Deep Dive on inclusive growth

A Deep Dive Study on DGGF's Track 2 contributions to inclusive growth

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Picture on the cover page was taken during interviews with 1Bridge's entrepreneurs in Mandya, during the field visit to India in February 2023. The picture was taken by Morgane Fleury.

Acronyms

Acronym	Definition
BoP	Base of the Pyramid
DDE	Department Sustainable Economic Development of the Dutch Ministry of Foreign Affairs
DGGF	Dutch Good Growth Fund – Track 2 'Financing local SMEs'
DFI	Development Finance Institutions
DIM	DGGF Impact Monitor
ESG	Environmental, Social, and Governance
FIs	Financial Institutions
IFs	Intermediary Funds
LDC	Least Developed Countries
MFA	Dutch Ministry of Foreign Affairs
MSME	Micro, Small, and Medium Enterprises
SME	Small and Medium Enterprises
SCBD	Seed Capital and Business Development
TA	Technical Assistance
ToC	Theory of Change
VC	Venture Capital

Executive Summary

Introduction

The Dutch Good Growth Fund (DGGF) is an investment fund established by the Dutch Ministry of Foreign Affairs (MFA). One of the three focus areas of DGGF is to support local small-and medium enterprises (SMEs) and entrepreneurs in developing markets. It does so through a 'fund of funds model', providing finance to specialised investment funds and banks for local SME development.

By investing in Intermediary Funds (IFs), DGGF aims to finance the 'missing middle' SMEs and to reach out to underserved markets. These efforts are part of DGGF's broader agenda to steer towards inclusive growth by financing inclusive employment and providing inclusive products and services, especially in rural areas. The first overall evaluation of the DGGF (published in 2020) found that the objective of inclusive growth was not sufficiently operationalised and insufficiently captured in DGGF monitoring & evaluation approach. As a result, in 2021, DGGF has incorporated inclusive growth as a cross-cutting theme in the DGGF processes and framework. In line with the definition from OECD, DGGF defines inclusive growth as '*economic growth that is distributed fairly across society and creates opportunities for all*'.

To continue learning about the effectiveness of DGGF's investment strategy and its contribution to inclusive growth, DGGF and MFA contracted Steward Redqueen to perform a deep dive study on this theme. This fits under DGGF's broader monitoring and evaluation plan allowing DGGF to complement the information collected annually from IFs with more detailed and focused assessment on specific investments or topics. The deep dive has a dual objective of enabling learning and accountability, with a primary focus on the learning component.

Methodology

The deep dive follows a mixed-methods approach. Four key sources were used to retrieve all quantitative and qualitative information on inclusive growth of DGGF: a document review, an analysis of impact performance data, an online survey conducted with the representatives of 44 IFs (67% overall response rate) and interviews with 66 key stakeholders, which included the Ministry of Foreign Affairs, investment, impact and environmental and social staff from DGGF fund manager, DGGF's Investment Committee, representatives of investment funds and financial institutions, as well as senior management, employees and workers or clients of SMEs. The four different types of sources allowed for robust analysis and triangulation of all data, opinions, and findings. Large part of the deep dive are case studies for which five IFs and eight SMEs have been visited and analysed. Some of these case studies have been published in this report.

Conclusions

The key findings of this deep dive are summarised below. The findings are structured along the lines of the six evaluation criteria of the Development Assistance Committee (DAC) of the OECD: relevance, coherence, effectiveness, efficiency, impact, and sustainability. Those findings revolve around one key question being: ***why, how and to what extent does DGGF contribute to inclusive growth?*** To answer this, we developed specific research questions, some of which were suggested by DGGF in the Terms of References (marked with an * below) and some of which have been added by the evaluators. The research questions were included in the Inception Report and discussed and agreed upon by the evaluators and DGGF (represented by the Ministry of Foreign Affairs, Triple Jump and PwC) during the inception phase.

Relevance

On why inclusive growth is central to DGGF's mandate and how DGGF's design and objectives help to identify and prioritise IFs contributing to inclusive growth. This subsection helps answering the following key questions:

- *(i) What drives DGGF's focus on inclusive growth?*
- *(ii) To what extent is inclusive growth integrated in DGGF's mandate?*
- *(iii) How has inclusive growth been integrated in DGGF's operations?*
- *(iv) How suitable is the operationalised definition of inclusive growth, as used by DGGF since 2021?**

1. **Reducing inequalities is one the most pressing global challenges, thus actively focusing on inclusive growth is highly relevant for DGGF.** SDG10 calls for reducing inequalities, where it focuses on inequalities *between* and *within* countries. In recent decades, globalisation and liberalisation have played an important role in reducing inequality *between countries*, which is declining in relative terms, but have forced *within country* inequality to a historic high. By actively prioritising investments in Least Developed Countries (LDCs) and fragile states, DGGF can stimulate employment, private sector growth and productivity which should contribute to reducing inequality *among countries* in the long term. In addition, there are opportunities for investors to reduce inequalities *within countries* by supporting inclusive businesses (i.e., businesses that include underserved populations part of their employees, targeted customers, or value chain as suppliers, distributors or retailers). When development financiers do not consider the inclusiveness of their potential investments in investment analysis, they may also risk exacerbating inequalities, especially in highly unequal countries, when they mainly support highly educated and financially literate local elites or companies serving higher segments of the population.

2. **Enabling inclusive growth is an impact objective in itself for DGGF but also a precondition that is crucial for meeting DGGF's other core impact objective of reducing poverty.** DGGF's overall agenda for Track 2 has two main impact goals: eradication of extreme poverty and sustainable and inclusive growth. This means that since its establishment in 2014, DGGF has always had a focus on inclusive growth as a key objective. What makes the focus on inclusive growth even more important is that it essentially is a precondition for addressing the eradication of poverty. High levels of inequality limit the effectiveness of growth in reducing poverty. Inequality is important to poverty because the relative position of individuals or households in society is considered a crucial aspect of their welfare. It can thus be questioned whether efforts to reduce poverty can be successful without addressing inequality, or whether these merely address the symptoms but not the cause. Indeed, the original Terms of Reference for DGGF stated that "*sustainable and inclusive growth*" form "*a guiding principle*" for DGGF, because "*growth and a fair distribution do not always come together*". The DGGF's two core impact objectives are thus linked and dependent upon each other. That is why a deliberate investment strategy that focuses on inclusive growth and the operational processes to make that strategy practical are of fundamental importance.

3. **Despite being a key objective for DGGF, there was no comprehensive definition of inclusive growth, a more limited focus on target groups and less structured inclusion in investment practices before 2020**. While DGGF's initial business plans and year plans (from 2014 to 2020) clearly define DGGF's objective to support women entrepreneurs, youth entrepreneurs and entrepreneurs in fragile states, they do not define inclusive growth as a whole – considering other dimensions – as a specific strategic priority. While DGGF's investment selection criteria have always stated that '*specific attention is paid to investment funds that invest in youth entrepreneurs, in female entrepreneurs and/or entrepreneurs in fragile states*', this represents a partial focus on inclusive growth. The pathway to inclusive growth was also not specifically outlined in the Results Chain that was developed in 2015. On the other hand, it should be noted that in practice investment

officers seem to have been well aware of the focus on inclusive growth potential of IFs in screening, selection and investment analysis – albeit more implicitly. In the first overall evaluation of DGGF it was justifiably criticised that '*the design of DGGF is not geared towards achieving inclusive growth or to creating opportunities for vulnerable groups*' and recommended that '*DGGF should operationalise its line of sight to inclusive development*'. This marked a pivotal moment in the focus inclusive growth for DGGF and spurred the enhancement of practices.

4. **Since 2020, the focus on inclusive growth has been better defined, targeted and integrated**. In response to the evaluation's findings and a parliamentary letter, DGGF has made major steps forward in better steering for and tracking its contribution to inclusive growth in a short time. Since 2020, DGGF developed a more comprehensive definition of inclusive growth, sharpened its Theory of Change, adjusted the DIM tool and set a new target. More specifically, these concern:

   - *Definitions*: in 2021 DGGF sharpened its definition of inclusive growth. In line with the definition from OECD, DGGF defines inclusive growth as "*economic growth that is distributed fairly across society and creates opportunities for all*". Building upon this, it further worked out the definition in the context of DGGF along four dimensions: inclusive finance, inclusive employment, inclusive products and services, and inclusive outreach. This definition and its dimensions have provided more concrete and practical guidance to capture the different dimensions of inclusive growth, and the case studies of this deep-dive confirm that the dimensions indeed are largely distinct and complementary to each other.
   - *Theory of Change*: in 2022 DGGF developed a Theory of Change that replaced a Results Chain that was in place since 2015. The old Results Chain had inclusive growth as an objective, but did not specifically relate to inclusive growth in the pathways. DGGF's current ToC highlights areas where efforts of inclusive growth materialise (partly) as a consequence of DGGF's intervention. This happens either through its main pathway or the entrepreneurial ecosystem pathway which illustrates the current and potential entrepreneurship, that form the SME segment in the respective region.
   - *Target*: In 2022, a new target was added on inclusive products, employment, and outreach.
   - *DIM*: Since 2021, all new investments are measured *ex-ante* and during the monitoring phase against their potential to contribute to inclusive growth through a newly established DIM dimension of 'Inclusive Employment, Inclusive Products and Services and Rural Outreach'. The adjusted DIM scorecard has enhanced the screening, due diligence, the analysis in investment papers, investment decision-making and monitoring of DGGF's.

   This deep-dive finds that these are a comprehensive set of measures that have enhanced DGGF's ability to identify and prioritise IFs contributions to inclusive growth. At the same time, some points for further improvement can still be identified. These points are discussed mostly under Effectiveness and Impact below.

Coherence

On how well DGGF fits with and cooperates with other interventions and how it could further position itself. This subsection helps answering the following key questions:

- *(i) To what extent does DGGF's focus on inclusive growth align with the MFA's expectations?*
- *(ii) How are some of DGGF's peers (e.g., impact investors and DFIs) and/or other relevant market actors integrating inclusive growth to their strategy and operations?*
- *(iii) Does DGGF actively cooperate with other actors in the market on inclusive growth?*

5. **DGGF's inclusive growth is aligned with MFA's priorities and Theory of Change.** DGGF's current ToC connects well with the wider strategy of the MFA. DGGF's ToC aligns with the key outcomes and long-term goals of DDE's ToC describing its objective to maximise its impact on SDG 8 (Decent work and economic growth). The definitions used also meet the MFA's definition of inclusive growth, even though the MFA has a narrower definition of the concept. DDE funding aims to increase the volume and range of inclusive financial products and the uptake of these products, especially by MSMEs that contribute to poverty and inequality reduction. Through those inclusive products, DDE aims to enable these businesses to grow and create jobs and other opportunities, in particular for underserved groups as youth, women, and people in rural areas and fragile states. In a broader sense, DGGF's focus on women, youth and fragile states are in line with focus areas outlined in the 'Do what we do best' Foreign Trade and Development Cooperation strategy. DGGF also considers its unique position to play a role in the inclusiveness part of the Building Back Better agenda of the MFA, by contributing to inclusive recovery and rebuilding the private sector in an equitable way.

6. **The current focus on inclusive growth in DGGF's mandate and practices makes it a leading actor on the theme.** While Development Finance Institutions (DFIs) and specialised impact investment firms have always considered contributing to inclusive growth and reducing inequalities as an inherent objective and impact of their work, few have inclusive growth as a central objective and firmly integrated in investment practices. Given the increased focus on inequalities a key global challenge over the last few years, various DFIs have been exploring how to contribute more effectively to reducing inequalities. Others have adjusted their impact scoring, are pioneering new approaches to measure inclusiveness, such as deep-dive impact surveys among invested company employees, or are creating new inclusive growth initiatives.

7. **Compared to peers, DGGF has a higher potential to contribute to inclusive growth between countries.** In order to contribute to intercountry inequalities and also have a high potential to address intracountry inequalities, it is important to prioritise investment in LDCs and fragile states. Compared to key peers, DGGF has a significantly higher share of capital (44%) indirectly invested in LDCs and fragile states. This is to be expected, as DGGF is fully focused on investments in investment funds and financial institutions, which are less risky than direct investments [1]. Nevertheless, it shows the importance of DGGF's potential contribution to inclusive growth, and it should keep up its ambition of maximising the portion of investments to where it is needed the most.

8. **DGGF is not explicitly cooperating with peers in alignment on definitions and target setting.** Given the increased interest and activity among peers on inclusive growth over the last years there is a clear opportunity for sharing of insights, practices and learning or alignment on definitions. In the development finance space, there are coordinating bodies with various MDB and DFI working groups, and DGGF has indeed participated in various of these. However, none of these has explicitly discussed the approach to inclusive growth. Given the various recent initiatives taken, there appears to be good timing to organise a session around the theme.

Effectiveness

On the extent to which DGGF is achieving its inclusive growth objectives. This subsection helps answering the following key questions:

*(i) Which types of (innovative) investment strategies are able to reach specific target groups better?**

[1] By nature, investing in investment funds and bank portfolio spread investment risks.

(ii) *To what extent does having a specific inclusive development angle/approach in the portfolio selection lead to more inclusive development?**

(iii) *Is DGGF (on its way to) meeting the targets related to inclusive growth?*

9. **DGGF is actively gearing up to ensure it will reach its targets set for 2029.** As mentioned above, DGGF has specific targets for inclusive growth: the percentage of capital that is invested in women, in youth entrepreneurs, in entrepreneurs in fragile states, and companies that provide inclusive products, employment, or outreach. Percentage targets have been set for 2029, so it is logical that DGGF is still pursuing these targets at this stage. The percentage of women entrepreneurs reached by DGGF's IFs is lagging the most, currently standing at 19% against DGGF's target of 28%. However, DGGF expects to come close to this target in the long-term due to its gender strategy. On outreach to youth entrepreneurs, DGGF is only 2% below target (27% vs. 29%) and has increased its performance through its youth strategy which targets VC Funds. DGGF is thus currently significantly exceeding its 2029 target for its outreach to fragile states already (22% vs. 15% target). The fact that is currently is vastly exceeding this target is that DGGF made a strategic choice to decrease new investments in fragile states, in order to protect revolvingness, after some losses in several fragile states (e.g., Myanmar, Afghanistan, Burkina Faso). On its newest target on inclusive products, employment, and outreach, DGGF is 8% below its target of 50%. The performance data used for this target is still limited though, as is based on the average of the results of the new DIM indicator "inclusive employment, products, and rural outreach" for the three funds that have been assessed against it and closed in 2021.

10. **Because of its mandate, DGGF has been able to target pioneering IFs focusing on inclusive growth.** From the start, and while inclusive growth was not an explicit focus yet, DGGF has always invested in IFs integrating inclusive growth in their strategic commitment. Due to its focus on IFs that finance missing middle SMEs, DGGF targets IFs that naturally tend to contribute to inclusive growth. The survey conducted with IFs show that a large portion of IFs have either integrated inclusive growth in their strategic commitment or in their investment practices. Amongst those, a couple of IFs stand out in their approach regarding inclusive growth and have specifically and intentionally engrained the topic in their investment philosophy. Deep dive case studies confirm the importance inclusive growth take in DGGF's investment rationale and discussions with IFs staff show a relative high level of awareness and intentionality around the topic. For the IFs with no explicit focus on inclusive growth, a large number still have an inherent contribution to inclusive growth due to their asset class, sector or country focus.

11. **DGGF's gender/youth substrategy development and strategic prioritisation of VCs and FIs are good measures.** Over the last two years DGGF not only took major steps in better defining and identifying IFs with the potential to contribute to inclusive growth, but also developed substrategies on gender and youth and prioritised investments in VC funds and financial institutions. This deep-dive confirms that the substrategies have increased the special attention paid to IFs with a specific gender-lens strategy and/or focus on young entrepreneurs. The portfolio analysis as part of this deep-dive also confirms that VC funds perform the best in terms of inclusive finance, outreach and products and services, while financial institutions have high performance on inclusive employment (although this is mostly due to DGGF's assumption that their portfolio SMEs only employ low-skilled workers). We therefore confirm DGGF's current strategic push to focus more on gender and youth, and invest more in VC funds and FIs are good measures and likely to be effective.

12. **It still is early to see the results of the enhanced analysis, substrategies and strategic prioritisation of inclusive growth**. While DGGF further operationalised inclusive growth in its investment practices

developed substrategies and prioritised VC funds and FIs, analysis shows that there has not yet been a more pronounced emphasis on IFs considering inclusive growth in their investment mandate during the last three years. In other words, DGGF's further integration of inclusive growth in strategy and investment selection did not yet lead to a clear shift towards IFs with more pro-active strategies towards inclusive growth. The lack of noticeable changes in IFs' selection may however be expected for various reasons. First, DGGF already had an implicit strategy in financing IFs with an inclusive growth mandate since the start, and this overall mandate did not change. DGGF's changes regarding inclusive growth are also relatively recent and results may take time to materialise. Inclusive growth dimensions have been introduced in the DIM tool only in 2022. The current dimensions also mostly focus on intracountry inequalities, and several recently invested FIs with below average strategic commitment to inclusive growth dimensions have a significant share of invested capital in LDCs and fragile states, and thus contribute reducing to intercountry inequalities. Finally, it is important to also note that in the end inclusive growth is one of the several factors considered by DGGF investment decision.

Efficiency

On the extent to which DGGF efficiently steers for inclusive growth by focusing on these selected IFs. This subsection helps answering the following key questions:

- *(i) How suitable is the operationalised definition of inclusive growth, as used by DGGF since 2021, and how suitable are DGGF's inclusive growth indicators?**
- *(ii) How suitable is the tentative approach to take living wage into account by DGGF in monitoring IFs?**
- *(iii) What are common characteristics of successful investments in inclusive growth?**

13. **Selecting IFs on strategic commitment to inclusive growth is a good indicator for actual performance on inclusive growth.** There is a natural assumption that firm commitment to inclusive growth by IFs would also lead to stronger contributions to inclusive growth. Our analysis shows that for the DGGF portfolio this generally also holds true in practice. IFs with a stronger commitment to inclusive growth and integrated investments selection practices related to inclusive growth generally also generate portfolios with overall higher levels of SMEs that meet one or more of the inclusive growth criteria. It should be noted there also are exceptions of IFs that are less strategically focused but generating high results (mostly financial institutions whose high performance is distorted as a result of the default 100% contribution to inclusive employment) and also some that are committed but in practice generate a portfolio with more limited SMEs that meet the criteria.

