Executive Summary

Development finance is moving from grants and donations to loans and investments, and impact investing is in prime position to capitalize on this shift. Impact investing is still a rather niche industry, but it’s growing. Reacting to customer demand, investment managers are increasingly offering impact funds, and green bonds have grown to a $700bn market. Given these trends, we decided to focus our report on the state of impact investing across Africa.

We find the countries with the most active impact investing landscapes (as measured by the number of funders in a country) are not very different from the countries with the most active alternative finance landscapes, generally. (You can read our previous report on Alternative Finance in Africa for more on this topic.) This may be the case for several reasons. First, impact investors may be helping to crowd in other (non-impact) investors — see page 3 for more on this. Second, impact investors may be operating in countries where institutions are set up to make investing, generally, more accessible. Finally, both impact and non-impact investors may be responding to demand: those countries with more opportunities are attracting more investors. Whatever may be driving flows, impact investors likely have scope to expand to countries where traditional investment is less available.

In addition to discussing the role of impact investors as drivers of more traditional investment flows, the report also examines the impact investing scene in Somalia, focuses on renewable energy as one of the leading sectors for impact investing, and presents unique data on impact investing across Africa.

The insights and information contained in this report are based on the Capital Finder, an innovative database of alternative capital providers operating across emerging markets. This database can be used by entrepreneurs, analysts, investment managers, and development organizations to identify the most relevant alternative providers for their companies and projects. The database is also able to support rigorous data analysis that is used in AlliedCrowds reports.

If you would like to find out how our Capital Finder can help your business to raise money, or to find out more about our data, feel free to get in touch: capital.finder@alliedcrowds.com.
Development finance institutions (DFIs) are important in African markets because they often act as a cornerstone for other investors and provide the momentum for a successful funding round. Obtaining financing can be a struggle for many emerging market funds, particularly first timers. DFIs can lend credibility to risky emerging market businesses and positively impact investor confidence.

Africa remains a diverse continent, with countries varying substantially in their levels of development. Across Africa, however, links between DFIs and Africa-focused VCs and PE firms offer opportunities for investments to generate satisfactory returns, as well as social and environmental impact.

Different DFIs place emphasis on different developmental challenges. These include private sector growth and job creation, poverty reduction, improved health, education, environmental sustainability, and social change.

DFIs have had significant influence on African markets. Nearly half of all funds in Sub-Saharan Africa have DFIs as investors, and over 50 percent of private equity firms in Africa have DFIs acting as catalysts for enticing investors into their funds.

DFIs have demonstrated their ability to catalyze private investment in SSA. The approach of the DFIs is to invest in projects that not only have development impact but are also financially viable. In making investments, they are guided by three principles: the need to be additional (going where other investors don’t), catalytic (paving the way for others to follow), and sustainable (making sure that investments have long-term viability).

DFI investing sends positive signals to private investors both directly and indirectly. Directly through the mobilization of other investor capital; indirectly through helping local markets to build strong foundations for commercial activity, and making them attractive to other investors through demonstration effects.

Furthermore, DFIs play an important role in transferring two types of skills: production capabilities (e.g., skills and knowledge needed for operating and improving a plant) and investment capabilities (e.g., pre-investment and project execution skills and knowledge). This knowledge and technology transfer is recognized as one of the key drivers of economic growth.

The private sector investment is widely recognized as a critical driver of economic growth. By encouraging private sector development, DFIs can promote economic growth, as well as show the way to prioritize not only financial returns, but also positive social change.
The chart to the right shows a comparison of investors in ten of the most active countries for impact in Africa. Specifically, we examine the number of funders by country that invest in agriculture against those investing in renewable energy.

One of the findings we’ve been surprised by since examining the Capital Finder data is how little renewable energy investing there is in emerging markets, compared with other sectors. In Kenya, for example, we estimate there are over three times more agri-investors than those looking at renewables. This is despite the hundreds of articles dedicated to the green energy potential of Africa, regular on the topic, and (seemingly) plenty of startups aiming to solve the challenges of access to energy in Africa.

