THE LANDSCAPE FOR IMPACT INVESTING IN SOUTHERN AFRICA
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We would especially like to thank our interview participants. Without their key insights this report would not have been possible. We include a full list of interviewees in the Appendix.

For any questions or comments about this report, please email Rachel Bass at rbass@thegiin.org.

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COMMON ACRONYMS

AFD  Agence Française de Développement (French Development Agency)

AfDB  African Development Bank

BIO  Belgian Investment Company for Developing Countries

BoP  Base of the Pyramid

CEPGL  Communauté Économique des Pays des Grand Lacs (Economic Community of the Great Lakes Countries)

COMESA  The Common Market for Eastern and Southern Africa

CSR  Corporate Social Responsibility

DFI  Development Finance Institution

DFID  The Department for International Development (United Kingdom)

EIB  European Investment Bank

ESG  Environmental, Social, and Governance

FDI  Foreign Direct Investment

FMCG  Fast-Moving Consumer Goods

FMO  Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Netherlands Development Finance Company)

GDP  Gross Domestic Product

GIIRS  Global Impact Investing Ratings System

GIZ  Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)

HDI  Human Development Index

ICT  Information and Communication Technology

IFAD  International Fund for Agricultural Development

IFC  International Finance Corporation

IMF  International Monetary Fund

LP  Limited Partner

MDG  Millennium Development Goal

MFI  Microfinance Institution

MSME  Micro, Small, and Medium-Sized Enterprises

NGO  Non-Governmental Organization

OFID  OPEC Fund for International Development

OPIC  Overseas Private Investment Corporation (United States)

PE  Private Equity

PPA  Power Purchasing Agreement

PPP  Purchasing Power Parity

PTA  Preferential Trade Area Bank

RFP  Request for Proposal

SACCO  Savings and Credit Co-operative

SGB  Small and Growing Business

SME  Small and Medium-Sized Enterprises

SOE  State-Owned Enterprises

TA  Technical Assistance

UN DESA  United Nations, Department of Economic and Social Affairs

UNCTAD  United Nations’ Conference on Trade and Development

USAID  The United States Agency for International Development

VAT  Value-Added Tax

VC  Venture Capital

WASH  Water, Sanitation, and Hygiene

WHO  World Health Organization

COMMON TERMS

Early-stage business  Business that has begun operations but has most likely not begun commercial manufacture and sales

Focus countries  Countries under study wherein non-DFI impact investors are most active, namely Madagascar, Malawi, Mozambique, South Africa, Zambia, and Zimbabwe

Growth-stage business  Company has a functioning business model, and its current focus is developing new products / services or expanding into new markets

Mature business  Profitable company with a developed and recognizable brand

Non-focus countries  Countries covered by the study but that have limited non-DFI impact investor activity, namely Angola, Botswana, Lesotho, Mauritius, Namibia, and Swaziland

Venture-stage business  Sales have begun but cannot sustain the company’s operations. The business model is still being aligned with the realities on the ground
ANGOLA
RECOVERING FROM WAR, DEPENDENT ON OIL
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ABOUT THIS REPORT

MOTIVATION

The impact investing industry has grown in prominence over the last decade, and impact investors globally have developed substantial and particular interest in sub-Saharan Africa, given the region’s strong potential for investments to drive positive social and environmental impact. Despite strong interest, relatively little research has examined impact investing markets at the country level within the continent. This type of granular information is essential to investors currently operating in the region or considering investments there in the future.

This study provides detailed information on impact investing activity across 12 countries in Southern Africa. For each country, the report examines impact investing capital deployed at the time of data collection in mid-2015 (by sector, size, and instrument), analyzes key trends in the industry, and describes the challenges and opportunities available for social enterprises and impact investors. Political and/or economic circumstances may have changed since initial data collection.

SCOPE

As defined by the GIIN, impact investments are "investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return." A commitment to measuring social or environmental performance is considered a hallmark of impact investing. Investors who do not meet this definition have not been included in this report’s analysis.

Development finance institutions (DFIs) are important actors in the impact investing landscape, providing large amounts of capital both through direct impact investments and through indirect investments through other impact capital vehicles. Because of their large size and unique nature, this report analyzes DFI activity separately from the activity of other types of impact investors.

METHODOLOGY

This report relies heavily on primary research, including more than 60 interviews with local and international impact investors, social enterprises, ecosystem players, and government institutions. The research team also examined publicly available primary information, including analyzing investor documents and reviewing organizational websites and press releases to compile a comprehensive database of impact investing activity across all 12 countries in Southern Africa. Overall, this report includes data regarding the activities of 25 DFIs and 81 non-DFI impact investors, totaling over 8,600 transactions including substantial activity from DFIs based in South Africa.