14. **While the DIM tool makes DGGF's mandate explicit, the scoring leaves room for interpretation.** DGGF identifies key areas of contribution to inclusive growth for IFs (and SMEs) and embeds them in the assessment of IFs through the DIM scorecard. Particularly after its recent revision, this tool provides a solid analysis of pathways to potentially contributing to inclusive growth. However, rigorousness on the assessment of the different criteria varies. The indicator for inclusive products and services leaves room for interpretation during data collection and the Bottom of the Pyramid (BoP) terminology is outdated and too restrictive. Regarding inclusive employment, DGGF's assumption that financial institutions' clients only employ low skilled workers could lead to overestimations of their actual contribution to inclusive employment. This also makes it difficult to compare the different financial institutions when aggregating impact on inclusive growth. Further, DGGF does not collect data on SMEs' contribution to inclusive value chains, which appeared to be an important factor of inclusive growth for a number of SMEs. .

15. **While the design of DGGF's approach to living wage aligns with best practices, it is too early to observe concrete results because no data has been collected by DGGF yet.** In 2022, DGGF developed a preliminary living wage strategy entailing (i) the development of a guidance note explaining the business case of implementing a living wage and providing resources to identify the relevant living wage benchmarks that applies to the business; (ii) an impact indicator and increased monitoring on living wage at portfolio company level; (iii) a case-by-case approach to gain insights on best practices in portfolio. These measures are a good starting point and DGGF seems to be on the right path to implement its living wage approach. However, like many other peers measuring the implementation of the living wage, DGGF faces challenges in collecting data as living wage benchmarks are very specific to the context. Based on the portfolio analysis and when observing wage differences across sectors, DGGF reaches the lowest paid employees through the manufacturing, transportation, and agriculture sectors. Although the tertiary sub-sectors have higher average wages compared to the primary and secondary sub-sectors, these are characterised by significant income inequalities.

Impact

On what difference DGGF makes in its contribution to inclusive growth. This subsection helps answering the following key questions:

- *(i) How does the type of impact and reach differ between the underserved groups (e.g., youth, women, BoP, rural, low-skilled)?**
- *(ii) To what extent do investments have an impact on inclusive growth and underserved groups?**
- *(iii) What other unintended effects on inclusive growth can be noticed?**

16. **Funds and SMEs cannot tick all-inclusive growth elements, and this should also not be the objective**. An analysis of the DGGF portfolio shows that IFs and companies have a larger focus on one of the four inclusive growth dimensions. Where VCs tend to be particularly strong on inclusive finance and inclusive products and services, they generally contribute less to inclusive employment. On the contrary, financial institutions tend to contribute strongly to inclusive employment and rural outreach. The assessment of Funds (and SMEs) should thus be a balanced scorecard rather than a checklist of minimum requirements, which confirms the current DIM scorecard approach.

17. **Each IF contributes to at least more than one inclusive growth dimension.** Of the five IFs visited as part of this study, the financial institution performs best on three out of four inclusive growth dimensions (inclusive finance, inclusive employment and inclusive outreach). The VC funds (show relatively higher contribution to the dimensions inclusive finance and inclusive products and services and the two PE funds show a moderate contribution to inclusive growth dimensions.

18. **Based on the SME cases, the IFs' strategies and practices integrating inclusive growth have led to impactful investments.** For one of the Funds, SMEs show a clear link with inclusive growth through the health and agriculture sector specifically targeting underserved populations. For another Fund, the case study SMEs align well with the Funds' impact objectives to create decent and sustainable jobs, improve market position of small, underserved suppliers, offer affordable and quality products to underserved populations, and boost the development of efficient and sustainable supply chains.

19. **DGGF's (potential) contributions to inclusive growth dimensions go beyond its current inclusive growth dimensions and target groups.** DGGF's inclusive growth dimensions and target groups definitions do not capture the full extent of DGGF's contribution to inclusive growth. There are two main examples of this. First, deep dives in IFs' portfolios for instance show that value chains are an important channel for SMEs to

contribute to inclusive growth, which is currently not covered by the dimensions. SMEs may have inclusive value chains either through intentional sourcing of underserved groups or creation of employment opportunities and generation of new income for underserved entrepreneurs in their network. Second, the target groups are somewhat narrowly defined. DGGF's target groups now specifically focuses on women, youth, BoP, low-skilled and rural populations, which indeed are core groups that tend to be underserved. However, it is a limited scope when compared to the guidance provided by SDG10, which defines supporting inclusive growth more broadly by '*promoting the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status*'. DGGF has the potential to include additional underserved groups relevant to the country IFs invest in.

20. **While DGGF's contribution to inclusive growth dimensions mainly relies on quantitative aspects, DGGF started considering other factors to reflect the quality of its contribution.** Although DGGF has an extensive database informing IFs' contribution to inclusive growth, such indicators do not always reflect the quality and viability of the opportunities provided to underserved groups. DGGF partially considers this more qualitative aspect through its ESG standards. For inclusive finance, DGGF applies the client protection principles for financial institutions. This ensures entrepreneurs benefit from responsible financial services (e.g., prevention of over-indebtedness, responsible pricing, fair and respectful treatment of clients). For inclusive employment, DGGF aims to measure whether SMEs pay living wages to employees. In addition, DGGF also started considering gender-based violence on a case-by-case study when an issue arises.

21. **Case studies show that although the average wage paid within a company may meet the living wage, wage differences can be quite high, particularly for tech companies.** On average, tech companies provide wages that are above the living wage as they mostly hire higher-skilled employees such as developers. This is the case for four SMEs. However, they may still pay lower-skilled employees below the living wage.

Sustainability

On the extent to which DGGF's approach is likely to have sustained benefits. This subsection helps answering the following key questions:

*(i) what can DGGF and IFs do to create more sustainable, inclusive impact (e.g., in the selection process, in training/support from DGGF or requirements/incentive structures)?**

(ii) Are trade-offs of an inclusive investment strategy perceivable, for example in terms of financial return or of the other DGGF objectives?

22. **DGGF's role in supporting IFs to create more sustainable and inclusive impact ranges from modest to instrumental.** Overall, DGGF's value-added comes largely from generic financial and non-financial support. This includes financial additionality, their seat in IFs' advisory committees as well as technical assistance and business development support helping IFs shape their strategies and strengthen their support to investee companies. For two IFs reviewed in the case studies, DGGF has provided support on their strategy and practices related to inclusive growth e.g. on their gender lens investing strategy and engaged on relevant topics such as diversity and living wage. Another example is the financing of a study on a intersectional gender lens approach or the contribution to inclusive finance through a blended carry system linking the GP carry to the fund's outreach to women entrepreneurs.

23. **DGGF's focus on building local ecosystems and support first-time fund managers enables DGGF to grow and professionalise local financial environments in a sustainable way.** Through its SCBD facility, DGGF provides finance and upskilling to enable local Entrepreneur Support Organisations provide services to

SMEs and first-time fund managers to professionalise and attract additional capital. Ankur highlighted that DGGF's support on its first fund through the SCBD facility was key to attract international investors and to create their second and larger fund. Further, DGGF also supports IFs in their outreach to inclusive SMEs through TA and BDS. For instance, DGGF financed a study on C4D's intersectional gender lens approach.

24. **For DGGF's portfolio there is no consistent real trade-off observed between impact performance and IFs' gross return.** Based on the latest available DGGF impact data and IFs' financial performance figures, an assessment was made of this relationship. Overall, this confirms that for DGGF's portfolio there could be a trade-off between impact performance and IFs' gross return only for private equity funds. Therefore, DGGF should thus not let the financial performance hold back its focus on inclusive growth. In the end, the quality of the fund management team, the viability of its investment strategy and the geographic context mostly influence performance. In this regard, it is interesting to note that fund managers with high strategic commitment to and operational integration of inclusive growth are also among the best financial performers), which confirms that having an inclusive growth-focused investment strategy and a good financial performance can go hand-in-hand.

Why: rationale of DGGF's focus on inclusive growth

This section describes the rationale behind DGGF's focus on inclusive growth. It first defines the concept of inclusive growth before describing the role of the private sector and more particularly of DGGF in promoting inclusive growth. This provides background on why focusing on inclusive growth is of fundamental importance for DGGF, not just as a standalone objective, but also as an influencing factor for other DGGF objectives. This section aims to answer the following questions:

(i) What drives DGGF's focus on inclusive growth?

(ii) How can a Fund like DGGF contribute to enhancing inclusive growth?

1.1 The concept of inclusive growth

The concept of inclusive growth is increasingly central to economic development due to rising economic inequality and its effects on human well-being and prosperity. While economic inequality between countries is declining in relative terms[2] (as low-income countries are growing faster than high-income countries), economic inequality is growing within many countries[3]. As of 2021, the richest 10% of the global population account for 52% of total income[4] and 76% of total wealth[5], while the most disadvantaged 50% of the population earn 8.5% of global income and possess 2% of wealth[6]. As 71% of the global population lives in countries with increasing income inequality, there is an international consensus on the importance to promote equal access to opportunity for all[7]. By ensuring economic growth is fairly distributed across society and creates opportunities for all, inclusive growth supports this objective.[8]

The OECD defines inclusive growth as economic growth that is distributed fairly across society and creates opportunities for all.

High levels of inequalities limit the effectiveness of economic growth by depriving lower-income households to stay healthy and accumulate physical and human capital. Economic inequality refers to the unequal distribution of opportunity and outcome between different groups in society[9]. Inequality of opportunity refers to the unequal access to basic goods and services, such as health, education, employment, and financial services, while inequality of outcome indicates the unequal distribution of income, wealth and other economic factors which determine one's living conditions. High inequality of opportunity lowers economic growth by undermining lower-income, marginalised households' health, educational and occupational choices. This prevents individuals from accumulating the physical and human capital needed to benefit from the gains of

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[2] The Gini coefficient of international inequality, calculated using population-weighted national incomes per capita, decreased from close to 63 in 1980 to 53 in 2010, indicating that the relative distribution of income among countries became more equal - UN DESA. *World Social Report: Inequality in a rapid changing world* (2020). Available at: https://www.un.org/development/desa/dspd/wp-content/uploads/sites/22/2020/02/World-Social-Report2020-FullReport.pdf

[3] Between 1990 and 2016, income inequality as measured by the Gini coefficient increased in 49 out of 119 countries for which data are available and declined in 58 of them. Countries where inequality has grown are home to more than two thirds (71 per cent) of the world population - UN DESA. *World Social Report: Inequality in a rapid changing world* (2020). Available at: https://www.un.org/development/desa/dspd/wp-content/uploads/sites/22/2020/02/World-Social-Report2020-FullReport.pdf

[4] Total income is the sum of financial and non-financial assets, net of debts, earned in a given financial year – IMF, *IMF Glossary* (no date). Available at: https://www.imf.org/en/About/Glossary

[5] Total wealth is the sum of financial and non-financial assets, net of debts, accumulated at a given point in time – IMF, *IMF Glossary* (no date). Available at: https://www.imf.org/en/About/Glossary

[6] IMF, *Global inequalities* (2022). Available at: https://www.imf.org/en/Publications/fandd/issues/2022/03/Global-inequalities-Stanley#:~:text=The%20poorest%20half%20of%20the,half%20get%20just%208.5%20percent.

[7] UN, *Bridging the divide* (no date). Available at: https://www.un.org/en/un75/inequality-bridging-divide

[8] OECD, *Inclusive* Growth (no date). Available at: https://www.oecd.org/inclusive-growth/

[9] IZA World of Labor, *What is economic inequality?* (no date). Available at: https://wol.iza.org/key-topics/economic-inequality#:~:text=Economic%20inequality%20is%20the%20unequal,climb%20up%20the%20social%20ladder.

economic growth. If inequality of outcomes is not tackled, it creates and preserves inequality of opportunity and thus hinders social mobility – which refers to a person's ability to change their socio-economic situation, either in relation to their parents or throughout their lifetime [10].

Although there is evidence that economic growth has an impact on reducing inequalities between countries, inequality reduction within countries especially relies on the extent to which a country has an inclusive economic growth. It was first believed that inequality would increase during a country's first stages of economic growth, to then decrease during higher stages of development. However, this theory fails to explain the high inequality experienced by several Latin American low-income countries, or the high inequality present in high-income, resource-rich countries. Under different conditions, similar growth rates can have very different effects on poverty [11]. Therefore, to reduce inequalities within countries, economic growth is not enough. The extent to which growth reduces inequalities and improves livelihoods of the lowest segments of society depends on the degree to which the economic growth is inclusive, i.e., the lower segments of the population participate in the growth process and share in its proceeds.

Financial inclusion is crucial for inclusive growth, as it provides disadvantaged groups with the required capital to achieve social mobility. The World Bank defines financial inclusion as '*the access for individuals and businesses to useful and affordable financial products and services that meet their needs delivered in a responsible and sustainable way*'. [12] Numerous studies highlight access to finance as one of the driving factors of an enabling economic environment. Indeed, access to finance promotes employment, productivity, and innovation, therefore boosting economic growth. However, access to finance should be inclusive to ensure that all benefit from these outcomes. Financial inclusion is effective in tackling inequalities as it empowers disadvantaged groups to meet basic needs, such as nutritious food, clean water, housing, education, and healthcare. This allows individuals to participate fully and effectively in economic life by accumulating physical and financial assets needed to perform medium- and long-term financial planning [13]. Further, entrepreneurial opportunities represent an important channel for economic and social participation and upward mobility. In most emerging economies, allowing disadvantaged or marginalised groups to create their own opportunities to participate in the economy allows them to escape informality and earn a stable income [14].

1.2 Role of the private sector

The private sector has a crucial role to play in supporting broad-based, inclusive growth and thereby reducing inequalities. The private sector can help reduce inequalities by paying employees a living wage and other conditions such as paid family leave or sick leave, ending the gender pay gap, hiring from underserved groups, developing affordable goods and services for lower-income groups (e.g., health, education, financial services) promoting government spending programs that will increase the well-being and productivity of its workers and paying corporate taxes.

However, formal private sector companies in developing countries often tend to have challenges in focusing their products and services on the Bottom of the Pyramid (BoP) [15] or underserved groups, due to the limited

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[10] OECD, *Understanding social mobility* (no date). Available at:
[11] DFID, *Growth: building jobs and prosperity in developing countries* (no date). Available at: https://www.oecd.org/derec/unitedkingdom/40700982.pdf
[12] The World Bank, *Financial* inclusion (no date). Available at: https://www.worldbank.org/en/topic/financialinclusion/overview
[13] UNSGSA, *The imperative of financial inclusion* (no date). Available at: https://www.unsgsa.org/financial-inclusion#:~:text=Financial%20inclusion%20can%20empower%20people,housing%2C%20education%2C%20and%20healthcare.
[14] OECD, *Enhancing the contributions of SMEs in a global and digitalized economy* (2017). Available at: https://www.oecd.org/industry/C-MIN-2017-8-EN.pdf#page=6&zoom=100,76,317
[15] Refers to the poorest two-thirds of the population – Britannica, *Bottom of the pyramid* (no date). Available at: https://www.britannica.com/topic/Bottom-of-the-Pyramid

purchasing power of lowest-income groups. They generally target higher segments of the population with more purchasing power and thus better access to essential goods and services, such as education, health, or finance, that ensure their inclusion in value chains[16]. To prevent the self-perpetuating cycle of inequality and low social mobility, which results in a poverty trap for low-income and marginalised groups, un(der)served groups should ideally be provided with the same opportunities as high-income individuals[17].

At the same time, there are companies that do focus on lower-income groups and underserved groups. These are often referred to as inclusive businesses. Inclusive businesses ensure that benefits of economic growth are distributed fairly across society by developing inclusive products and services and offering inclusive employment. Inclusive products and services specifically target the needs of low-income, marginalised groups. In addition, as inequality of outcome reinforces inequality of opportunity, businesses that provide formal employment to low-income and underserved groups are also contributing to reducing inequalities. By providing formal employment, stable income and contractual safeguards to these groups, these businesses are improving their livelihoods and, in turn, their opportunities.

In addition, DGGF's focus on small and medium size enterprises (SMEs) is an important potential driver of contribution to inclusive growth. SMEs are particularly crucial to boost aggregate productivity and foster more inclusive growth. SMEs can play a major role in stimulating inclusive growth as they are crucial for development and job creation, accounting for 40% of national income (Gross Domestic Product) and 70% of employment opportunities in emerging markets[18]. Improving SME productivity will translate into more and better paid jobs, distributed across less fortunate sections of the economy[19]. SMEs tend to be more labour intensive than larger firms in relative terms, therefore creating jobs and opportunities for skills development across sectors and regions also for the low-skilled. SMEs are effective against informality, providing marginalised and low-skilled groups with improved access to healthcare and other social services. SMEs also contribute to value creation by supplying new or niche products which respond to diverse customer needs. For example, social enterprises, which bring innovative solutions to the problems of poverty, social exclusion, and unemployment, fill in the gaps for the provision of inclusive, basic goods and services[20]. Further, differently from larger firms, SMEs are closer to local and regional contexts, therefore serving regions that do not have a large enough scale to attract larger firms[21].

Impact investing plays a substantial role in providing additional capital for investment in developing countries' local markets. Although financial constraints are higher in developing countries' economies as a whole, SMEs are particularly constrained by gaps in the financial system such as high administrative costs, high collateral requirements and lack of experience within financial intermediaries. Impact investors are often better placed to address such barriers than donor or local governments, due to their model of working with intermediaries and their provision of technical assistance[22]. When working through intermediaries, they can help local market players gain additional capital for investment, skills, experience, and a track record. Capital and support from

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[16] BII. *The economics of development finance* (2021). Available at: https://assets.bii.co.uk/wp-content/uploads/2021/11/04120151/The-economics-of-development-finance-1.pdf

[17] DFID. *Growth: building jobs and prosperity in developing countries.* Available at: https://www.oecd.org/derec/unitedkingdom/40700982.pdf

[18] The World Bank, *Small and medium enterprises (SMEs) Finance* (no date). Available at: https://www.worldbank.org/en/topic/smefinance

[19] https://intracen.org/news-and-events/news/smes-the-worlds-missing-link-to-inclusive-and-sustainable-economic-growth-and

[20] OECD, *Enhancing the contributions of SMEs in a global and digitalized economy* (2017). Available at: https://www.oecd.org/industry/C-MIN-2017-8-EN.pdf#page=6&zoom=100,76,317

[21] OECD, *Enhancing the contributions of SMEs in a global and digitalized economy* (2017). Available at: https://www.oecd.org/industry/C-MIN-2017-8-EN.pdf#page=6&zoom=100,76,317

[22] Dalberg, *Report on support to SMEs in developing countries through financial intermediaries* (2011). Available at: https://www.eib.org/attachments/dalberg_sme-briefing-paper.pdf

impact investors can reduce the barriers for local institutions to operate in the SME sector, meaning that intermediaries may eventually acquire sufficient skills and information to lend to SMEs without assistance[23].

