THE LANDSCAPE FOR IMPACT INVESTING IN SOUTHERN AFRICA
ACKNOWLEDGMENTS

This project was funded with UK aid from the UK Government though the Department for International Development’s Impact Programme. The Impact Programme (www.theimpactprogramme.org.uk) aims to catalyze the market for impact investment in sub-Saharan Africa and South Asia.

The Bertha Center at the University of Cape Town contributed to this report by providing access to their database of active impact investors operating across sub-Saharan Africa.

We would also like to thank Susan Balloch and Giselle Leung from the GIIN for their guidance throughout the research process and contributions to this report. We would further like to thank the tireless Open Capital Advisors (OCA) research team—Neal Desai, David Loew, Rodney Carew, Holden Bonwit, Katie Bach, Sarah Ndegwa, Elijah Ndarua, Joel Muli, Getrude Okoth, and Charles Njugunah—for their work interviewing impact investors, ecosystem players, and entrepreneurs, conducting rigorous data collection under tight timelines.

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.

GIIN Advisory Team

Abhilash Mudaliar, Research Manager
Kimberly Moynihan, Senior Associate, Communications
Rachel Bass, Associate, Research

Open Capital Advisors

Annie Roberts, Partner
Nicole DeMarsh, Principal
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
BOTSWANA
STABLE AND WELL-REGULATED, BUT SPARSE
# TABLE OF CONTENTS

About this Report ........................................................................................................... 2
Country Overview ............................................................................................................ 3
Supply of and Demand for Impact Investing Capital ...................................................... 6
Challenges and Opportunities for Impact Investors ...................................................... 7
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 disbursed 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.
Botswana gained independence from the British Commonwealth in 1966, and the country has since remained a stable democracy. With a population of only two million spread over approximately 580 thousand square kilometers, the country has an extremely low population density (3.4 people per square kilometer). Landlocked, surrounded by South Africa, Namibia, Zambia, and Zimbabwe (see Figure 1), Botswana boasts the expansive Okavanga River Delta in the north, though the semi-arid Kalahari Desert in the south covers 70 percent of the country.

---

**Figure 1. Map of Botswana**

---

Botswana is a member of the African Union, the Southern African Customs Union (SACU), and the Southern African Development Community (SADC). The country has strong north-south rail and road infrastructure connecting it to neighboring South Africa and Zimbabwe.

Botswana’s 2014 gross domestic product (GDP) was USD 33.7 billion at purchasing power parity (PPP). Over the past decade, GDP grew at an average annual rate of 6.7 percent, and it is important to note that GDP per capita, at close to USD 16 thousand, is substantially higher than that of the region as a whole. Diamond extraction is the country’s dominant economic driver, contributing one-third of GDP, 70 percent of export revenues, and half of government revenues. Government regulations, including a new Mining Code, are aimed at attracting investment, increasing skilled jobs, and capturing more of the downstream supply chain within the diamond trade. A second key and growing sector is international tourism, supported by diverse natural wildlife and strong conservation practices, especially in the Okavango River Delta.

Foreign direct investment (FDI) across sectors totaled only USD 188 million in 2013, with over 40 percent of FDI coming from Luxembourg; other key investors included China, South Africa, and Australia. The majority of FDI inflows were in mining and financial services.

---

7 Ibid.
Table 1. Selected Botswana Development Indicators

<table>
<thead>
<tr>
<th>Development Indicator</th>
<th>Botswana</th>
<th>Regional Average</th>
<th>Global Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDI Score (Ranks 109th of 187 Countries)</td>
<td>0.68</td>
<td>0.55</td>
<td>0.69</td>
</tr>
<tr>
<td>GDP Per Capita (USD)</td>
<td>16,000</td>
<td>6,874</td>
<td>17,975</td>
</tr>
<tr>
<td>Unemployment Rate (%)</td>
<td>18</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>Population Below USD 1.25 / Day (%)</td>
<td>--</td>
<td>51</td>
<td>25</td>
</tr>
<tr>
<td>Under-Five Mortality (Per Thousand Births)</td>
<td>53</td>
<td>75</td>
<td>47</td>
</tr>
<tr>
<td>Population with Some Secondary Education (%)</td>
<td>75</td>
<td>41</td>
<td>59</td>
</tr>
</tbody>
</table>

The South African Rand was the official currency in Botswana until 1976, when the Pula was introduced.\(^4\) In recent years the Pula has depreciated against the US Dollar but risen against the South African Rand, the country’s major trading partner.\(^5\)

Over the past three decades, Botswana has had one of the fastest rates of improvement in the United Nations Human Development Index (HDI), with a 2013 HDI value of 0.68,\(^6\) second-highest in the sub-Saharan region and 109th overall in the world (see Table 1 for regional and global comparisons of select development indicators).\(^7\) In one of the most dramatic improvements, the share of population living in extreme poverty fell from roughly a quarter in 2002 to 6.5 percent in 2010.\(^8\) Nonetheless, high unemployment has sustained high economic inequality across the population. Though data are sparse, Botswana is believed to have a Gini coefficient of 0.63, one of the highest in the world.\(^9\)


Botswana has the third-highest adult prevalence rate of HIV/AIDS in the world, with over 21 percent of the adult population suffering from the disease. The government has enacted a strong pharmaceutical program enabling 96 percent of eligible HIV-positive patients to receive anti-retroviral therapy. Effective government spending has also increased access to general healthcare, with 95 percent of the total population (and 89 percent of the rural population) living within 15 km of a health center.

