build a common understanding of investment opportunities and develop financing models specifically catered to climate-smart small and growing enterprises in emerging markets.
- **Develop a pipeline for investment-ready climate-smart SMEs** by engaging enterprises throughout their lifecycles to access the necessary technical assistance and business development services to improve their ability to attract growth capital.
- **Deliver capital investments to target SMEs** that mitigate the risk to financiers by leveraging development funding in a risk facility, thereby building a long-term investment case and improving the financial risk appetite of investors.



Key Features

The impact-investing fund's approach is explorative and iterative, premised on tech-driven learning formats and the engagement of experts in delivery of technical assistance through non-financial support. The *Impact Investment Fund for Climate-Smart Entrepreneurial Solutions* offers climate-smart SMEs:

- **More responsive assessment criteria** than commercial financiers and a leaner cost structure that reduces the costs accrued by target enterprises.
- **Digital support** for a less human resource intensive investment approach combined with technical assistance.
- **Partnership-building opportunities** to engage and mobilise a variety of future impact investors.

The combined financial and non-financial support offered is a graduated model that guides enterprises from grant to loan/debit financing to equity investment opportunities.

Target Market

Climate-Smart SMEs

The fund specifically target climate-smart SMEs across Southern African that struggle to move beyond the start-up stage and access scale-up financing. The fund will extend equity capital to these target SMEs ranging from 250,000 – 3 million Euros.

Network of Climate-Smart Impact Investors

Within this solution, the ideal impact investors are audacious, interdependent, deeply aware, able and ready to take calculated risks and to empower others (not just themselves), unstoppable in their search for a deeper impact combined with proving the financial business case, and wise enough to be systemic, but with the humility to continue learning. Innovation is key and there is a need to keep supporting the pioneers and frontrunners in the financial sector. There is a role for all to play, including financial institutions, donors, public sector, and intermediaries (accelerators/BDS).

Impact Potential

The *Impact Investment Fund for Climate-Smart Entrepreneurial Solutions* offers access to finance solutions to climate-smart SMEs that enables these enterprises to scale their activities, generating more jobs and increasing their contributions to environmentally sustainable and socially inclusive economies. These enterprises offer innovative solutions for emissions reductions, water use efficiency, clean production, climate-resilient agriculture, circular production and more. Improving access to finance for later stage climate-smart SMEs will support climate change mitigation and adaptation strategies as well as the achievement of global Sustainable Development Goals.

Solution Developers

Hivos
Impact Investments



Hivos Impact Investments and Hivos Foundation

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SEED Practitioner Labs Climate Finance engage financial institutions, funders, intermediaries and other SME ecosystem stakeholders to co-create innovative climate finance products and mechanisms that extend access to long-term financing opportunities for “missing middle” small and growing climate-smart enterprises that struggle to advance beyond the start-up stage and multiply their contributions to climate-smart and socially inclusive economies.