In sum, reducing inequalities is one the most pressing global challenges, thus actively focusing on inclusive growth is highly relevant for DGGF. DGGF has the opportunity to reduce inequalities between countries by prioritising investments in Least Developed Countries (LDCs) and fragile states, and to *within countries* by supporting inclusive businesses. DGGF is particularly well-positioned to play a role in contributing to inclusive growth because of its position as an impact investor with a mandate that includes a relatively high risk appetite and focus on SMEs. At the same time, DGGF also needs to manage inequalities risk, especially in highly unequal countries, by actively analysing the inclusiveness of their potential investments in investment analysis. The next section analyses how DGGF has integrated its focus on inclusive growth in strategy and operations.

[23] Dalberg, *Report on support to SMEs in developing countries through financial intermediaries* (2011). Available at: https://www.eib.org/attachments/dalberg_sme-briefing-paper.pdf

2 Intermediary Fund cases

2.1 Investisseurs & Partenaires

Fund summary	
Fund name	Investisseurs & Partenaires Afrique Entrepreneurs II (IPAE II)
Vintage year	2018
Fund size	EUR 92.5 million
Average deal size	EUR 1.8 million
Investment focus	Sector-agnostic, SMEs
Country/region	Sub-Saharan and East Africa
Main office	Paris, France
DGGF investment	
Investment block	V
Investment year	2018
Committed capital	USD 7 million
Invested capital	USD 3.6 million (2022)
Shareholding	7.6%
Board seat	Advisory Committee
TA & BDS	EUR 50,000 TA for financial planning and project management of local staff EUR 750,000 BDS for annual middle management training for companies, pre-investment, and longer-term support
Inclusive Growth highlights	
Strategy	Target underserved SMEs and start-ups with high additionality in order to promote the emergence of a new generation of African entrepreneurs while seeking to generate financial profit and social impact
Practices	The impact mandate (including objectives and targets) is integrated across the investment cycle and adopts an impact-linked incentive system
Inclusive finance	IPAE II deliberately aims to support women entrepreneurs and entrepreneurs in fragile states, but its performance is still behind expectations as projected in DGGF's initial impact assessment
Inclusive employment	IPAE II seeks to create decent jobs, having set targets on both quantity and quality of jobs but not specifically on women or youth
Inclusive products and services	IPAE II aims to improve local access to essential goods and services that implicitly covers affordability for low- and middle-income groups
Inclusive outreach	Inclusive outreach is not part of the fund's strategy

Background

Investisseurs & Partenaires (I&P) is an impact investment group dedicated to financing and supporting SMEs and start-ups in Sub-Saharan Africa. While its roots date back to 2002, I&P was formally established in 2011 by Jean-Michel Severino, former director-general for AFD and CEO of Proparco. I&P is headquartered in Paris and has local offices throughout Sub-Saharan Africa, including in Madagascar, Burkina Faso, Cote d'Ivoire, Senegal, Cameroon, and Ghana. It recently closed down its Kenyan office, due to departure of staff.

Intermediary Fund’s strategy

I&P’s mission is to contribute to the growth and sustainable development of African economies by financing and advising underserved groups of SMEs. In Africa, SMEs are considered the real missing middle who are challenged with a lack of access to long-term financing, skills, and human resources. Through its two funds (IPAE1 and its successor IPAE2), I&P targets formal SMEs and start-ups operating in Sub-Saharan Africa and the Indian Ocean region with the objective to promote the emergence of a new generation of African entrepreneurs while seeking to generate financial profit and social impact. These generalist funds provide companies with equity, debt, and quasi-equity investments, strategic support, and technical assistance. Hence, I&P aims to have a high level of market additionality by addressing a strong unmet demand in the region.

I&P’s impact thesis is further specified through five key objectives, namely (i) developing responsible African entrepreneurship; (ii) promoting women entrepreneurs and managers; (iii) creating decent jobs; (iv) meeting local demand for essential goods and services; and (v) fostering environmentally friendly development. According to IPAE II’s 2023 annual impact and ESG report, 95% of its portfolio companies improve local access to goods and services addressing essential needs, and 90% support the SDGs.

A snapshot of IPAE II’s portfolio supporting the SDGs

SDG	Impact	Portfolio companies
2 ZERO HUNGER	1,234,000 smallholder farmers indirectly reached in 2022 6,067 tons of aliments sold	iProcure, ICONA
3 GOOD HEALTH AND WELL-BEING	8,083 gynaecological consultations in 2021 194,103 patients in 2021	Procréa, New Crystal
4 QUALITY EDUCATION	6,918 people trained in 2022 272 educational institutions received a loan in 2022	African Management Institute, Pigier Cameroun, EdPartners
6 CLEAN WATER AND SANITATION	78,966m^3 of waste material processed in 2022	Delta SA
7 AFFORDABLE AND CLEAN ENERGY	8,834 SMEs receiving affordable and reliable electricity 60,739 solar home systems and lamps sold or rented in 2022	Rensource, HERi Madagascar
8 DECENT WORK AND ECONOMIC GROWTH	545,805 offers published on a digital peer-to-peer marketplace in 2021 19,320 vendors subscribed at an online market platform specialised in African-inspired fashion and crafts	Coin Afrique, Go Africa Online, Afrikrea

DGGF’s investment rationale

DGGF’s investment rationale is threefold. Primarily, IPAE II presents a unique opportunity for true missing middle investments. The fund is actively looking for market additionality and deliberately trades return potential for high impact by targeting entrepreneurs that lack access to other investors and countries not targeted by other PE funds. Also, the target countries link well to the focus country list of MFA, including fragile states, migration countries and the Sahel zone. Finally, at the time of investment, IPAE II was in high need for additional funding due to budget constraints and could therefore benefit from DGGF’s support to achieve critical mass necessary to implement its strategy.

As such, IPAE II aligned well with DGGF's impact criteria (DIM 2018 version), in particular for 'Outreach & Development Relevance' and 'Additionality'. The initial impact assessment in 2018 expected the fund to reach more SMEs and have more exposure to fragile states than typical Block V funds. In addition, IPAE II showed a strong impact focus where its impact objectives are linked to its incentive structure (more on this below). While DGGF's 'Cornerstone role' and 'Leverage' was considered limited due to the coming in at second closing, DGGF nevertheless expected to play a strong role in shaping the strategy of the fund with a seat on the Advisory Committee.

Intermediary Fund's practices

Sourcing, screening, and investment selection

The origination process is led by the local investment manager where opportunities are largely based on the manager's networks and past experiences (e.g., attending events focused on women and youth entrepreneurs). IPAE II screens investments using an Impact Screening Scorecard (see Figure 1). This allows to deliberately assess investments for alignment with the fund's core impact objectives and to identify ways to improve overall impact.

IPAE II mainly targets SMEs in their growth and expansion phase and a smaller portion (max. 15%) in the start-up and early-stage. The fund especially pursues companies where they have strong additionality (i.e., 90% of companies would have had to carry out their project at a smaller scale without IPAE II's investment). In terms of entrepreneurs, IPAE II seeks those who have the ability to execute strategy that allows for a more hands-off approach. While I&P is considered to have a hands-on management style, they may not always be as deeply involved as other PE funds due to I&P's high number of investments at lower ticket sizes. Potential deals are in turn presented to a screening committee (consisting of I&P staff) in order to filter out unsuitable deals at an early stage, or if eligible, obtain an as broad as possible perspective for DD.

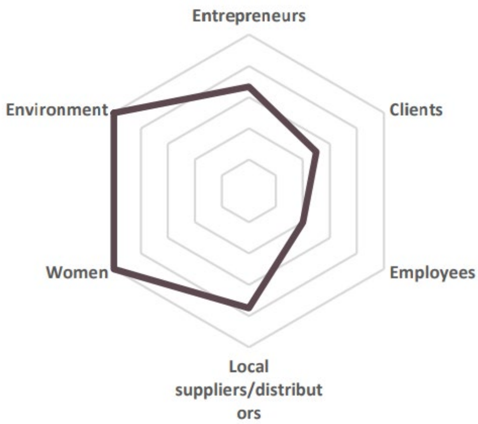

Figure 1 Sample Impact Screening Scorecard

Engagement and monitoring

IPAE II seeks to maximise its impact through proactive portfolio management based on measurable targets across its five impact objectives (see Table 1). An interim impact assessment of IPAE II's portfolio shows that the fund is outperforming on its targets of supporting African entrepreneurs (85%), women entrepreneurs (85%)[24], and companies providing local goods or services that address essential needs and the SDGs (90%). Progress on the seventh target is not yet available as this will only be measured by an impact auditor after the final impact determination date.

Table 1 IPAE II's impact objectives and targets

Key impact objective		Indicator	Target	2022
Developing responsible African entrepreneurship	1	Companies owned or led by leaders rooted in Africa long-term	>70%	82%

[24] Note that this percentage is based on the number of companies. Data reported to DGGF is based on capital invested.

	2	Companies operating in LDCs or fragile states	>70%	55%
Promoting women entrepreneurs and managers	3	Companies owned or led by a woman or with more than 30% of women among senior leadership positions	>35%	85%
Creating decent jobs	4	Direct employment growth (during holding period and aggregated at portfolio level, provided that jobs have decent conditions)	>50%	39%
	5	Companies improving health and safety in the workplace or social protection for employees (during holding period)	>50%	85%
Meeting local demand for essential goods and services	6	Companies providing local goods or services that address essential needs and the SDGs	>50%	90%
Fostering environmentally friendly development	7	Companies implementing "green" projects	>50%	n/a

The portfolio's impact performance is also reflected in the incentive structure, which rewards the team to the extent the impact targets are met. When the financial hurdle rate is not achieved (IRR >5%), the carried interest percentage for the investment manager will be adapted according to the achievement of the targets. The final carry consists of a 10% base carry for achieving financial hurdles plus a 7% share of impact targets achieved, which makes a final GP carry of between 10-17%. At financial returns above 8%, the fund follows a traditional 20/80 carry split.

At individual company level, the local investment managers are responsible for ongoing investment management. IPAE II adopts a relatively hands-on management style, which includes monthly discussions with entrepreneurs covering all relevant areas of the business, providing support for the implementation of ESG actions, and holding bi-annual meetings to assess progress on action plans. Furthermore, ESG and impact data is collected on annual basis through an in-house impact management tool based on IRIS+ metrics. To assess impact on a longer timeframe, I&P performs in-depth impact studies that provide more insights on an individual investee company or a specific topic.

DGGF's role

DGGF's value add primarily comes from the investment capital provided and its seat in the Advisory Committee. In addition, DGGF provided BDS for annual middle management training of IPAE II's portfolio companies, as well as TA for local I&P staff around financial and project management. While inclusive growth has been a recurrent topic in engagement and IPAE II already has an impact management system in place, they have indicated that they would be interested in assistance and support around impact assessment and monitoring (e.g., practices, methods, frameworks, and tools).

Impact results

On each of the inclusive growth dimensions, IPAE II has not yet reached its expected impact that was projected during the initial impact assessment in 2018. When assessing IPAE II's impact performance, one should bear in mind that only half of the total fund size has been invested by Q3 2022. Also, the numbers reported in 2021 to DGGF seem somewhat outdated, as IPAE II has 20 companies in portfolio as of June 2023 and has realised three early exits and added three new portfolio companies.

Inclusive finance

Inclusive Growth dimension	*Projection 2018*[25]	*2021*[26]
Inclusive finance		
SMEs financed (#)	*29*	*17*
Women entrepreneurs (% capital invested)	*20%*	*14%*
Youth entrepreneurs (% capital invested)	*10%*	*n/a*
Entrepreneurs in fragile states (% capital invested)	*20%*	*11%*

As IPAE II promotes gender, fragile states and LDCs as strong elements of its strategy and practices, the total share of capital invested in women entrepreneurs, fragile states and LDCs remains on the lower end. Moreover, IPAE II focuses on African entrepreneurs rather than youth entrepreneurs.

Inclusive employment

Inclusive Growth dimension	*Projection 2018*	*2021*
Inclusive employment		
Jobs supported (#)	*n/a*	*1539*
Women employees (%)	*n/a*	*35%*
Youth employees 18-24 years (%)	*n/a*	*n/a*
Youth employees 25-35 years (%)	*n/a*	*n/a*
Low-skilled workers (%)	*n/a*	*24%*
Jobs supported by DGGF (#)	*299*	*116*
Jobs created (#)	*n/a*	*203*
Jobs created by DGGF (#)	*109*	*15*

Although IPAE II has not yet reached the expected impact on inclusive employment, the number of jobs is expected to increase alongside the growth of its portfolio companies. Given that IPAE II has set impact targets on creating decent jobs (>50% direct employment growth and >50% of portfolio companies improving health and safety in the workplace or social protection for employees), IPAE II does not only look at the quantity of jobs but also works towards improving the quality of employment. Furthermore, the fund shows to support women employees, low-skilled workers, and reports an average minimum wage at their portfolio companies that is more than twice as high compared to the legal minimum wage (583 USD compared to 227 USD).

Inclusive products and services

Inclusive Growth dimension	*Projection 2018*	*2021*
Inclusive products and services		
Serving Base of the Pyramid (% companies)[27]	*n/a*	*6%*

On inclusive products and services, IPAE II reports that 6% of its companies primarily serve BoP clients by the end of 2021. IPAE II takes a rather broader view as one of its key objectives is to improve local access to essential goods and services. While not explicitly targeted, some of its portfolio companies are serving low-income clients.

[25] All projection data on impact results is based on IPAE2 Final Approval Paper 2018
[26] All 2021 data on impact results is based on DGGF 2021 AR Fund Overview
[27] Data is available for all portfolio SMEs.

Quality healthcare with a focus on the urban poor

New Crystal Health Services is founded in 2003 and is aiming to be the leading private health group in Ghana that improves the accessibility and quality of affordable healthcare for the low-income population. Serving over 200,000 patients annually, the company is one of the largest player in the country in terms of volume.

IPAE2 invested nearly EUR 2 million that allows New Crystal to build three new health care clinics and renovate two existing facilities to improve the quality and scope of care provided to its patients. As of 2023, the construction of two new facilities is near completion with one facility already operating and validating IPAE II's investment thesis.

Inclusive outreach

Inclusive Growth dimension	*Projection 2018*	*2021*
Inclusive outreach		
Serving rural areas (% companies)[28]	*n/a*	*6%*

In terms of inclusive outreach, the majority of IPAE II's portfolio is located in urban areas and only 6% serve rural clients. Companies with exposure to rural clients are likely operating in the agricultural sector, such as iProcure (more on this in section 3.1).

[28] Data is available for all portfolio SMEs.

2.2 Ankur Capital

Fund summary		
Fund name	Ankur Capital Fund I	Ankur Capital Fund II
Vintage year	2014	2019
Fund size	USD 7.5 million (INR 500 million)	USD 50 million (INR 3 billion)
Average deal size	USD 75,000 – 0.75 million	USD 0.4 million – 1.2 million
Investment focus	Agri-Tech, Health-Tech, Education, Fin-Tech, early-stage companies	Agri-Tech, Health-Tech, Education, Fin-Tech, early-stage companies
Country/region	India	India
Main office	New Delhi, India	New Delhi, India
DGGF investment		
Investment block	SCBD	IV
Investment year	2016	2019
Committed capital	USD 1.5 million	USD 10 million
Invested capital	USD 1.5 million (2022)	USD 6.4 million (2022)
Shareholding	10%	21.52%
Board seat	n/a	Advisory Committee
TA & BDS	USD 100,000	USD 558,000
Inclusive Growth highlights		
Strategy	Inclusive Growth is at the core of Ankur Capital's investment strategy and is engrained in Ankur Capital's philosophy and impact framework	
Practices	Ankur Capital considers inclusive growth at each step of the investment cycle	
Inclusive finance	Overall, Ankur Capital significantly supports youth entrepreneurs' access to finance. Ankur Capital's contribution to inclusive finance for women entrepreneurs is more moderate	
Inclusive employment	Ankur Capital finances early-stage and innovative SMEs with high potential for youth employment	
Inclusive products and services	In practice moderate performance, partially underestimated by DGGF's definition focusing on BoP	
Inclusive outreach	Ankur Capital has an inclusive outreach through its investments in Agri-Tech companies	

Background

In 2014, Ankur Capital set Ankur Capital Fund I ("Ankur I"), a venture-capital first-time women-led impact investment fund. In 2019, Ankur set-up its second fund ("Ankur II"). With both funds, Ankur Capital invests in tech-enabled early-stage small and medium-sized enterprises (SMEs) operating in the agriculture, health, and education sectors. Ankur Capital targets companies younger than 5 years with a pre-EBITDA positive and revenues under USD 1 million. Through its Indian rupee denominated funds, Ankur Capital provides equity to businesses across India.

Intermediary Fund's strategy

For both funds, inclusive growth is at the core of Ankur Capital's investment strategy and is engrained in Ankur Capital's philosophy. Ankur Capital has defined 'Inclusive Growth' as one of its impact pillars, in addition to 'responsible agriculture' and 'climate innovation and adaptation'. The inclusive growth pillar focuses on *"improving market access and outcomes in health, education and financial services to underserved segments of the population"*. Ankur Capital targets early-stage SMEs operating in traditional and impact-oriented sectors (i.e., agriculture, health, education) with the aim to empower communities in areas where standards of living have been downgraded. Investments in those sectors are expected to increase economic opportunities through jobs, market access and improve access to health and education for underserved groups (such as women and rural populations) and to solutions and services in the agriculture sector. Ankur Capital applies specific eligibility criteria considering: (i) whether the product/market fits the strategy; (ii) if there is a large scalable customer base for the product; and (iii) whether the product has a social impact and improve the lives of people in the BoP.