Our data suggests that there is still room for investors to move into the sector, especially in north African countries that have an abundance of sunshine.

*Note: Investors may invest in multiple sectors and countries, so the chart data express this.*
Sub-Saharan Africa (SSA) suffers from a lack of energy infrastructure and many on the continent do not have access to a reliable electricity supply. Those without access to the energy grid are increasingly relying on solar power for lighting.

Public financing and banks have struggled to meet SSA’s demands to finance off-grid energy. In their place, impact investors are stepping up to contribute to fill the gap and help to get off-grid power to the masses. From the $16.1 billion supplied by impact investors in West and East Africa between 2005 and 2015, $4.2 billion was dedicated to energy.

M-Kopa is such an example in the renewable energy sector. Based in Kenya (the leading country for impact investing, according to our league table) and backed by a combination of traditional and impact investors, M-Kopa has connected over 500,000 homes to affordable solar power by providing financing of its solar home systems. Current customers will make projected savings of $375 million over the next four years, and enjoy 62.5 million hours of kerosene-free lighting per month. And the benefit isn’t only to the end-users of the electricity — the company has employed over 2,500 individuals throughout East Africa.

At the root of M-Kopa’s operations lies the production of cheap and environmentally-sustainable power sources which can support personal and domestic activities (for example, cooking and charging digital devices). Such access to solar home systems enables the poorest to save both time and money. Before they had access to these systems, a typical customer had to spend more money on kerosene for less lighting quality and travel nearly twice a week to charge their phone.

With projections of an increasing dominance of solar energy in the global electricity mix, African entrepreneurs are in an ideal position to gain from the opportunities available.

Access to energy is something not to be taken for granted. Renewable energy initiatives attract local jobs for the planning, installation, and operation of the farms. Availability of energy has a direct impact on the broader level of development of a country or a region’s social, economic and environmental sectors.
Given that Somalia has been called the world’s “most failed state,” it’s hardly news that investing in the country involves a lot of uncertainty. This has discouraged investors from placing capital in the country and, as a result, there has been little to no known impact investments recorded in the region.

The country is a “minefield” for any form of social investment, as civil war and terrorism have discouraged centralized governance structures. This underscores the need for impact investing in Somalia. Over 70% of Somalis live on less than $2 per day; less than 30% of children aged 6-17 are in formal schooling; and the country’s health indicators are among the worst in Africa.

An industry which can benefit hugely from impact investment is agriculture. As years of conflict have led to displaced farmers and destroyed assets & farming systems, agricultural production has declined significantly, leaving more than half of Somalia’s population in need of food assistance. MSMEs are the main employer in fragile states, and their greatest obstacle to growth is the lack of the appropriate capital. Increased investment in agribusinesses will support local farmers, improve nutrition, and decrease the country’s dependency on food aid.

One example of an impact investment program in Somalia is Shuraako. The company manages a number of funds, like the Somali AgriFood Fund and Somaliland Youth Enterprise Fund, and aids entrepreneurs in growing and expanding their businesses. Investments in these funds come from various sources. Typically, Shuraako works with entrepreneurs for several years, providing long-term assistance.

One potential source of impact investing capital is from the country’s diaspora. Trade Invest Somalia is an investing organization specifically targeted at attracting diaspora capital. It allows Somalis living outside the country to provide funding for projects which they believe can make a difference. This type of investment tends to scale solutions quicker than traditional philanthropy. With a population of only 10 million, Somalia has one of the largest diasporas, estimated at over 5 million; this group sends home billions of dollars annually. However, the scope of Trade Invest Somalia is quite limited, as investment opportunities offered are primarily in the agriculture, maritime, mining, and oil and gas sectors. While its current focus is not entirely on socially-beneficial industries, it certainly has the potential to explore impact investing as a way of attracting further capital.

Until the new millennium, philanthropic activity was largely seen as a byproduct of business success, rather than an integral driver of it. Somalia is a good example of a market that presents unprecedented opportunity to effect tangible social change while making a financial return. By providing underserved Somalis with the resources to improve their lives and lift themselves out of poverty, impact investment serves an evident social purpose.

Impact Investing Across East Africa

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