More detailed information on methodology and scope is provided in the ‘Introduction & Methodology’ chapter. All chapters of this report can be found at www.thegiin.org.
COUNTRY OVERVIEW

After gaining independence from Portugal in 1975, Angola lurched into a civil war lasting more than 25 years and during which an estimated 800 thousand people were killed.\(^1\) Since this civil war ended in 2002, the rebuilding country has been relatively stable (see Figure 1 for its location within the region). In the years immediately following the war, Angola’s economy grew by more than 20 percent, while over the past decade Angola’s gross domestic product (GDP) has averaged annual year-on-year growth of 12 percent, reaching USD 175.6 billion by 2014.\(^2\) That said, in 2014, growth slowed to 4.5 percent.\(^3\)

![Figure 1. Map of Angola](image)

Natural resource extraction and petroleum dominate Angola’s economy. Producing 1.7 million barrels a day, Angola is sub-Saharan Africa’s second-largest petroleum producer, after Nigeria.\(^4\) Petroleum accounts for nearly 50 percent of Angola’s total

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GDP, generates approximately 70 percent of government revenue, and accounts for 95 percent of exports.\(^5\) Any shifts in the price of petrol ripple throughout the Angolan economy. The recent drop in international oil prices is largely responsible for the slowdown in Angola’s GDP and has led to falling government revenues.\(^6\)

Angola is attempting to diversify its economy beyond natural resources. For example, the country has significant agricultural resources that have remained untapped after the civil war. The sector contributes roughly 10 percent to the country’s GDP yet employs 70 percent of all workers.\(^7\) To foster growth, the government recently reduced the interest rate for loans through its Agricultural Credit Campaign from five percent to two percent and is working to build better extension services.\(^8\) The government has also been developing special economic zones, industrial hubs, and economic corridors to encourage manufacturing in particular.\(^9\)

Inflation has steadily declined, falling below eight percent in 2014.\(^10\) Interest rates have dropped from extremely high rates a decade ago—standing in 2005 at more than 67 percent—to 15 to 20 percent since 2011.\(^11\) Angola has seen a number of foreign direct investments (FDI) over the past decade, though the country has generally seen net-negative FDI flows due to divestment and repatriation of profits by multinational corporations, especially those in the extractive industries.\(^12\)

Despite strong growth and high GDP per capita compared to the region, Angola’s economic development has been unequally distributed.\(^13\) The country’s extractive-driven growth has not translated into broad-based growth for its population, more than a third of which lives in poverty.\(^14\)

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\(^6\) Ibid.

\(^7\) Ibid.

\(^8\) Ibid.

\(^9\) Ibid.


Angola’s growth is also constrained by persistent and severe corruption; the country ranks 161st of 175 nations in Transparency International’s “Corruption Perception Index.”\textsuperscript{15} At the same time, the country ranks 181st of 189 countries in the World Bank’s “Ease of Doing Business” index, the lowest of any country in Southern Africa; starting a business in Angola takes 66 days and costs more than 120 percent of per capita income.\textsuperscript{16} The country also suffers from poor infrastructure, including bad roads, limited access to the electric grid, which serves just 30 percent of its population, and a dilapidated rail network, all of which increase the cost of doing business.\textsuperscript{17}

Though classified as an “upper-middle income economy” in 2012,\textsuperscript{18} Angola continues to score poorly on key development indicators, especially those concerning health (see Table 1). For example, at 164 per thousand live births, Angola has by far the worst under-five mortality rate in Southern Africa: more than three times the global average, and more than 50 percent greater than the next-highest country in the region.\textsuperscript{19} With a score of 0.53, Angola is ranked 149th out of 187 countries on the United Nations’ Human Development Indicators (HDI) index.\textsuperscript{20}

### Table 1. Selected Angola Development Indicators

<table>
<thead>
<tr>
<th>Development Indicator</th>
<th>Angola</th>
<th>Regional Average</th>
<th>Global Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDI Score (ranks 149th of 187 countries)</td>
<td>0.53</td>
<td>0.55</td>
<td>0.69</td>
</tr>
<tr>
<td>GDP per capita (USD)</td>
<td>7,200</td>
<td>6,874</td>
<td>17,975</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>7</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>Population below USD 1.25 / day (%)</td>
<td>Data not available</td>
<td>51</td>
<td>25</td>
</tr>
<tr>
<td>Under-five mortality (per thousand births)</td>
<td>164</td>
<td>75</td>
<td>47</td>
</tr>
<tr>
<td>Population with some secondary education (%)</td>
<td>Data not available</td>
<td>41</td>
<td>59</td>
</tr>
</tbody>
</table>

\textsuperscript{15} Transparency International. “Angola.” http://www.transparency.org/country/#AGO.