Ankur Capital comes in early in the entrepreneurs' journey. Ankur Capital aims to bridge the financing gap for early-stage SMEs through a tiered investment approach and trusted service providers delivering advisory services to their investees. Ankur Capital's tiered investment approach allows them to stay involved longer with investees by stepping in earlier with small ticket sizes and growing their investment against companies' growth milestones. Ankur Capital aims to be one of the first investors in the companies to demonstrate business model traction, entrepreneur and organisational development and support them in second rounds to become a sustainable venture to further grow organically or with bringing in co-investors.

DGGF's investment rationale

In 2016, DGGF committed USD 1.5 million capital through the SCBD facility supporting the closing of Ankur I. DGGF's investment is explained by a high strategic fit with its target group as well as innovation and scalability goals. Ankur I addresses the underserved market of early-stage SMEs operating in high impact sectors through a tiered investment approach. DGGF's investment aimed to support the fund in creating a track record and portfolio that can be brought to scale in a future larger fund.

In 2019, DGGF pursued its partnership with Ankur Capital and committed a USD 10 million investment in Ankur II. DGGF's decision to invest was driven by Ankur's clear impact strategy contributing to inclusive employment (with a focus on youth), inclusive products and services (i.e., through essential services in health and education but also through new agriculture solutions) and inclusive outreach (i.e., reaching populations in rural areas or small cities). DGGF anticipated an 'Exceptional Impact' for Ankur II. First, *t*he fund targeted investments supporting India's socio-economic development via sectors with positive impact externalities (agriculture, health, education) and reaching marginalised groups (e.g., women, rural consumers). This was demonstrated in Ankur I, bringing much needed health services to BoP customers in rural locations. Second, Ankur II offered above average knowledge transfer compared to a mainstream VC fund (such as through sector experts, business networks, peer learning events).

Intermediary Fund's practices

Sourcing, screening, and investment selection

Ankur Capital proactively builds a pipeline of investees serving underserved groups by approaching networks and attending events focusing on inclusive growth to identify new deal opportunities. Ankur Capital uses various channels to pro-actively reach the target investees such as business angels (networks); incubators/accelerators; universities/research and academic centres; digital platforms. Ankur Capital actively participates in industry and sector specific event and frequently engages with the start-up ecosystem in India.

Ankur Capital has developed an impact framework for each fund following similar practices during its investment selection. Ankur Capital conducts a pre-investment impact assessment on the company's potential impact to ensure alignment with Ankur Capital's impact thesis including on inclusive growth. This is supported by a set of questions tailored to Ankur Capital's targeted sectors.

Ankur Capital's impact framework for Ankur II allows to assess individual companies and portfolio performances against inclusive growth target

Ankur Capital implements a comprehensive impact framework entailing (i) a pre-investment target impact analysis; (ii) a post-investment portfolio impact analysis and (iii) an internal impact analysis.

Ankur Capital's pre-investment impact analysis is supported by a set of questionnaires tailored to the different industries financed by Ankur Capital, including the informal sector. Questions aim to assess a company's potential contribution to inclusive growth. The analysis consider whether the primary purpose and core activities of the business target low-income communities, whether the impact is direct or indirect, the company's impact reach (e.g. *Will it affect lives in the BoP and change the way the poor participate in markets or get access to health and education?; Will it have the potential to touch over 100,000 lives annually in a 5yr time frame?)* and impact depth (*Will people keep doing what they are doing, but income realizations can be drastically better? e.g. way above $2/day? Is there at least a 10% change in the income level of the end producer with the company's intervention? Can we at least call this community lower middle class in 5 years? Will the intervention formalise informal sector in the urban centers or bring in new industries in rural areas?).* At least 60% of the impact should be directed to low-income communities. Based on the results of the pre-investment assessment, Ankur decides to pursue or not its investment and works with entrepreneurs to envision their impact and agree on metrics.

Ankur Capital's post investment analysis are detailed under the engagement and monitoring section.

Ankur Capital integrates ESG risks and opportunities in its investment process and has an extensive ESG policy applicable to Ankur II. Ankur Capital recognises that a portfolio company may not be in compliance at the point of the investment but is committed within the commercially reasonable efforts to help companies to achieve compliance over an appropriate period of time. In particular, the ESG policy acknowledges the particularities of VC-backed companies. *"It is recognised that many venture capital-backed firms may be start-ups with skilled employees who work without formal remuneration and have long-term incentives linked to the company's future performance. These are not typically vulnerable workers. If the company grows and hires lower-skilled and more vulnerable workers, human resources policies will be formalised in line with the ILO conventions." The ESG policy pays specific attention to Artificial Intelligence (AI) that can reinforce or contribute to discrimination based on gender, ethnicity, sexuality, disability, religion, or political views, among other areas."*

Engagement and monitoring

Ankur Capital monitors individual companies' impact performance through quarterly reports, annual outcomes assessment informed by surveys and an annual site visit. Ankur Capital's investment model entails a heavy engagement with portfolio companies which takes place on a weekly basis. Supported by an extensive network of technical experts, Ankur Capital provides an intensive advisory support to both funds' portfolio companies. As an example of low touch support, Ankur Capital supports companies' hiring process to ensure they have access to the right resources. In parallel, Ankur Capital supports founders in finding new investors or organises knowledge sessions or an annual get together meetings with all founders.

To ensure its portfolio remains within the fund's mission and vision, Ankur Capital conducts an internal impact assessment of its portfolio considering all social impact of its investees as well as their ecosystem enabling impact. This is measured against indicators closely linked to inclusive growth such as the geographical presence of the investee firms that the fund has invested, the portfolio distribution in unserved, underserved vs non-underserved regions and whether the portfolio impact at least 1,000,000 lives in 5 years.

Technical assistance

Ankur Capital supports company founders through a TA facility. This targets Ankur II's portfolio companies with whom Ankur Capital co-creates and co-sponsors TA projects (e.g., product development). Ankur Capital also finances external advisors with its TA budget. Ankur Capital's team strongly relies on external portfolio advisors, who as sector specialists add value to the portfolio companies. This ultimately aims to build more resilient, growing, and connected companies. Ankur Capital has a devoted team member in charge of coordinating technical assistance activities and leading ecosystem initiatives such as AnkurGro. AnkurGro is suite of resources for founders including strategic advisory across business needs.

DGGF's role

DGGF's investment in Ankur I through SCBD enabled the Ankur Capital team to realise expected investments and build a track record demonstrating the case for early-stage finance in India. Ankur Capital recognises DGGF's instrumental role in this as "only a few investors were willing to support first-time fund managers". DGGF's investment in Ankur I was key to create the second and larger next fund and attract international institutional investors. DGGF provided a USD 100K revolving grant for legal support towards developing institutional quality level legal documentation for Ankur II. DGGF anchored the first close of Ankur II and catalysed other investments from international investors such as BII. DGGF helped Ankur Capital improve and professionalise its financial operations. For Ankur II, DGGF has a more active role with a seat in the advisory committee which was not the case for Ankur I. Together with BII, DGGF has played a cornerstone role in the fund terms and the fund's strategy.

Lastly, DGGF brought a lot of added value to Ankur Capital's ESG management approach. DGGF strengthened the ESG framework and its implementation with investee companies. DGGF constantly engages on topics such as diversity, living wage, responsible policies, background of the entrepreneurs.

Impact results

Overall, Ankur Capital significantly supports youth entrepreneurs' access to finance. Ankur Capital's contribution to inclusive finance for women entrepreneurs is more moderate. Portfolio companies present a high potential for youth employment. This is largely driven by the nature of the SMEs, being early-stage and innovative.

Inclusive finance

Inclusive Growth dimension	*Projection Ankur I* [29]	*2021* [30]	*Projection Ankur II* [31]	*2021* [32]
Inclusive finance				
SMEs financed (#)	*15*	*14*	*20*	*8*
Women entrepreneurs (% capital invested)	*n/a*	*43%*	*25%*	*5%*
Youth entrepreneurs (% capital invested)	*n/a*	*71%*	*40%*	*83%*

Ankur I has a positive contribution to inclusive finance through women and youth entrepreneurs. According to SCBD impact reporting, Ankur I supported six women entrepreneurs and 10 youth entrepreneurs which respectively represent about 43% and 71% of Ankur I's portfolio companies.

While Ankur II's 2021 portfolio had a small outreach to women entrepreneurs, the fund had a stronger outreach to youth entrepreneurs. As of 2021, only 5% of the fund's capital invested supports women-owned or -led SMEs and only one company out of eight is women-owned or -led. However, the fund largely increased its

[29] All impact projection data for Ankur I is based on DGGF Final Approval Ankur Capital
[30] All 2021 impact data for Ankur I is based on SCBD Impact Report Aggregated or Ankur Impact Report (PPT). In this case, percentages are based on the number of portfolio companies, not volume invested.
[31] All impact projection data for Ankur II is based on the investment memo, on a USD 10m investment for 8 years and a USD 40m fund size
[32] All 2021 impact data for Ankur II is based on DGGF 2021 AR Fund Overview

outreach to women entrepreneurs in 2022 as it invested about 26% of its capital by the end of the year. In parallel, 83% of the fund's capital invested supports youth entrepreneurs with six companies being youth led and/or owned.

DGGF expected a higher outreach to women entrepreneurs, especially relying on a reduced unconscious bias against women entrepreneurs due to management driven by women. This assumption did not apply in practice in the case of Ankur II.

Inclusive employment

Inclusive Growth dimension	*Projection Ankur I*	*2021*	*Projection Ankur II*	*2021*[33]
Inclusive employment				
Jobs supported (#)	*n/a*	*544*[34]	*n/a*	*564*
Women employees (%)	*n/a*	*n/a*	*n/a*	*11%*
Youth employees 18-24 years (%)	*n/a*	*n/a*	*n/a*	*65%*
Youth employees 25-35 years (%)	*n/a*	*n/a*	*n/a*	*30%*
Low-skilled workers (%)	*n/a*	*n/a*	*n/a*	*6%*
Jobs supported by DGGF (#)	*n/a*	*141*	*375*	*121*
Jobs created (#)	*1,000*	*544*	*n/a*	*509*
Jobs created by DGGF (#)	*n/a*	*n/a*	*235*	*110*

While Ankur Capital has a low outreach to women and low-skilled employees based on the data collected by DGGF, most of the companies' employees are below 35 years old. 65% are between 18 and 24 and 30% between 25 and 35 years old. This is in line with DGGF's expectations to generate above average youth employment. Ankur Capital's strong outreach to youth and skilled employees, reflects the particularity of VC-backed firms that are start-ups hiring skilled and freshly graduated employees.

Inclusive products and services

Inclusive Growth dimension	*Projection Ankur I*	*2021*	*Projection Ankur II*	*2021*[35]
Inclusive products and services				
Serving Base of the Pyramid (% companies)[36]	*n/a*	*n/a*	*n/a*	*13%*

Out of the eight companies invested as of 2021, only one company, an Agri-Tech company, serves BoP customers. When having a closer look at the portfolio companies that do not serve the BoP, some seem to target underserved segments and provide inclusive products and services in practice. This is the case for Rupifi which provides financial services to underserved MSMEs. This shows the proxy "serving primarily BoP customers" used by DGGF to capture SMEs' contribution to inclusive products and services may underestimate Ankur's actual contribution and outreach to underserved customers.

[33] All 2021 impact data for Ankur II is based on DGGF 2021 AR Fund Overview
[34] This number is for both jobs created, and jobs supported.
[35] All 2021 impact data for Ankur II is based on DGGF 2021 AR Fund Overview
[36] Shares have been calculated only considering SMEs for which data is available (0% of SMEs for Ankur I and 100% for Ankur II)

Inclusive outreach

Inclusive Growth dimension	*Projection Ankur I*	*2021*	*Projection Ankur II*	*2021*[37]
Inclusive outreach				
Serving rural areas (% companies)[38]	*n/a*	*n/a*	*n/a*	*25%*

Out of the eight companies invested as of 2021, two companies serve clients in rural areas. Both are Agri-Tech companies (Vegrow and Farmstock Technologies).

[37] All 2021 impact data for Ankur II is based on DGGF 2021 AR Fund Overview
[38] Shares have been calculated only considering SMEs for which data is available (0% of SMEs for Ankur I and 100% for Ankur II)

2.3 Capital 4 Development Partners

Fund summary	
Fund name	Capital 4 Development Asia Fund
Vintage year	2018
Fund size	USD 30 million
Average deal size	USD 700K
Investment focus	Sector-agnostic, early-stage companies
Country/region	India, Indonesia, Philippines, (Cambodia, Nepal - Exited)
Main office	India, Bengaluru
DGGF investment	
Investment block	V
Investment year	2018
Capital committed	USD 8.5 million
Drawdown capital	USD 7.4 million (December 2022)
Shareholding	28%
Board seat	Advisory Committee
TA & BDS	EUR 612,469 for pre- and post- BDS for portfolio companies
Inclusive Growth highlights	
Strategy	C4D embeds inclusive growth in its investment strategy and has a set of eligibility criteria and targets to achieve that are linked to inclusive growth
Practices	C4D embeds inclusive growth in its investment practices from screening to monitoring
Inclusive finance	C4D outperforms on its outreach to women entrepreneurs and underperforms on its outreach to youth entrepreneurs
Inclusive employment	C4D contributes significantly to youth employment and the fund also supports women and low-skilled employees .
Inclusive products and services	Specifical and intentional focus on investing in SMEs that provide essential goods and services.
Inclusive outreach	Inclusivity is an explicit strategy, and performing well compared to the portfolio's average

Background

The Capital 4 Development Partners B.V. (C4D Partners) was established as ICCO Investments B.V. by ICCO Cooperation in December 2013. It is an Impact Fund Manager structured as a private limited liability company incorporated under the laws of the Netherlands. ICCO Investments was an evergreen Fund that held assets in Latin America, Africa, and Asia. Through this evergreen Fund, ICCO invested around USD 9.05mn in southeast and south-central Asia and aimed to bring social, environmental, and economic change in the lives of underserved communities. The entire Asia portfolio was transferred from ICCO Cooperation to C4D Asia Fund in December 2018. The C4D Asia Fund is built upon the USD 9.05mn launching portfolio. As of date, it is a USD 30mln Fund, with its final closing in June 2020.

C4D Asia Fund is sector agnostic and has exposure in food manufacturing, agricultural processing, renewable energy, waste management, education and skilling, retail, and financial inclusion. As of December 2022, the Fund has portfolio companies in India, Indonesia, and the Philippines. The fund follows a hybrid financing model. The Fund finances companies with equity, mezzanine, and long-term debt instruments, providing them with appropriate risk capital. Since 2022, C4D has shifted its focus toward India (currently represents about 60% of AUM[39]). In India, C4D has mostly been providing equity.

Intermediary Fund's strategy

The association with ICCO Cooperation has anchored C4D Group's investment thesis that seeks to unlock value in social businesses that focus on underserved communities. Therefore, since its inception, C4D has had an understanding of international development, which has influenced the fund's strategy steering more toward balancing the impact outcomes with financial returns. By investing in innovative and growing SMEs, with an average ticket size of USD 700K, the fund aims to contribute to the creation of inclusive local economies supported by SME entrepreneurs who provide solutions to local challenges and/or industry inefficiencies.

C4D has embedded inclusive growth in its investment strategy and has a defined a set of eligibility criteria and targets to achieve goals linked to inclusive growth. C4D is an impact investor with an explicit strategy for development impact, achieved through investing in SMEs that either include people from underserved communities in their supply chain (such as small entrepreneurs, farmers, artisans, etc.) or provide affordable products and/or services to these communities to improve their social-economic status (energy, water, education, etc.). C4D thrives on identifying investment opportunities in SMEs that (i) create decent and sustainable jobs and provide employees with (new) skills and stable incomes; (ii) improve the market position of small, underserved suppliers and entrepreneurs; (iii) offer affordable and quality products and services to low-income and vulnerable populations; (iv) boost the development of efficient and sustainable supply chains; and (v) achieve gender equality, by including women in supply chains and staffing and by investing in women-owned and women-led SMEs. In line with this last objective, C4D integrated a gender and intersectional approach as part of its investment strategy.

DGGF's investment rationale

In 2018, DGGF committed to invest USD 8.5 million. This helped the fund in meeting its minimum viable size of USD 30 million. However, the fund size remained below the targeted size of USD 50 million. DGGF's funding was strongly additional for various reasons. Due to the fund's NGO background (first-time fund manager) and business model (low-return mezzanine finance, providing equity and debt across South Asia and Southeast Asia), C4D faced challenges in attracting mainstream DFI capital. C4D also revealed that having a multi-country as a geographic focus with debt and equity as instruments with an Inclusive Growth strategy makes it harder to attract investors.

DGGF's investment rationale builds on the opportunity to invest in a high impact small-cap fund for Asia with a distinct focus on BoP customers and female led enterprises. DGGF expected the fund to outperform on most DIM indicators (see the subsection on impact performance for an analysis of C4D's performance against projections). DGGF anticipated a positive economic impact as C4D was expected to support and create significantly more jobs due to a large number of SMEs financed coupled with relatively labour-intensive sectors. Furthermore, DGGF expected the fund to significantly support women entrepreneurs compared to average block V target of 20% and a strong focus on rural inclusion. Finally, DGGF expected a high knowledge transfer to portfolio companies supported by C4D's Business Development Support (BDS).

Intermediary Fund's practices

Sourcing, screening, and investment selection

C4D proactively builds a pipeline of investees serving underserved groups by approaching networks and attending events focusing on inclusive growth to identify new deal opportunities. Furthermore, inclusive growth is embedded in the investment teams practices and is a common topic of discussion with all potential investees. C4D seeks to eliminate bias in its investment process and implements an 'open door' sourcing policy. This means that C4D's pre-investment committee review all funding proposals received and communicates a decision within ten working days. This seeks to avoid the prioritisation of funding proposals aligned with the fund manager's unintentional biases (e.g., revolving around the strategy, ticket size, and rate of return).

When screening opportunities, C4D assesses, and rates potential investees based on their potential positive and negative contribution to empowering underserved groups. C4D's investment selection considers the following criteria: (i) the company's business model should revolve around impact; (ii) the company should improve the livelihoods of the BoP; (iii) the business model should help solve societal issues and provide solutions to address pain points in the sector; (iv) the business model should be financially viable; (v) the business should be stable and scalable. C4D's investment committee includes at least two women as independent members to limit the gender bias during the investment selection.

C4D integrates ESG risk management for each phase of its investment cycle. The ESG toolkit guides investment officers in this effort through a comprehensive set of questions covering risks that may exacerbate inequalities (e.g., whether there is a Posh committee in place). C4D adopts a gender lens investing approach through its investment cycle and deal selection (see text below for more information). Overall, C4D's strategy, investment practices and engagement with portfolio companies integrate an intersectional gender lens grounded in the local context. C4D's approach considers various factors of social inclusion beyond gender (e.g., regional diversity, informal sector, caste, disabled, and rural communities).

C4D's gender lens investing approach

C4D has a strong gender lens and focuses on businesses that are (i) women -owned or -led; (ii) encouraging workplace gender equality; and (iii) improving lives and economic prospects of women. In addition, C4D is currently exploring ways to expand its analysis to companies' supply chains.

C4D's investment process integrates a gender analysis to proactively build a gender smart portfolio. C4D developed a gender self-assessment toolkit which allows portfolio companies to assess their business practices through a gender lens. The tool allows (potential) portfolio companies to position themselves as gender responsive (*"gender transformative"*, *"gender specific"* or *gender sensitive"*) or gender unresponsive (*"gender blind"* or *"gender unequal")* and helps C4D raise awareness on the topic. Based on the assessment results, C4D team develops together with portfolio companies gender action plans to improve hiring practices, career advancement practices, skill development, compensation and benefits, recognition of differentiates gender needs, safety at work or other inclusive workplace policies.

Engagement and monitoring

C4D includes impact metrics as a core component of portfolio companies' reporting requirements. This includes disaggregated data informing their investees' contribution to inclusive growth on a regular basis (e.g., outreach to underserved communities or changes in incomes). Based on their impact performance, C4D provides advice to its investees on how they could further empower underserved groups. C4D's on-the-ground presence allows it to focus on local communities needs. C4D's local expertise led to supporting portfolio companies that support diverse profiles (e.g., regional diversity, informal sector, caste, disabled, rural communities). Furthermore, C4D's local presence and strong engagement pre- and post- investment positions the fund manager as a trusted advisor for its portfolio companies.

Technical assistance

C4D provides a wide range of technical assistance activities through its USD 1.2 million BDS facility. The BDS aims to help SMEs scale up, improve their financial performance, increase their positive social-economic impact, and decrease investment risks at the same time. Activities provided include coaching and mentoring, technical expertise by external consultants, education and training, annual networking events, and specific projects with SMEs to deepen the impact. BDS is provided based on portfolio companies' needs and demands. All BDS projects are either revolving structures or 100% grants. In a revolving structure, the projects are co-paid (80% maximum support by the BDS facility and 20% by the project company).

DGGF's role

DGGF has been an anchor investor of C4D Asia and has been instrumental in structuring the fund and defining its strategy. As the fund's other investors were not typical fund of fund investors, DGGF has been the leading LP and became a sparring partner of C4D. With its two seats in the fund's advisory committee, DGGF position itself as one of the most vocal investors. In addition, *DGGF supported C4D's BDS facility with EUR 0.6 million of capital to finance pre- and post- business development services for C4D's portfolio companies.*

DGGF introduced a blended carry model combining a financial hurdle with an outreach target to women-owned or -led enterprises. Women-owned is defined as 51% ownership/stake held by women (prior to any investments and excluding institutional investors). Whereas women-led means (a) more than or equal to 20% ownership/stake held by women (prior to any investment and excluding institutional investors) (b) more than or equal to 1 woman as CEO/COO (president/vice-president) or equivalent level (within 100 days of the investment) and >30% of the Board of Directors being women. Furthermore, DGGF identified a set of conditions for its investment including adopting the DGGF exclusion list, creating an ESG policy and management system, developing a complaints mechanism and training its investment staff on ESG. To support DGGF's ESG and impact management practices, DGGF financed the development of C4D's ESG toolkit as well as a study on C4D's intersectional gender lens approach conducted by the Criterion Institute (*Addressing Power Dynamics in Investment Processes").*

As an improvement point, C4D expressed the need for more support from DGGF in fundraising especially once their strategy steering for inclusive growth is proven.

Impact results

Overall, C4D has a mixed contribution to Inclusive Growth. C4D performs best on inclusive finance and supports a large share of women entrepreneurs. This is largely driven by C4D's gender-smart investing strategy and DGGF's incentive mechanism. While C4D contributes significantly to youth employment, the support to women and low-skilled employees is relatively smaller. Based on the data collected in 2022, C4D has a moderate contribution to inclusive products and services. C4D's contribution to inclusive outreach is above average compared to the rest of the portfolio.

Inclusive finance

Inclusive Growth dimension	*Projection* [40]	*2022* [41]
Inclusive finance		
SMEs financed (#)	*48*	*27*

[40] All impact projection data is based on DGGF Final Approval C4D
[41] All 2021 impact data is based on DGGF 2021 AR Fund Overview

Women entrepreneurs (% capital invested)	*30%*	*58%*[42]
Youth entrepreneurs (% capital invested)	*30%*	*12%*
Entrepreneurs in fragile states (% capital invested)	*0%*	*0%*

Through its gender lens investing approach, C4D has a distinct focus on women-owned and -led enterprises. As of Q4 2022, 58% of the invested capital is towards women-owned or -led SMEs in India and Southeast Asia. At the time of DGGF's investment, the fund's existing portfolio counted 30% of women-owned SMEs and the pipeline almost 50%. While the fund was already targeting women entrepreneurs, the GP's carry linked to the number of women entrepreneurs reached has encouraged C4D in this effort. This places C4D as one of the best performing IF in this regard. In parallel, the fund has little exposure to youth entrepreneurs. This remains below DGGF's expectations at the time of its investment and below block V target set at 40%.

Inclusive employment

Inclusive Growth dimension	*Projection*	*2022*[43]
Inclusive employment		
Jobs supported (#)	*n/a*	*3,809*
Women employees (%)	*n/a*	*23%*
Youth employees 18-24 years (%)	*n/a*	*21%*
Youth employees 25-35 years (%)	*n/a*	*61%*
Average low-skilled workers (%)	*n/a*	*30%*
Jobs supported by DGGF (#)	*920*	*1,070*
Jobs created (#)	*n/a*	*306*
Jobs created by DGGF (#)	*460*	*86*

While C4D invested in less companies than expected, the number of jobs supported by DGGF is higher than expectations. However, the number of jobs created by DGGF is significantly lower (86 against 460 targeted). As expected by DGGF, C4D supports labour intensive SMEs with an average of 175 of employees per company. Overall, during 2022 only 23% of the employees supported by C4D's portfolio companies are women.[44]

In parallel, C4D's portfolio companies support a large share of youth employees between 18 and 35 years (65%). While 21% of the employees are between 18 and 24 years old, 61% are between 25 and 35 years.

While on average 30% of the total employees supported are low-skilled employees, three companies significantly support low-skilled workers (with at least 70% of low-skilled employees). Those companies operate in various sectors such as waste management and transport/delivery of retail. One of those companies, Mirakle Couriers, is a courier agency that employs low-income deaf and mute adults.

Inclusive products and services

Inclusive Growth dimension	*Projection*	*2022*
Inclusive products and services		
Serving Base of the Pyramid (% companies)	*n/a*	*11%*

According to the impact data reported in 2021, 11% of C4D's portfolio companies serve BoP through their products and services delivered. Nevertheless, a larger share of portfolio companies seems to provide basic

[42] 2022 Impact report

[43] Reported by C4D Asia

[44] The sample for this percentage includes 12 active portfolio companies out of 27 as the rest did not provide data on women employees and some are exited portfolios where the data is not available.

goods and services while they are not qualified as serving BoP customers through the impact data reported to DGGF (e.g., Aviom India or 1Bridge). 19% of the fund's committed amount is allocated to financial inclusion (Ananya Finance and Aviom India which provide individual enterprise loans and home loans to underserved segments respectively).

Inclusive outreach

Inclusive Growth dimension	*Projection*	*2022*
Inclusive outreach		
Serving rural areas (% companies)	*n/a*	*27%*

27% of C4D's portfolio companies primarily operate or serve clients in rural areas. C4D's portfolio companies reach rural areas through various sectors such as financial services (2 SMEs), agriculture processing activities (2 SMEs), healthcare (1 SME) and last mile delivery (1 SME). The share of SMEs serving rural areas in C4D's portfolio is higher than the average for DGGF's portfolio IFs (22%).

2.4 FATEN Palestine for Credit and Development

Fund summary	
Financial Institution	FATEN
Establishment year	1999
Investment focus	Productive loans for SMEs
Country/region	Palestinian Territories (West Bank and Gaza)
Main office	Ramallah, Palestinian Territories
DGGF investment	
Investment block	III
Investment year	2017 & 2022
Capital committed	USD 5 million (2017) + USD 5 million (2022)
Invested capital	USD 4.5 million (2022)
Shareholding	n/a
Board seat	n/a
TA & BDS	n/a
Inclusive Growth highlights	
Strategy	Inclusive Growth is embedded in FATEN's strategy by providing productive loans for different loan purposes, targeting (M)SMEs that do not have access to financial services, or do not have a bank account, financial track record, or a reliable proven income
Practices	FATEN follows customised practices to the local context of the Palestinian Territories to track and guarantee optimal utilisation of its loans, and provides TA to its clients in collaboration with a local entity
Inclusive finance	100% of portfolio consists of entrepreneurs in fragile states, from which around one third are women, and one third are youth
Inclusive employment	Family-centric approach to create sustainable and inclusive employment opportunities within the borrower's community (opposed to a specific focus on women and youth)
Inclusive products and services	No explicit BoP focus, but FATEN offers loan products to groups who are traditionally underserved as they are often ineligible for loans from larger banks
Inclusive outreach	35 branches across West Bank and Gaza, covering 500 areas, and credit officers are mobile to offer services even in remote areas

Background

FATEN Palestine for Credit and Development ('FATEN'), is a private joint-stock non-profit company that was established in 1999. It has since grown to become the first microfinance institution licensed by the Palestine Monetary Authority in May 2014. With 35 branches covering over 500 locations in the Palestinian Territories, including refugee camps, rural and marginalised areas, FATEN has also digitised its services through its website, mobile application, and an integrated virtual branch.

As a microfinance institution, FATEN borrows from local banks to be able to offer both Islamic and commercial loans targeting: (i) MSMEs; (ii) individuals and households that do not have access to any type of formal financial services or do not have a bank account; and (iii) businesses and individuals that are considered risky profiles to traditional banks due to several factors, such as an unreliable or unproven income.

FATEN aspires to transform into a specialised bank that focuses on lending productive loans to MSMEs. It has been building an infrastructure to be able to absorb the new regulatory framework that has been developed (but not yet in practice) by the Palestinian monetary fund, that allows microfinance institutions to transform into a bank, which would help FATEN to accept deposits instead of borrowing from banks, and thus decreasing its interest rate on its clients.

Financial Institution’s strategy

FATEN has been focusing on MSMEs as a key strategy to meet the needs of its clients and achieve its goals in serving productive projects to enhance the lives of its target groups. In order to achieve this strategy, FATEN received funding from DGGF, and as per the agreement with DGGF, 65-70% of the fund was allocated to businesses loans, specifically productive loans dedicated for projects, targeting MSMEs. FATEN's portfolio is diversified across various sectors, with trade being the largest contributor at 39%, followed by house improvement and real estate at 20%, agriculture at 11%, services at 10%, industrial at 8%, and tourism at 1.5%.

FATEN’s medium-term strategy is to transform into a for-profit specialised bank that can receive and manage deposits like a traditional bank, but also can extend its portfolio to include more medium-sized enterprises rather than micro and small businesses. The transformation depends on the Palestinian Monetary Authority’s new regulatory framework that allows microfinance institutions to transform into a bank within a set of conditions, which is yet to be in practice, expectedly within two years. To meet these conditions, FATEN has been preparing its infrastructure to be able to operate as a specialised bank. The infrastructure development includes updating its management information system (MIS), building new servers and internal systems such as HR and workflow systems, and enhancing data security. In addition, FATEN has new insurance policies in place to cover these new operations and is also working on training its employees to deal with more complex due diligence practices for the new target groups that have a more established presence in the business sector.

DGGF’s investment rationale

FATEN forms a good fit with DGGF’s SME focus. The 4% minimum expected return is clearly low, and below DGGF’s usual ask. However, the excellent credit rating of the institution and their good track record with targeted groups can support the DGGF portfolio’s impact results at a relatively low risk. It also helps DGGF meet its target commitment levels to Block III, as well as to focus on fragile states, despite the slight compromise on financial revolvingness.

FATEN is the largest microfinance institution in the Palestinian Territories and continues to provide its services to the unbanked and unbankable target groups. MSMEs are often overlooked by traditional banking institutions due to their size and the perceived risk involved. On a best effort basis, DGGF’s loan financed the growth of MSMEs, in particular the ones active in the sector of agriculture. As such, the proposal fits with the SME focus of DGGF. Considering the amount of the DGGF’s loan and FATEN’s average loan size and to SMEs in agriculture, the proposal outperforms in terms of SME outreach.

FATEN is distinguished from other microfinance institutions in the Palestinian Territories by its extensive coverage and outreach to underserved areas, including refugee camps, rural and marginalised communities, covering 500 areas with its branches and mobile employees as part of their practices, as its employees work in the field, visiting villages and remote areas.

Financial Institution’s practices

Sourcing, screening, and investment selection

Sourcing happens through field visits, referrals, social media and website requests, and branch visitors. Screening starts with an inquiry from the Palestine Monetary Authority centralised system, which allows financial institutions to enquire about historical financial records, including past commitments to banks and individuals (through bounced cheques). After the potential clients pass through the screening process, due diligence starts by interviewing the potential clients, and arranging for a visit to their project location to assess the situation on ground, and then ends with the financial assessment of their proposal.

After the approval of the loan, in the case of commercial loans, borrowers are required to provide invoices for the goods and services as the purpose of the loan to be considered eligible for the other tranches of the loan. FATEN also requests full financial documentation and financial statements before lending to ensure that potential borrowers are eligible for loans. Additionally, FATEN assists potential borrowers in preparing their financial statements to determine their loan eligibility.

Engagement and monitoring

FATEN is committed to ensuring that its loans are being utilised by its clients effectively to protect its clients and maintain a healthy default rate. To achieve these goals, FATEN follows customised practices to the local context of the Palestinian Territories to be able to track and guarantee excellent utilisation of its loans. In the case of Islamic loans, the payments are transferred directly to the suppliers of the clients in cases of productive loans when there are needs to buy products or services.

FATEN also maintains cross-functionality and specialisation in its sales and collection functions to ensure a healthy default rate. Credit officers and sales employees are accountable for the loans that they approve, and their commissions can be negatively affected if the default rates exceed 3% of each employee's portfolio. Moreover, FATEN has a dedicated collection team that conducts field visits to communicate effectively with defaulted clients. FATEN's commitment to these practices has resulted in an overall default rate of 1.2%, which is notably lower than that of other microfinance institutions.

Technical Assistance

Through a partnership with a local entity Middle East Investment Initiative (MEII), FATEN is providing TA and training to SMEs. MEII accompanies the SMEs in their developments (e.g., setting up proper accounting, profit management).

DGGF's role

FATEN's partnership with DGGF has injected funds into its capital, enabling it to borrow higher amounts from banks to cater to the growing demand and reach a larger population. This is made possible as the Palestine Monetary Authority's limit on borrowing for financial institutions is set at a 1:3 debt to capital ratio. Taking advantage of this opportunity, FATEN has ventured into more risky sectors, such as agriculture and industry.

Prior to the partnership, FATEN's loan ticket size for industrial and agricultural loans was only USD 50,000, but it has now increased to USD 100,000, resulting in a higher portfolio contribution from these sectors. The expansion of loan sizes has also allowed FATEN to include SMEs in its target market, beyond micro-businesses.

Impact results

Inclusive finance

Inclusive Growth dimension	Projection 2017	2021[45]	Projection 2022[46]
Inclusive finance			
SMEs financed (#)	n/a	307	263
Women entrepreneurs (% capital invested)	n/a	33%	33%
Youth entrepreneurs (% capital invested)	n/a	32%	50%

[45] All 2021 impact data is based on DGGF 2021 AR Fund Overview.
[46] All impact projection data of 2022 is based on a new impact review performed in 2022.

Entrepreneurs in fragile states (% capital invested)	n/a	100%	100%

FATEN adopts a family-centric approach instead of a gender-specific one. This is especially relevant in the Palestinian Territories where the percentage of women in the workforce is only 19%, resulting in a relatively low number of women borrowers.

Eligibility criteria are also inclusive, with a focus on supporting youth and women, as well as family-owned businesses. In addition, FATEN offers loans for various purposes, such as working capital, fixed assets, and housing improvement, in addition to loans to startups, to cater to different financial needs and stages of its clients.

Inclusive employment

Inclusive Growth dimension	Projection 2017	2021	Projection 2022
Inclusive employment			
Jobs supported (#)	n/a	1277	n/a
Women employees (%)	n/a	n/a	n/a
Youth employees 18-24 years (%)	n/a	n/a	n/a
Youth employees 25-35 years (%)	n/a	n/a	n/a
Low-skilled workers (%)	n/a	100%	n/a
Jobs supported by DGGF (#)	n/a	1277	1211
Jobs created (#)	n/a	-13	n/a
Jobs created by DGGF (#)	n/a	-13	118

As part of its due diligence process, FATEN cares and considers the number of employees that will be hired after receiving the loan and whether they are from outside the borrower's family. Additionally, FATEN enquires about the age of potential employees and refrains from providing loans to businesses that employ individuals under the age of 18, unless they are family members. This approach ensures that the loan is being used to create sustainable and inclusive employment opportunities within the borrower's community.

Inclusive products and services

Inclusive Growth dimension	Projection 2017	2021	Projection 2022
Inclusive products and services			
Serving Base of the Pyramid (% companies)	n/a	TBD	n/a

FATEN's underserved target groups are ineligible for loans from the traditional banks due to several factors, one of the major factors is the unreliable and/or unproven income, which serves as a major collateral. FATEN included collateral solutions in their loan products to help these target groups be eligible without the proven income. These solutions include both tangible and intangible collateral. Intangible includes personal guarantees, and intangible includes promissory notes, gold, cars, lands, machines and equipment, mortgages, as well as guarantee programmes that are not publicly announced to the target groups.