\textsuperscript{20} Ibid.
Though Angola’s HDI score does not include poverty data, the African Development Bank has estimated that over 35 percent of the total population and 58 percent of the rural population lives on less than USD 2 per day.21

**SUPPLY OF IMPACT INVESTING CAPITAL**

Access to capital remains constrained in Angola even though capital exists in the country’s banks. Total banking solvency is near 20 percent, almost twice the required 10 percent, suggesting significant inefficiencies in capital allocation.22 Nevertheless, just nine percent of small- and medium-sized enterprises (SMEs) have access to credit despite high access to banking services (86 percent of the population has access to financial products).23 This divide is driven in part by the reluctance of commercial banks to lend, since the rate of non-performing loans spiked from 9.2 percent in January of 2014 to 17.4 percent in November 2014 as a result of the sharp drop in oil prices.24

Angola has received approximately USD 286 million of impact investment; the vast majority of this capital has been placed since the end of the civil war, with just one known deal occurring before 2002. Notably, and uniquely for Southern Africa, more non-DFI impact investor capital has entered Angola than has DFI capital. As a further contrast, in Angola, DFI deal sizes are much smaller on average (at USD six million) while non-DFI deal sizes are much larger (average USD 31 million) as compared to the rest of the region. This latter distinction is primarily due to one investor who has made large investments in sectors such as water infrastructure, housing, and energy.

Seven DFIs have disbursed USD 100 million across 15 transactions in Angola, with deal sizes ranging from less than USD one million to more than USD 10 million. DFI investments have prioritized two sectors: financial services (USD 20 million in seven deals) and manufacturing (USD six million in three deals). Five of these deals have been debt, along with three equity deals and three credit guarantees.

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23 Ibid.

24 Ibid.
CHALLENGES AND OPPORTUNITIES FOR IMPACT INVESTORS

Despite a growing economy and recent government efforts to encourage businesses across a diverse range of sectors (described below), a number of challenges concerning successful investment in Angola remain. These include:

- **Limited infrastructure and power supply:** Even with improvements since the end of the civil war, Angola’s infrastructure continues to constrain growth due to the limited availability of good roads, railways, water supply, and sanitation. In addition, the country’s electrical infrastructure is unable to meet demand; blackouts are common due to insufficient power generation and large numbers of illegal grid connections.25

- **Bureaucracy and corruption:** Heavy economic regulations encumber efficient business in Angola. For example, importing certain goods requires specific authorization from particular ministries, which often leads to delays.26 Similarly, foreign transactions carry the burden of large documentation requirements.27 Widespread corruption compounds interactions with this bureaucracy. Petty corruption is commonplace (e.g., facilitation fees, checkpoint charges, and document award fees), and large-scale corrupt dealings are also present. For example, roughly USD 32 billion in oil revenues went missing between 2007 and 2010.28

- **Skills shortages:** Despite some government support for training programs, entrepreneurship, and technical assistance, the level of skill in the workforce is still a pressing challenge for businesses.29 In particular, primary education in Angola struggles with funding, overcrowding, and hiring teachers, while secondary education is only available in large cities.30 Adult literacy rates remain low.31

31 Ibid.
Businesses are also restricted in their ability to import skilled labor, as Angola limits the permissible number of foreign employees to 30 percent of a firm’s workforce and requires that their compensation be comparable to the pay of the company’s Angolan employees.\(^{32}\)

If the challenges above can be addressed, abundant impact investment opportunities exist in Angola, including in the following specific sectors:

- **Agriculture**: Along with its other natural resources, Angola has significantly underutilized agricultural resources. A net exporter of agricultural produce before its civil war, Angola now imports roughly half of its food supply.\(^{33}\) Yields remain low, even relative to other African nations. The government has undertaken several recent initiatives to realize Angola’s agricultural potential by increasing smallholder farmers’ access to credit, offering reduced borrowing rates, and assembling a USD 118 million fund through the Facilitating Credit Program and Agriculture Credit Campaign.\(^{34}\)

- **Aquaculture**: Current fish farming on Angola’s coastline is less than half of its sustainable potential,\(^{35}\) and impact investment here could improve both livelihoods and food supply. As such, there is the opportunity to significantly expand production and the corresponding capacity to process fish while respecting environmental goals.

- **Local manufacturing**: Local manufacturing has grown steadily in recent years, including eight percent growth in 2014.\(^{36}\) As recently as 2011, however, 80 percent of all consumed goods were imported, including infrastructure staples (such as cement) and basic consumer goods.\(^{37}\) With government support, such as the Facilitating Credit Program—which aims to ease early-stage access to credit—local businesses and a quickly growing economy can enable investments in local manufacturing to be both impactful and profitable.\(^{38}\)


\(^{34}\) Ibid.


• **Training and education:** With over 60 percent of the population under 25 years of age, the traditional educational system is stretched beyond its capacity. Government services are inadequate to meet educational needs, and demand is huge for both primary and secondary education, as is demand for training programs in virtually every discipline.

• **Renewable energy:** Angola has inadequate infrastructure for power generation, and only 30 percent of the population can access electricity. As such, there are many opportunities for both micro-grid and off-grid solutions, as well as for large-scale power production. With its abundant river resources, the possibility of hydroelectric generation has attracted some recent attention from impact investors. By combining these water resources with arable land, biofuel power generation is also possible. Solar potential in Angola is reasonably strong, and feed-in tariffs are being discussed. Installed solar capacity, however, is minimal to date.

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ABOUT THE GLOBAL IMPACT INVESTING NETWORK

The Global Impact Investing Network (GIIN®) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see www.thegiin.org.

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