Inclusive outreach

Inclusive Growth dimension	Projection 2017	2021	Projection 2022
Inclusive outreach			

Serving rural areas (% companies)	n/a	100%	n/a

To guarantee an inclusive opportunity to households in underserved groups, where most of them are in villages and rural areas, FATEN has 35 branches: 8 in Gaza, 27 in West Bank. These branches are in 4 refugee camps and 22 branches in villages across West Bank and Gaza, in addition to virtual branches on the website and social media. These 35 branches cover 500 areas, as credit officers are mobile and most of their work is in the field. For instance, credit officers conduct visits to the local councils, events, and even visits potential clients houses to offer their services.

3 SMEs cases

3.1 iProcure (Agtech)

iProcure
FARM SUPPLY INNOVATION

Company summary			
Company name	iProcure		
Founded	2015		
Country/region	Kenya, Uganda		
Sector	Agriculture		
Fund investment			
Investor	Novastar I	Novastar II	IPAE2
Investment year	2017	2021	2021
Amount invested	USD 5 million	USD 9 million	USD 1.8 million
TA support	n/a	n/a	n/a
Inclusive Growth highlights			
Inclusive finance	Founded by two youth entrepreneurs, of which one is a woman, but leadership has transitioned since 2022		
Inclusive employment	50% women in management 30% women employees 3% low-skilled workers		
Inclusive products and services	Providing quality agro inputs for farmers of which 75% low-income and 60% women Offering a lower price for farmers with a long-term target of 25% reduction Company is increasing access to finance for agro dealers (i.e., loans for working capital)		
Inclusive outreach	Company is serving agro dealers and (smallholder) farmers in rural farming communities		

Introduction

iProcure is a technology-enabled logistics and distribution company operating in the agricultural sector in Kenya. iProcure was established with the aim of consolidating the fragmented supply chain for agricultural inputs in rural areas, which is crucial for supplying fertilisers, animal feeds, and seeds to smallholder farmers. iProcure's solution delivers value to all actors across the agricultural supply chain, including smallholder farmers, agrodealers, and manufacturers. The majority of iProcure's clients are in rural areas, and the company is dedicated to creating last mile logistics in locations that are typically difficult to reach.

Solution to inclusive growth challenge

The agricultural supply chain in rural Africa is facing numerous challenges and complexities that pose a strain on efficient food production and thus food security. These range from logistical issues and limited flow of inputs to limited access to quality inputs and as identified by iProcure, understocked agrodealers. The iProcure founders team found that a long-standing problem in rural Kenya was that agrodealers were understocked. Further, they had challenges with proper stock keeping and effective management of their stores.

At the same, the agro dealers are crucial for successful agriculture and food production, and their role is even more important in the current climate change challenges that affect the agricultural cycle. Besides the fact that nearly all farming in Africa is rainfed, the rain seasons are becoming increasingly shorter and uncertain. Farmers are left with a short time window of around four weeks to buy inputs and prepare its land. As farmers typically have low levels of cash to stock up in advance, there is a significant demand peak in those few weeks. In turn, the thousands of local agrodealers that offer crucial farmers' inputs are rather small, paper-based, and have no insights in their inventory and demand trends. Combined with a lack of cash, overpriced inputs from distributors, and insufficient quality assurance, agrodealers are ill prepared to supply farmers with the required input within the short timeframe before the rain season. Additionally, inefficient distribution systems result in high cost of logistics.

iProcure's mission is to reduce input scarcity with the objective to ensure that farmers can get access to all inputs they need, at the right time. To do so, it offers comprehensive services in the agricultural supply chain ranging from last mile distribution services, procurement, and business intelligence to data-driven stock management The company's extensive logistics network consisting of trucks and warehouses and its tech-enabled platform enables them to supply high quality inputs to farmers and agrodealers at competitive prices. To date, iProcure digitised 20% of all agrodealers by implementing an all-in-one Point-Of-Sale (iPOS) system at almost 2,000 agrodealers in Kenya and over 100 in Uganda. Its supply network in turn serves around 5,000 agrodealers in Kenya, 1,000 in Uganda, and reaches nearly a million farmers. The company is now actively implementing pilots using incentive mechanisms for agrodealers and farmers to ensure lower prices for farmers.

By essentially cutting out the multiple levels of middlemen in the traditional agricultural supply chain and providing technology-driven insights on supply levels and price, iProcure has been able to ensure the availability, quality, and delivery of critical agricultural inputs like fertilisers and seeds at up to a 25% discount from prevailing market prices.

Through utilising data collected from the iPOS system, iProcure is able to open up additional opportunities, such as increasing access to finance for agrodealers, enabling them to grow. Through iProcure's provision of working capital, agrodealers have been able to grow their business and number of outlets across farming communities (e.g., one agrodealer grew from 1 to 7 outlets). There are already various examples of agrodealers that previously had only one store are now able to operate multiple stores as a result of the technology provided by iProcure, and this number is targeted to grow. With its latest investment round, iProcure will use the capital to scale its credit offering for agrodealers to further support their growth.

Intermediary Funds' investment rationale

iProcure is backed by three separate funds invested by DGGF, Novastar I and II as well as I&P (IPAE2). In line with their mandate, Novastar invested in 2015 when iProcure was still an early-stage initiative. The intentionality of the entrepreneurs to solve a pressing problem in BoP markets in a disruptive way made it a well-suited investment for Novastar. The growth of the company resulted in follow-up investments, with the most recent investment round led by I&P. By 2021, iProcure has been able to create a niche offering that resulted in growth and increase of market share, despite competition in the agricultural inputs sector. Besides, large scaling potential in Kenya and the rest of East Africa, while delivering impact at low-income markets in rural areas, makes it an interesting opportunity for impact investors.

Intermediary Funds' value added

Novastar and I&P have high additionality as there seems to be a lack of interest among traditional equity providers. iProcure's complicated business model combining physical distribution with technology in the traditional agricultural sector, above the fact that the business is not yet profitable, makes it difficult to attract additional investors. As members of the Board, Novastar and I&P add value through their efforts improving governance strategy, leveraging connections (e.g., in Uganda to connect the business with relevant parties, in

Europe for potential exit targets, and in West Africa where iProcure intends to expand in the future) and assisting the company in achieving profitability.

Business model development

iProcure was founded in 2015 by entrepreneurs Stefano Carcoforo and Nicole Galletta. Over the years, the business model pivoted multiple times, going from initial technology development providing software-as-a-service for distributors in Kenya, to business-to-business input sales to agrodealers, as well as warehouse management. Currently, 90% of its revenue comes from input sales, with the remaining 10% from warehouse management. Along with its growth, iProcure is currently strengthening its leadership with Niraj Varia joining as CEO of the company in August 2022, and a new CFO at the beginning of 2023. In the coming years, market opportunity, scalability, and the need for diversification drive the company's geographical expansion to Uganda, and in the longer term also Tanzania, Zambia, and West Africa.

Impact results

Inclusive finance

Inclusive Growth dimension	*2017*	*2022*
Inclusive finance		
Women entrepreneurs	*Yes*	*No*
Youth entrepreneurs	*Yes*	*No*

At first time of investment, both funds supported iProcure while it was led by two youth entrepreneurs of which one was a woman. Until 2022, Carcoforo and Galetta were running the businesses whereafter the position of CEO was offered to Niraj Varia. As such, the company does is not considered to support inclusive finance under the formal definition of DGGF, but the shift in leadership allows the company to further expand and grow. In addition, by providing access to finance for agrodealers who traditionally lack access to capital, iProcure itself is also contributing to inclusive finance

Inclusive employment

Inclusive Growth dimension	*Q3 2022*[47]
Inclusive employment	
Employees	*227*
Women employees	*30%*
Low-skilled workers	*3%*
Low-income employees	*19%*
Low-income women employees	*2%*
Management jobs	*8*
Women in management	*50%*
Average yearly wage received per employee (2021)	*USD 19,800*

As of Q3 2022, iProcure contributes to inclusive employment mainly by supporting women employees (30%) and low-income employees (19%), as well as having a gender equal management team. Furthermore, data reported from I&P to DGGF by the end of 2021 shows that iProcure paid a total amount of wages of USD 927,295 with a workforce of 47 employees (average monthly wage of around USD 1,600 per employee).

Considering that the living wage for an individual in Kenya was USD 220 per month in 2018[48], iProcure seems to pay rather decent employee remuneration. However, it should be noted that there is limited data availability of the actual living wage in Kenya for 2021 or beyond.

Inclusive products and services and outreach

Inclusive Growth dimension	*Q3 2022*
Inclusive products and services and inclusive outreach	
Agrodealers sourcing through iProcure	*4,563*
Farmers buying through iProcure agrodealers and depots	*933,011*
Women farmers	*60%*
Low-income farmers	*75%*
Low-income women farmers	*12%*

With an outreach to over 900 million farmers, of which 60% are women farmers, 75% are low-income farmers and 12% are both low-income and women farmers, iProcure's biggest impact on inclusive growth is created through inclusive products and services and inclusive outreach. At its core, iProcure is improving farmers' access to genuine and affordable agricultural inputs by consolidating the region's fragmented agricultural inputs sector. These processes ultimately lower the cost of food production and improve food security.

[48] Wage Indicator Foundation, *Living wages – April 2023 release* (2023). Available at: https://wageindicator.org/

3.2 1Bridge (Retail, last mile delivery)

Company summary	
Company name	1Bridge
Founded	2015
Country/region	India
Sector	Retail, last mile delivery
Fund investment	
Investor	Capital 4 Development
Investment year	2018
Amount invested	USD 1.6 million
Board seat	Advisory Board
TA support	USD 6,500
Inclusive Growth highlights	
Inclusive employment	11% women employees 8% youth employees (18-24 years) 63% youth employees (25-35 years) 94% low-skilled workers
Inclusive products and services	1Bridge improves access to basic goods and services through its delivery services and its network of entrepreneurs
Inclusive outreach	1Bridge delivers products and services to rural populations benefitting from more choice, cheaper products and services and ease of transaction
Inclusive value chain	1Bridge creates new income generating activities for microentrepreneurs in rural areas

Introduction

1Bridge aims to connect rural consumers with urban suppliers to improve their access to a wider range of products and services through more efficient supply chains, distribution and payments networks, while generating earning opportunities for local entrepreneurs. To do so, 1Bridge's main business activities are (i) logistic services through a distribution network reaching rural areas and (ii) rural commerce activities through a network of local entrepreneurs ("1Brige Associates" or "1BA"). 1Bridge provides a digital platform to local shop owners through which they can sell products and services to rural consumers, delivered through 1Bridge last-mile delivery services. 1Bridge sources products and services through partnerships with e-commerce platforms (such as Amazon, Flipkart, Myntra, Rico), financial service providers (such as Ananya Finance, CyberPlat, Bankit) or digital platforms (e.g., Facebook, Google). 1Bridge runs several projects in parallel such as outreach and awareness campaigns to introduce clean energy products, healthcare and financial services for rural households.

Solution to inclusive growth challenge

A large portion of India's population resides in rural areas. While changing consumer patterns reveal that rural consumers seek products that point to an urban lifestyle, end products and services available in rural areas tend to be more expensive due to higher delivery costs, a larger number of intermediaries and products/services scarcity. As an alternative and when products or services are not available, villagers have to do long hours of travel constraining them to be absent from work. This increases inequalities between urban and rural consumers as e-commerce platforms (such as amazon or Flipkart, one of India's biggest online store) provide urban consumers more choice and better prices.

"If you go even 10km from district towns into the villages, access, choice and convenience are non-existent" – Madan Padaki, founder of 1Bridge

Considering this, 1Bridge aims to bridge the rural-urban divide by enabling rural citizens to participate in e-commerce activities, as consumer and entrepreneur. With its digital platform and distribution network, 1Bridge increases the range of products and services available and accessibility for rural consumers at lower costs (due to more competitive prices but also time efficiencies with shorter travel time). This started in 2015 with the creation of one delivery station in order to shorten delivery times. In 2017, to further reach rural populations and improve their access to e-commerce, 1Bridge developed an 'assistance e-commerce model' for rural grocery stores. This provided local shops' owners with an application through which customers could directly order products or services supplied by 1Bridge's partners (such as Amazon, Flipkar or Snapdeal). 1Bridge's digital platform offers products and services tailored to rural populations needs including products such as FMCG, kitchen and home appliances, electronic appliances as well as digital services (i.e., cash withdrawal, mobile recharge, service bill payments). To enhance its outreach to rural households, 1Bridge also works with a network of women advisors going door to door to promote 1Bridge's catalogue of products and services. 1Bridge leverages the local network of the entrepreneurs (local shop owners or advisors) and the trust they built with the consumers allowing them to gain a better understanding of rural households' needs and to reach a deeper layer of rural populations.

1Bridge operations also help address the issue of urban migration linked to the lack of economic opportunities in rural areas. With its activities, 1Bridge aims to support local youth through its network of entrepreneurs allowing them to learn and earn more due to growing business activities. Under the 1Bridge Academy, the company equips entrepreneurs with necessary skills to function as 1Bridge Advisor. 1Bridge also creates employment within its delivery stations retaining youth in rural areas close to their family. Discussions with employees reveal this improves their quality of life due to lower living costs.

Intermediary Fund's investment rationale

In 2017, C4D invested USD 1.6 million equity in 1Bridge. C4D invested at an early stage, when 1Bridge started expanding its activities. C4D's capital financed new delivery centres (about 68 new centres since C4D's investment), as well as 1Bridge's growing technology team. 1Bridge aligns with C4D's objective to reach underserved populations in rural areas by creating economic opportunities and increasing access to products and services.

Intermediary Fund's value added

1Bridge recognises C4D's instrumental role in the company's growth. The company's revenues have grown from USD 0.5 million to USD 10 million since C4D's investment. As main institutional investor and through their seat on the board, C4D contributed to crafting the company's strategy. It also supported 1Bridge in accessing a new credit line. C4D introduced them to the Non-Banking Financial Company (NBFC) Ananya Finance, which is one of C4D's portfolio company. As a common investor, C4D provided comfort and guarantee to Anyana Finance. C4D also supported 1Bridge through two grants amounting a total of USD 6,500 used for an impact assessment and to improve 1Bridge's technology and branding.

Business model development

Since its inception, 1Bridge has been able to scale up and to increase its outreach. In 2015, 1Bridge started with one deliverer, it has now grown to 3,000 deliverers delivering across more than 50 districts. Today, 1Bridge has a digital and/or delivery presence across eight Indian states. The business is exploring multiple market tailwinds including a focus on financial inclusion, on improving the access to electric vehicles and rural mobility and on agritech to support farmers in their activities. 1Bridge is currently in the process of acquiring two companies including an Agritech distribution company.

Impact results

1Bridge's key contribution to inclusive growth is through its network of entrepreneurs generating new incomes as well as through the improved access to basic products and services for rural populations.

Inclusive employment

Inclusive Growth dimension	*Baseline (2018)*	*2022*
Inclusive employment		
Employees	*80*	*142*
Women employees	-	*11%*
Youth employees (18 to 24 yo)	-	*8%*
Youth employees (25 to 35 yo)	-	*63%*
Low-skilled employees	-	*94% (2021)*
Women executive managers	-	*2%*
Monthly wage received by low-skilled employees	-	*USD 356*

In 2022, 1Bridge supported 142 employees (including independent contractors), among which about 11% are women and about 71% are youth employees. 1Bridge creates most employment through delivery activities. While most of the delivery centres are led by men and hire men deliverers, 1Bridge set-up India's first all-women last mile delivery station in 2022. This supports 1 woman station manager; 4 women team leads and about 30 women deliverers. A large portion of 1Bridge's workers are low-skilled employees and evolve in the company thanks to new career opportunities. Interviews have shown that a number of delivers have grown and been promoted within the company to team lead or regional manager.

1Bridge offers growth opportunities to low-skilled employees

Interviews with employees reveal employees' career growth within the company and the improvement of their living standards. Starting as deliverers, employees are offered the opportunities to grow and become team lead or regional manager. This is the case of a Venkat Singh from the district of Koppal. Venkat Singh was a farmer before joining 1Bridge and working as a deliverer. While he never went to school before, he followed a six-month skill development programme sponsored by a foundation launched by 1Bridge's founder in 2012. He is now working as a district coordinator from his town. 1Bridge has also approached microentrepreneurs from its network and hired them as district coordinators.

Between 2018 and 2022, the average monthly salary provided by 1Bridge's employees has more than doubled. This increase is driven by growth opportunities as highlighted above. In 2022, the average monthly salary of one employee was INR 29,425 (about USD 356) which is above the living wage in Bengaluru (about USD 281 a month based on discussions during the field visit). However, this includes senior management and developers based in Bengaluru which pulls the average up. On the other end, when starting, deliverers receive the minimum wage (about INR 9,000/month which corresponds to USD 110). This is below the living wage of a rural area located near Mysuru (the global living wage coalition defines a living wage of about USD 189 per month for Rural Nilgiris, a neighbouring region of Mysuru)[49]. The station manager in Mandya earns about INR 21,000/month (USD 254). 1Bridge also hires delivery associates that are paid on a variable basis, earning between INR 15,000 to INR 20,000 a month.

Inclusive products and services

Inclusive Growth dimension	*Baseline*	*2022*
Inclusive products and services		
Middle income households	-	*>60 million*

1Bridge improves access to basic goods and services through its delivery services and its network of entrepreneurs. The delivery of digital services through entrepreneurs (such as digital transfer, bill payments, mobile recharge, withdrawal, insurances) is the largest component (about 75%) compared to the sale of products (such as household and kitchen appliances, energy solutions for agri activities), delivery activities and specific projects (i.e., What's app). During interviews, two women advisors shared that kitchen appliances and electric stoves were the most requested and purchased when approaching rural households. 1Bridge is currently doing a pilot for offering financial services to local consumers without credit score and facing challenges in accessing finance. This is done in collaboration with Ananya Finance, an NBFC introduced by C4D. Through 1Bridge, rural populations tend to have access to more affordable goods and products. 1Bridge's alternative is cheaper as 1Bridge obtains lower-cost products through its partnerships and consumers do not have to travel to purchase the desired product/service.

Inclusive outreach

Inclusive Growth dimension	*Baseline*	*2022*
Inclusive outreach		
Rural consumers	-	*>700 million*

1Bridge's products and services are delivered to rural populations. The key benefits highlighted by 1Bridge for their rural consumers are more choice, competitive price, ease of transaction with trust and convenience of doorstep delivery. As an indication, most of the end-customers are farmers (about 50 to 60% of the customers), but also live from a small store or a seasonal job. 1Bridge cater its offer to rural populations needs, building on the information gathered by its network of entrepreneurs. 1Bridge's network covers about 50% of the targeted states villages (one village counts about 5,000 inhabitants).

Inclusive supply chain

Inclusive Growth dimension	*Baseline (2018)* [50]	*2022*
Inclusive supply chain		
Micro-entrepreneurs	*935*	*7,781*

[49] Global living wage coalition, *Living wage for rural Nilgiris, Tamil Nadu,* India (2022). Available at: https://globallivingwage.org/living-wage-benchmarks/rural-nilgiris-tamil-nadu-india/

[50] 1Bridge data 2022 shared to the consultant team for this deep dive.

Women micro-entrepreneurs	*-*	*20%*
Average monthly earning (INR)	*5,334*	*15,530*

Through its network of entrepreneurs, 1Bridge indirectly supports employment and income generating activities. On average, in 2022, 1Bridge supports about 7,781 micro-entrepreneurs among which 20% are women. 1Bridge aims to increase its outreach to women entrepreneurs to 50% through partnerships with networks with governmental organisations. Since 2018, 1Bridge has multiplied the number of microentrepreneurs supported by more than 7 (about 935 in 2018). 1Bridge provides training opportunities to entrepreneurs, upgrading their entrepreneurship skillset with the aim to improve their customer base. In 2022, microentrepreneurs' average monthly earnings generated solely through 1Bridge application amounts INR 15,530 (USD 109). This is generated by the 5% to 15% margin applied on products and services sold. This adds up to entrepreneurs' revenues generated from other activities unrelated to 1Bridge.

1Bridge creates new income generating activities for microentrepreneurs in rural areas

Ravi, lead advisor in Kyatanahalli village, had a small shop providing mobile recharges and mobile access. He started working with 1Bridge 5 years ago. He is now Lead Advisor for 1Bridge and manages 13 other villages with 1Bridge Advisors. Thanks to 1Bridge, he has grown his business and improved his living standard as well as his parents'. An important change is the social recognition that 1Bridge brought to him, as people started to know him in the village and surroundings. Ravi earns around INR 10,000 per month (USD 122), which is 50% more than what he used to earn before joining 1Bridge.

Poornima and Dakshayini are two women advisors from Aralakuppe and Seethapura respectively, in charge of going to households to onboard new clients. On average, Poornima has doubled her earnings compared to her previous job. Although both Poornima and Dakshayini's revenues since they are advisors for 1Bridge remain below INR 6,000 per month, working as 1Bridge advisors provide them with great flexibility allowing them to focus on other activities in the meantime (e.g., tailoring, flour milling and a small retail store for Dakshayini). With this new source of revenue, both have for ambition to renovate or build a new house.

3.2.1 Saahas Waste (Waste management)

Company summary	
Company name	Saahas Waste Management Private Limited
Founded	2013
Country/region	India
Sector	Waste management
Fund investment	
Investor	Capital 4 Development
Investment year	2018
Amount invested	USD 566,719
Board seat	Arvin has a seat in the BoD
TA support	n/a
Inclusive Growth highlights	
Inclusive finance	Saahas has been founded and is led by a woman, Wilma Rodrigues, who is currently CEO. 50% of the board of directors are women
Inclusive employment	Saahas largely employs women, youth, low-skilled and populations from the BoP.
Inclusive value chain	With its social inclusion model, Saahas will contribute to more inclusive supply chains as it transitions informal waste workers to formal systems including low-skilled and BoP employees

Introduction

Saahas Zero Waste ('Saahas') provides end-to-end waste management services based on the principles of circular economy, from advisory and training to onsite and offsite waste management. Waste is managed as close to the source as possible, recovered optimally, then reused in manufacturing and returned to the mainstream economy as an input to the recycling industry. This pursues the goal to prevent waste from reaching a landfill. In line with this, Saahas has a landfill diversion rate which is more than 96% reducing risk of leakages into landfill and water bodies. As a social enterprise, Saahas' business model puts environmental and social impact ahead of profits. Saahas steers towards driving the benefits of waste management right down to the base of the pyramid and ensuring safe working conditions and dignified livelihood for all.

Solution to inclusive growth challenge

As the second most populated country in the world, India generates a large amount of waste annually. Due to improper waste management, most of the waste ends up in unauthorised landfills, posing serious health and environmental threats on workers such as waste-pickers and surrounding communities (e.g., fire hazard, displacement, water pollution which also affects farming activities). Social damages are amplified by the informality of the industry (about 90% of the sector)[51] mostly relying on workers from marginalised groups. Several studies have shown that a large portion of waste pickers across India belong to some of the lowest casts. According to Chandran et al. 2009, handling waste has traditionally been bound to the lowest castes. This strengthens inequalities as the informal sector has little or no access to financial or social security benefits and other such safety, health, and environmental support.

[51] Based on discussion with Saahas

Saahas promotes responsible waste management practices which includes no-dumping in landfill and no burning. In 2021-2022, Saahas has collected, aggregated and processes 32,333 MT of waste through its diverse business verticals. A first business vertical Zero-Waste Program ('ZWP') and Material Recovery Facility ('MRF') provides on-site waste management services to clients including corporate offices, university campus, tech park, residential complexes in turn for a services fee. This vertical contributed to about 26% of the company's total revenues. Through this vertical, Saahas had 59 clients in 2022 who have signed up for Saahas' flagship ZWP in Bengaluru, Chennai, Hyderabad and Goa. In 2022, Saahas scaled-up its MRF model with the government of Karnataka through its consultancy vertical. Saahas has been appointed as the technical and knowledge partner of Karnataka Rural Drinking Water and Sanitation Department (RDW&SD) to set up 100 MRFs across rural Karnataka in the next three years. In 2022, the facility in the district of Udupi was set up and is now operating at 50% capacity. This is promising has it influences the public sector and reaches scale regarding waste management.

Another key vertical, Extended Producer Responsibility ('EPR') Plastic and EPR E-Waste, provides a transparent and legally compliant reverse collection and recycling mechanism after consumption for producers that have made the commitment to recover resources embedded in plastic or e-waste. This vertical focuses on enabling an ethical and traceable plastic and e-waste value chains and relies on an extensive network of consumers and the informal sector for waste collection. By integrating the existing informal waste collection sector in its operations, Saahas aims to transition informal waste workers to formal systems. This is supported by its social inclusion programme bringing entrepreneurs into compliance against delivering results. Through this programme, Saahas partners with entrepreneurs and support them through infrastructure development, capacity building, business development or financial support. Over the last four years, Saahas has conducted a first pilot with about 14 entrepreneurs of different backgrounds.

Intermediary Fund's investment rationale

C4D's relationship with Saahas started long before their investment in 2018. C4D supported Saahas in the development of their business plan in 2015 and started the investment process in 2016. In 2018, C4D invested USD 566,719 in Saahas. This was used to build the first MRF with the appropriate technology enhancing collection and aggregation of all types of non-biodegradable waste. This supported the company's flagship model and its scale up plans as it demonstrated how Saahas could solve waste management issues through resource recovery and recycling. Through its investment, C4D aimed to further grow Saahas' business, thereby increasing its environmental and social economic impact.

Intermediary Fund's value added

C4D's investment was key to help scale Saahas' flagship programme as this first MRF has been used a role model and proof of concept. C4D participated in the second round of funding and addressed the founder's struggle in accessing finance. After its investment, C4D's priority was to improve the company's financial discipline. With a seat in the Board of Directors, Arvind Agarwal has focused on Saahas' financials and encouraged a more stringent management of the company's finances (e.g., to look at financial performances beyond the P&L). Around 2020, C4D introduced Ananya finance to Saahas as they were seeking a loan to finance working capital. C4D has not provided BDS support to Saahas as no particular request from the company arose. While C4D and Saahas did not agree on an ESAP for Saahas, C4D encouraged the development of an employment handbook for employees which was introduced in 2018.

Business model development

Over the years, SZW has grown and learnt a lot from its mother organisation, NGO Saahas, established in 2001. Starting with its flagship program working with bulk waste generators to implement segregation at source and onsite management, the company has overtime diversified its operations. Saahas has now gained the confidence and feel better positioned to influence the ecosystem including government policies, customers as well as investors. The business aims to push for a better implementation of the government policies and a larger adoption of the EPR by corporate clients. As a social enterprise, Saahas places impact at the core of its operations and has published impact reports in the past three years reporting on the company's environmental and social performance against an extensive set of indicators.

The piloting of the social inclusion model illustrates well the company's ambition to be a game changer in the industry and in transitioning informal workers to formal systems. While they face challenges in demonstrating to entrepreneurs the business case for formalisation, they are in the process of establishing a financial network to enhance entrepreneurs' access to finance.

Impact results

C4D's investment in Saahas contributes to inclusive growth with a focus on inclusive finance and inclusive employment. In addition, with its social inclusion model (still in the pilot phase), Saahas will also contribute to more inclusive supply chains as it transitions informal waste workers to formal systems including low-skilled and BoP employees.

Inclusive finance

Inclusive Growth dimension	*Baseline*	*2022*
Inclusive finance		
Women entrepreneurs	*n/a*	*Woman as CEO* *50% of BoD are women*

With its investment in SZW, C4D contributes to inclusive finance. The company has been founded and is led by a woman, Wilma Rodrigues. In 2001, Wilma Rodrigues founded Saahas, an NGO focusing on solid waste management. When Saahas became a revenue-generating business, the founder launched the for-profit entity Saahas Waste Management in 2013. As of December 2022, the board of directors is composed of women at 50%.

Inclusive employment

Inclusive Growth dimension	*Baseline*	*2023*
Inclusive employment		
Employees (#)	*n/a*	*315*
Women employees (%)	*n/a*	*58%*
Youth employees 18-24 years (%)	*n/a*	*13%*
Youth employees 25-35 years (%)	*n/a*	*40%*
Low-skilled employees (%)	*n/a*	*68%*
Women executive managers/supervisors (%)	*n/a*	*46%*
Monthly wage received by low-skilled employees	*-*	*USD 200*

SZW contributes to inclusive employment as it largely employs women, youth, low-skilled and populations from the BoP. As of 2023, SZW has 315+ employees, among which 68% are considered as from the BoP. On average, about 59% of SZW ' employees across the verticals are women. The ZWP and MRF vertical is the most labour intensive as it employed 203 staff members in 2023, including 86% of field staff (i.e., work in on-site facilities such as technology parks, campus). A majority of the field staff are from the BoP including migrants coming from other Indian states and rural areas.

An important value added from *Saahas* is the job security provided through fixed contracts complying with minimum wages and social security regulations which is rather rare in this largely informal sector. For the field staff, *Saahas* applies a minimum wage of INR 16,360 per month (USD 200) which is below the living wage (about INR 23,000 in Bengaluru which corresponds to USD 281)[52]. In all transparency, the company disclosed the CEO's wage was about 10 times higher than the minimum wage. According to the founder, this difference is significantly smaller than in the rest of the industry where leadership is paid approximately 200 times higher than employees working with informal contracts and paid below minimum wages. As the company strives towards paying living wages, *Saahas* negotiates with clients hosting *Saahas*' field staff to raise service fees allowing in return to pay living wages. This is the case with their client Goldman Sachs which hires about 7 employees paid above the living wage (INR 26,242 or USD 320). *Saahas* provides life insurance and social security benefits.

Spotlight on Nagaveni (38 years), employee at the MRF, Bengaluru

Nagaveni works for the MRF in Bengaluru for five years. Before joining the company, she used to work as a gardener. As a temporary worker, her contract expired which led her to apply for a job at SZW. She first joined as a sorter and is now in the lead of the sorting team.

By joining Saahas, Nagaveni found more financial stability and was able to support her family and improve their living conditions. While her husband worked as a taxi driver, his revenue varies on a daily basis. Navageni's permanent contract and stable revenue has allowed her to pay for the education of her two children (13 years old and 15 years old) and to rent a bigger house with a restroom. Saahas also supported Navageni in affording her house with an interest free loan (about INR 20,000). Nagaveni recommended Saahas to 10 other persons that are now working for the MRF too.

Based on a survey conducted by a third party with 233 employees, about 91% of employees feel their incomes are more stable and reliable than before. About 64% of respondents were able to purchase productive household assets after getting a job with Saahas (e.g., 44% a mobile phone, 21% a stove/gas burner).

Inclusive products and services and outreach

While Saahas does not directly serve BoP customers, the improved waste management indirectly tends to improve low-income population's living standard as it diverts waste from unauthorised landfills which has a direct impact on surrounding communities' health. Furthermore, through its consultancy services with the RDW&SD, Saahas indirectly serves rural customers diverting waste from landfills in rural areas through the new MRFs set-up across rural Karnataka.

Inclusive value chain

Inclusive Growth dimension	*Baseline*	*2023*
Inclusive value chain		
Entrepreneurs supported (#)	*n/a*	*14*

[52] The living wage in Bengaluru has been informed by discussions with Saahas Waste management

Women entrepreneurs (%)	*n/a*	*21%*
Waste informal workers transitioned (#)	*0*	*112*

Saahas is piloting a social inclusion programme enrolling the informal sector in its waste collection system. As of 2022, the company partnered with 14 entrepreneurs (including three women entrepreneurs) bringing them in compliance with environmental legislations (e.g., no dumping and burning, supply to authorised end destination), and social legislation (e.g., child labour, minimum wage, working hours, benefits, health insurance). Through its social inclusion model, about 128 waste informal workers have been transitioned from the informal to formal systems. Employees are largely from the BoP and rural areas.

Spotlight on Hassan Khan, entrepreneur participating in SZW's social inclusion programme, Bengaluru

Hassan is a micro-entrepreneur operating a waste collection and management facility in Bengaluru. Saahas started supporting Hassan's business in 2019 with the aim to shift the entrepreneur's mindset towards building a compliant and more inclusive business. Saahas provided training and advice to support the business activities' formalisation. Although there is still room for further formalisation, Hassan brings his business towards compliance and pays minimum wages to his 20 employees among which 5 are women. The profit of his company has doubled over the last two years which has improve Hassan's living standard. As an example, this has allowed him to afford electricity and gas and to purchase pasture where her mom conducts farming activities.

3.3 Poa Internet (Telecommunications)

Company summary		
Company name	Poa Internet	
Founded	2012	
Country/region	Kenya	
Sector	Telecommunications	
Fund investment		
Investor	Novastar I	Novastar II
Investment year	2016	2021
Amount invested	USD 6.4 million	USD 4 million
TA support	n/a	n/a
Inclusive growth highlights		
Inclusive employment	94% low-income employees 41% women employees 42% women in management jobs	
Inclusive products and services	Providing access to affordable internet to underserved groups of low-income individuals living in urban and peri-urban areas	

Background

Poa Internet (hereafter Poa) is a telecommunications provider that offers low-cost, high-speed, unlimited broadband internet connectivity to homes and SMEs in low-income urban and peri-urban areas in Kenya. Poa connects underserved communities of low-income groups, and thereby aims to improve lives through unlimited access to knowledge and economic opportunities. With this, the company's vision is to bring internet to every home in Africa. Since the start of operations, Poa has been instrumental in bridging the needs of last-mile connectivity in Kenya by using an innovative Wi-Fi network that delivers public internet access as well as home internet. Through its two distinct services – Poa Home and Poa Street – the company supports everyday social integration and economic growth through digitalisation. Poa Home offers internet to households at rates that are 90% cheaper compared to mobile internet, which is the typical alternative[53]. In addition, Poa Street providers free street Wi-Fi with over 10,000 hotspots across Kenya. Starting from Nairobi, the company is continually expanding its reach to new areas.

Intermediary Fund's investment rationale

The IFs investment rationale is primarily based on the intentionality of the entrepreneurs to address a challenge among the mass low-income market. Kenya, in particular Nairobi, is considered one of the most vibrant start-up hubs in Africa, which has been driven by rapid acceleration of access to smartphones, internet, and high adoption of digital financial services. However, individuals with low-income, and typically living in urban slums, are greatly underserved as there is no home internet connectivity provided in these areas by incumbent telecommunication service providers such as Safaricom or Zuku in Kenya, who do not venture into low-income neighbourhoods for a perceived lack of profitability. Meanwhile, people turn to mobile internet, but the cost

[53] Africa50 2021 Sustainability Report.

of data is very high as a proportion of income. Given that these groups form a significant share of Kenya's population there is a huge scalability potential, both commercially and on inclusive growth.

Furthermore, Poa's business model deviates from conventional telecommunication service providers as it uses a cost-efficient Wi-Fi technology, rather than creating internet cables. This allows the company to offer residential broadband connectivity with unlimited access to internet against a fixed price, instead of charging variable costs for each unit of internet consumed. The IF recognises the importance of access to affordable internet as it allows for expanded use as accessing the internet for work and education services (see section on Impact results). Cheap, fast internet bridges the 'digital divide' offering more access to jobs, trade, education, and social inclusion.

> *"The problem is not to give people some level of internet connectivity, but internet of such a quality and quantity that it can make a meaningful impact".* – Andy Halsall, Chief Executive Officer Poa Internet

Business model development

Poa initially started providing street Wi-Fi in Kibera, Nairobi. However, it quickly turned out that residents preferred having internet at home rather than on the streets. Poa extended its offer from public access to home markets and has continually expanded its reach to new neighbourhoods in Nairobi. With its growth, Poa was able to raise new investments roughly every two years. In 2020, the company achieved first place in Africa50's Innovation Challenge and gained increased attention among the broader investment community, which ultimately led to the series C investment round closing at USD 14 million.

Poa is now active in the greater Nairobi area with a coverage of more than 70 neighbourhoods and serving over 25,000 home internet customers. The company's current focus is to grow and achieve profitability the near future, primarily through hiring senior commercial management and operationalising new networks across geographies. Poa will continue growing in Nairobi and has plans to expand to the cities of Nakuru and Mombasa, as well as cities outside Kenya. Nevertheless, there is a challenge in the geographical growth of Poa, as the company's technology is dependent on large network towers from incumbent telecommunication service providers. Since these network towers are typically located in urban areas, inclusive outreach in rural areas is limited.

To achieve Poa's vision of providing internet in every home in Africa, expanding outside of Kenya is pivotal. Since the company focuses on 'last mile delivery' (i.e., getting internet connections to the customer), it requires bespoke micro-level interventions that are adapted to local circumstances. To stimulate this endeavour, Poa recently received a grant from the US Trade and Development Agency (USTDA) for research identifying what markets could represent next opportunities.

Impact results

Inclusive employment

Inclusive Growth dimension	*Q3 2022*
Inclusive employment	
Employees	*156*
Women employees	*41%*
Low-income employees	*94%*
Low-income women employees	*38%*
Management jobs	*12*

Women in management jobs	*42%*
Average yearly wage received per employee (2021)	*n/a*

Poa experienced a rapid increase in its workforce, with 60 employees in 2020 to 156 employees in Q3 2022 – a growth of 160% in less than two years' time. Almost its entire workforce consists of low-income employees thereby not only serving the low-income market through its products and services, but also employing them. In addition, Poa is reaching towards gender parity in its workforce in total (41%), its low-skilled workforce (38%) as well as its management team (42%). Note that some data is unavailable as Poa reports on the number of 'low-income employees' opposed to DGGF's indicators of low-skilled workers, or the amount of wages paid.

Inclusive products and services

Inclusive Growth dimension	*Q3 2022*
Inclusive products and services	
Customers	*106,571*
*Women customers**	*42,628*
*Direct low-income beneficiaries***	*330,516*
Institutional customers	*122*
Education facilities	*45*
Health facilities	*12*
Cyber cafes	*29*
Shops	*22*
Religious institutions	*7*
Libraries	*2*
Youth groups	*5*

*Based on an assumption that 40% of customers are women

**Based on an assumption of an average household of 3.1 people

Poa aims to address the 'digital divide' by providing affordable internet to low-income groups. The target group are households with a monthly net income of around 24,000 KES (around 160 EUR) that comprise roughly 21% of the Kenyan population[54]. This group is considered the 'sweet spot' that allows to combine commercial return with development impact as people have sufficient income to spend on internet but are still considered low-income. In Q3 2022, Poa served more than 100,000 customers from which it is assumed that 100% of customers are low-income. This assumption is currently under review.

"Poa Internet democratised internet across Nairobi. When speaking to our clients, we often get positive feedback: "Poa brings internet to homes, whereas it was previously only available for the rich."" – Dirk-Jan Koeman, Chief Business Development Officer

Poa does not only serve households, but also institutions and organisations that are located in underserved communities. For example, with financial support of Africa50, Poa commenced its Internet School Digitalisation programme in early 2023. This programme covered more than 4,000 pupils across 13 schools and has shown to significantly improve students' computer and internet skills. Given that 75% of the schools in Kenya do not

[54] Poa Internet 2023. Interview with Dirk-Jan Koeman.

have internet access, Poa can tap into an area of enormous development impact by creating opportunities for online learning and e-services among underserved communities.

The impact of Poa Internet by six use cases of internet

Poa commissioned a third-party impact evaluation that uncovered six impact areas based on how its customers use internet. The exploratory research identifies Poa's impact on communities as follows:

1) *Education*: the ability to learn, both through informal (62%) and formal (42%) education

2) *Digital services:* the ability to access public and private digital services, from which the biggest impact is seen with utilisation of digital health services and digital games

3) *Entertainment services:* the ability to consume digital content for leisure, such as listening to music (92%) and watching movies and series (9%)

4) *Social connection:* the ability to interact and communicate with people, largely through social media networks

5) *Empowerment*: the ability to engage in new value adding or enriching activities, which is found to be more around convenience (working from home, access self-improvement videos, pursue new skills or hobbies) as opposed to leveraging internet to gain extra income

6) *Financial gain:* the ability to grow disposable income or saving from purchases, where Poa's customers using internet to do business make between 25,000-50,000 KES (while only 3 out of 10 home-users use internet to do business, this is considered a significant earning) and customers have recorded savings of 1,500 KES post connection to Poa

3.4 Al-Shifa Hospital (Health)

Company summary	
Company name	Al-Shifa Hospital
Founded	1948
Country/region	Palestinian Territories
Sector	Health
FI investment	
Financial institution	FATEN
Year	2015
Amount provided	USD 50,000
Loan product	Productive loan
Loan purpose	Machines and equipment
TA support	n/a
Inclusive growth highlights	
Inclusive finance	50% of shares held by a woman
Inclusive employment	The hospital employs a total of 55 employees of which 20% are women Among doctors, 20% are women Among nurses, 80% are women and youth
Inclusive products and services	Target clients are low-income families living in Jenin and outskirts

Background

Al-Shifa Hospital was founded in 1948 in Jenin. The hospital provides a wide range of medical services, including inpatient care, emergency care, outpatient care, diagnostic services, surgical services (excluding cardiology), maternity and childbirth, and intensive care. The hospital operates in the city centre of Jenin and has served as one of the first private hospitals in Jenin. The hospital closed its doors after the second Intifada, as the owners travelled to live abroad, and decided to come back in 2015 to renovate and reopen the hospital.

The hospital was initially founded by a doctor who has since passed away, but the current operation, established in 2015, is led by Dr. Khaled AL Asir and his mother, Maisa AL Asir, who is also co-managing the hospital's operations. The hospital is a family business, involving Maisa's husband as well, and her son and daughter who are also doctors and working in the hospital. Maisa Al Asir took the loan to support the hospital's activities in 2015 to buy a multitasking ultrasound machine, which served as a cornerstone for the new operations.

Solution to inclusive growth challenge

Al-Shifa Hospital plays a crucial role in addressing social problems in its area by providing accessible healthcare services. With a population of around 50,000, Jenin is one of the West Bank's major historical cities.[55] Jenin is located at the heart of the Marj ben Amer (Jezreel Valley), which has historically hosted the bulk of Palestinian agricultural production. Today, the city continues to be a major agricultural centre for the surrounding towns. Jenin is also home to the Jenin Refugee Camp, which borders the Jenin municipality and hosts over 10,000-

[55] https://www.pcbs.gov.ps/Downloads/book2405.pdf

20,000 refugees.[56] The camp has been the scene of significant suffering. In 2002, the Israeli military occupied the camp after ten days of intensive fighting, destroying more than 400 houses, severely damaging hundreds more, and displacing more than a quarter of the camp's population.[57] Jenin Refugee Camp continues to experience one of the highest rates of unemployment and poverty among the 19 West Bank refugee camps.

The availability of hospital care in Jenin is significantly lower than the national average. In Jenin there were 1.5 hospitals per 100,000 in 2021 compared to the Palestinian Territories' average of 1.7. The gap is more noticeable when considering the availability of hospital beds; the city has 10.4 beds for 10,000 of population compared to the Palestinian Territories' average of 14.9.

Al-Shifa Hospital, known for its comprehensive range of medical specialties including obstetrics, general surgery, and cosmetic surgery, caters to the diverse healthcare needs of the local community. Recognising the importance of holistic care, the hospital has plans to expand its services to encompass rehabilitation and psychotherapy, ensuring a more comprehensive approach to patient wellbeing. The hospital provides more affordable healthcare services to Jenin area residents (with prices on average around 10% less than the other private hospitals) and allows patients to pay on instalments up to 6 months. The hospital also serves as a referral hospital for cancer patients in collaboration with Maryam Cancer Foundation, where they also work on awareness about cancer through annual campaigns.

The hospital also inspired many other private hospitals to open in Jenin. Today, the Jenin Governorate, where over 350 thousand people currently reside, hosts one public hospital alongside four private hospitals, each contributing to the healthcare infrastructure of the city. The hospital serves as the sole family-owned private facility, distinguishing itself from other hospitals such as Al-Amal, Al-Razi, and Ibn Sina Hospital, which are managed by charitable organisations and joint-stock companies, giving Al-Shifa hospital more flexibility in adapting to security and political challenges, as well as adapting to new approaches and technologies in serving their audience as opposed to public hospitals. It is worth mentioning that the hospital is one of the oldest privately owned hospitals in the West Bank.

In 2022, the hospital witnessed a significant number of patients, with a total of 20,991 individuals seeking medical care across various departments and clinics.

Intermediary Funds' investment rationale

FATEN's decision to back the hospital was based on a thorough due diligence process that entailed financial screening of the owners' accounts and transactions and gathering information about the family's business portfolio and relevant expertise in the health sector. The owners, who provided the investment for the renovation from their own capital, demonstrated financial willingness and ability to lead the hospital and improve its performance. This was also supported by the owners' long track record starting with the establishment of the hospital in 1948.

Intermediary Funds' value added

The decision of Al-Shifa Hospital to choose a microfinance institution like FATEN was influenced by a referral from a friend who was a former employee. FATEN stood out due to its low-interest rates compared to other

[56] Varying numbers by different sources; https://www.pcbs.gov.ps/Downloads/book2405.pdf; UNRWA, *Palestine refugees in Jenin face security and economic challenges* (2022). Available at: https://www.unrwa.org/newsroom/press-releases/palestine-refugees-jenin-face-security-and-economic-challenges

[57] UNRWA, *Jenin camp* (no date). Available at: https://www.unrwa.org/where-we-work/west-bank/jenin-camp

microfinance institutions, and the bank would have asked for more guarantees and collateral. While FATEN only asked for personal guarantees as owners of the hospital and did not need any other collateral.

Dr. Maisa Al Asir, the current co-manager and co-owner, took out a loan of 50,000 USD, whose balance is still outstanding. The loan has been used to purchase essential equipment which are a multitasking ultrasound machine and an ultrasound for prenatal care. There has not been any non-financial services offered or provided by FATEN.

Company development

The main source of revenue for Al-Shifa Hospital is the medical services it provides to patients. Since its establishment, the hospital has witnessed steady growth in revenue. The expansion of services and the employment of additional staff have contributed to the overall development of the hospital. The acquisition of the multi-tasking ultrasound machine has allowed the hospital to attract new patients and increase its revenues.

Impact results

According to the business owner, the loan from FATEN has had a positive impact on the community by contributing to employment opportunities and raising awareness about cancer. The hospital now serves a broader range of segments and provides specialised healthcare services, particularly in obstetrics.

Inclusive finance

Inclusive growth dimension	2023
Inclusive finance	
Shares owned by women	50%

Inclusive employment

The establishment of a hospital in Jenin contributes to the creation of employment opportunities for the local population. Since receiving the loan, the hospital has expanded its workforce from 20 employees to 55 due to the high demand. The hospital requires a diverse range of staff, including doctors, nurses, administrators, technicians, and support staff. Currently, the hospital employs a total of 55 employees. Among the doctors, 20% are women and approximately 80% of the nurses are women and youth. The hospital also has an administration staff consisting of both men and women.

Inclusive growth dimension	2023
Inclusive employment	
Employees	55
Women employees	20
Youth employees	35
Low-income employees	11
Low-income women employees	4
Low-income youth employees	7
Management jobs	5
Women in management	2
Youth in management	2

Inclusive products and services

The target audience for their services are low-income families living in Jenin and its outskirts, who are usually farmers, employees in the private sector, and workers in Israel. By having a hospital in the city centre, residents of Jenin would have easier access to medical services. In addition, having a hospital in the city centre ensures the availability of emergency medical services in that area, especially considering the intensified Israeli occupation practices in Jenin.

3.5 Al Sanafer Kindergarten (Education)

Company summary	
Company name	Al Sanafer Kindergarten
Founded	2005
Country/region	Palestinian Territories
Sector	Education
FI investment	
Financial institution	FATEN
Year	2018
Amount provided	USD 30,000
Loan product	Productive loan
Loan purpose	Facility development and purchase of educational games
TA support	n/a
Inclusive growth highlights	
Inclusive finance	Al Sanafer Kindergarten is a Palestinian women-owned family business in East Jerusalem, which is an underserved group in the area
Inclusive employment	100% women employees 80% youth employees
Inclusive products and services	Providing quality education to low-income families and children with a diverse background – it is one of the few kindergartens to teach in English and Arabic in the area

Background

Al Sanafer is a nursery and kindergarten established in 2005 as one of the few private kindergartens in the area of Beit Hanina, East Jerusalem. The kindergarten aims to address the increasing demand for education institutions in East Jerusalem and offers a special curriculum catering to Palestinian families. The kindergarten is owned and managed by a Palestinian family from Bit Hanina and is registered in the Israeli Ministry of Economy and is governed by the Israeli Ministry of Education's standards.

Beit Hanina is a Palestinian town in Jerusalem Governorate located 5.5 km north of Jerusalem. It is bordered by the settlements of Neve Yacoov, Pisgat Amir and Pisgat Zeev to the east, the communities of Bir Nabala, Ar Ram and the industrial Atarot settlement to the north, Beit Hanina al Balad to the west, and Shu'fat to the south. No census has been conducted by the Palestinian Central Bureau of Statistics (PCBS) to ascertain the population and housing figures in Beit Hanina, however according to the Jerusalem Institute for Policy Research, the population of Beit Hanina reached 44,330 in 2020.[58]

There is a severe shortage of public services and infrastructure in the East Jerusalem Governorate (including Beit Hanina), including health and education services, welfare services, postal services and water and sewage systems.[59] In addition, just like most Palestinian children, children in East Jerusalem cannot afford or gain access

[58] The Applied Research Institute – Jerusalem, *The geopolitics status in Beir Hanina town* (2022). Available at: http://poica.org/wp-content/uploads/2023/03/BeitHanina.pdf

[59] ACRI, *East Jerusalem* (no date). Available at: https://www.english.acri.org.il/east-jerusalem

to high quality preschool education. The situation in the East Jerusalem Governorate (including Beit Hanina) is even more severe, since 74% of Palestinian children there live in poverty.[60]

Solution to inclusive growth challenge

Al Sanafer Kindergarten addresses a social problem in the area by providing quality education with a focus on inclusivity. The kindergarten offers a curriculum in English and Arabic, catering to the diverse linguistic needs of the community. They also provide a range of extracurricular activities to enhance the learning experience. The educators at the kindergarten have extensive experience, ensuring a high standard of education.

Most of the students' parents are either employed in the service sector in East Jerusalem (retail, restaurants, customer service) or the private sector, working in Ramallah. Considering the higher cost of living in Jerusalem, the goal of the kindergarten is to serve the less privileged segments of Beit Hanina and provide students with quality education in Arabic and English under the embedded learning ecosystem. This is usually very expensive, as it requires investment in educational games that take up a lot of space. Embedded learning ecosystems typically cost between USD 350-400 per month, while the price at Al Sanafer is USD 220 per month.

The kindergarten serves relatively low-income families who are looking for quality education that is close to their place of residence and is relatively affordable compared to the offerings by the Israeli municipality or other kindergartens that provide traditional curriculums.

Intermediary Funds' investment rationale

FATEN has studied their application through analysing their existing financial situation and financial history, as well as the credit history profile provided by the PMA's centralised system. After passing the financial due diligence stage, FATEN visited the school, and interviewed the management team. As a final stage, FATEN conducted a feasibility study that resulted in a positive outlook.

FATEN only asked for personal guarantees from two close relatives who have proved income (salary slips). This is considered a safe guarantee by MFIs and banks in the Palestinian Territories whereby guarantors signed on guarantee cheques for the total amount.

Intermediary Funds' value added

Al Sanafer chose to work with FATEN due to their specialised funding options and responsive customer service. FATEN's flexibility in terms of repayment schedules and their efficient communication played a significant role in the decision of the kindergarten.

During the early years of kindergarten, Al Sanafer acquired a loan from an Israeli bank, which was very difficult to deal with. Hebrew was the official language of communication, which made it difficult to communicate with the banks. FATEN and other microfinance institutions are the only Palestinian financial institutions that can serve inside of East Jerusalem without many constraints. Al Sanafer Kindergarten heard about FATEN through a referral in 2018 and applied for a USD 30,000 loan.

Overall, the presence of alternative institutions like FATEN offers individuals the opportunity to explore a wider range of financial options and provides a sense of security when seeking support from institutions that prioritise social development. This is particularly significant in Jerusalem, where residents can now access funding from Palestinian organisations, such as FATEN, rather than relying solely on Israeli institutions that often present bureaucratic hurdles and communication challenges to Palestinians living in Israel. In the context

[60] ANERA, *Early childhood development in the West Bank and Gaza* (2014). Available at: https://www.anera.org/wp-content/uploads/2017/03/ECD_Report_West_Bank_and_Gaza_WEBPRINT.pdf

of Jerusalem, where only banks were previously available, the availability of institutions like FATEN provides a valuable alternative for individuals seeking financial assistance.

Company development

The main source of revenue for Al Sanafer are student fees. Since the establishment of the kindergarten, the revenue has steadily increased. The loan obtained from FATEN was utilised for facility development, including the purchase of educational games as well as the improvement of facilities such as bathrooms and playing grounds, where both activities are highly sensitive and are relatively expensive as the specifications for the games and the facilities are set by the Ministry of Education.

The loan also allowed the kindergarten to hire additional educators to accommodate the growing number of students. Before the loan, they had 10 teachers, and 1 administrator, and today they have 14 teachers, 4 intern teachers, and 2 administrators.

Impact results

Inclusive finance

Inclusive growth dimension	2023
Inclusive finance	
Shares owned by women	100%

Inclusive employment

The kindergarten employs 14 teachers, all women from East Jerusalem, and 10 of them younger than 35 years.

Inclusive growth dimension	2023
Inclusive employment	
Employees	20
Women employees	20
Youth employees	10
Low-income employees	4
Low-income women employees	4
Low-income youth employees	3
Management jobs	2
Women in management	2
Youth in management	1

Inclusive products and services

Inclusive growth dimension	2021
Inclusive products and services	
Students	90

After receiving the loan, and upgrading its offering, the kindergarten improved its services and facilities and as a result attracted more students, leading to a substantial increase in revenue. The development of the facility and the new purchase of the educational games which have been executed during the second year of COVID-19 in 2020, have increased the trust from the local community towards the kindergarten, and in 2021 when the kindergarten opened its doors again after the lockdown, the number of students jumped from 55 to 90 students.

Appendix

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