**SUPPLY OF AND DEMAND FOR IMPACT INVESTING CAPITAL**

The formal financial sector in Botswana is small but robust. There are only four large commercial banks, which hold more than 80 percent of commercial banking assets. At around 2.5 percent, the ratio of non-performing loans is relatively stable due to the country’s stringent supervisory standards. Beyond banking, a number of ongoing government initiatives are aimed at strengthening Botswana’s financial sector, with the specific goal of increasing access to capital and improving financial inclusion.

Further, China is a big investor in large-scale capital projects. To date, results have been mixed. An airport project was begun but not completed. A coal-fired power station was completed, but interviewees believe the station was built to poor quality standards.

The impact investing sector in Botswana is still nascent. The country has received the second-smallest share of impact investing capital disbursed in the region. In total, 19 transactions worth approximately USD 250 million have taken place since 2000. Of these, development finance institutions (DFIs) made the vast majority (85 percent by capital and 90 percent by number of investments). These DFI investments were predominantly in the financial-services sector but also included investments in agriculture, extractives, and water, sanitation, and hygiene (WASH). Of the two known deals, less than USD 40 million has been disbursed by non-DFI investors, into financial services and information and communication technologies (ICT).

---


22 Ibid.


25 Ibid.
CHALLENGES AND OPPORTUNITIES FOR IMPACT INVESTORS

The combination of a democratic and stable political climate, low levels of corruption, strong rule of law, and low tax rates creates an attractive landscape for investors in Botswana. Indeed, Transparency International ranks Botswana 31st (out of 175 countries globally) in its Corruption Perceptions Index, making Botswana the highest-ranking country in Africa. However, these positives are offset by specific, noteworthy challenges, some of which include:

• **Small market**: With a population of only two million and a low population density, the addressable market for consumer-facing businesses can be small and difficult to reach.

• **Bureaucracy**: Botswana’s “Ease of Doing Business” metrics (as determined by the World Bank) have fallen in recent years, although new government initiatives in 2011 and 2012—including the introduction of the National Doing Business Committee and numerous bills—aim to simplify business formation and operations processes and to attract investors. The overall regulatory environment in Botswana encourages foreign investment more than do those of many neighboring developing countries.

• **Power shortages**: Despite generous coal deposits within Botswana and one of the strongest solar exposures on the planet, the country has an insufficient supply of power to cover domestic demand. It has historically relied on the Southern Africa Power Pool (predominantly generated in South Africa) to supply 80 percent of its electricity. In 2015, supply challenges limited the transmission of power from regional partners, causing beyond-normal load shedding within the country.

• **Climate change**: With scarce distribution of water resources, Botswana is highly susceptible to both droughts and floods. Climate change is a significant threat to both the agriculture and tourism sectors.

---

• **Skill shortages:** Although the government has placed concerted focus on the issue, the education system is seen as being generally of low quality, inadequate to prepare workers for skilled roles. Despite high literacy and relatively high educational attainment, the country suffers from persistently high unemployment. Youth are disproportionately impacted, with a 34 percent unemployment rate among those aged 20-24.

Nevertheless, Botswana presents opportunities for impact investors to enter the market and place return-seeking capital. Nationally, decreasing dependence on diamond extraction and trade will diversify and strengthen Botswana’s economy. Impact investment opportunities may be found in the following sectors:

• **Ecotourism:** With a desire to diversify away from extractive industries and a strong history of government support for conservancy, Botswana has an outsized opportunity to further develop ecologically-friendly tourist attractions. Impact investment in tourism has the opportunity to build on an already-robust tourism infrastructure to improve livelihoods, support environmental safekeeping, and provide financial returns.

• **Energy:** Given that local power assets supply less than 20 percent of Botswana’s power needs, energy investments could catalyze other revenue-generating businesses and improve quality of life. More importantly, Botswana boasts one of the highest rates of solar radiation on the planet, a massive resource ripe for solar power generation and project development. The government recently began renewable energy feed-in tariffs to promote investment in the sector.

• **Agriculture:** The agricultural sector has steadily declined since independence (falling from 43 percent of GDP in 1966 to less than two percent today). Nevertheless, more than 70 percent of rural households survive by subsistence farming. The livestock industry, a major contributor to rural livelihoods, is already subsidized. Investments in irrigation, rural roads and infrastructure, and agro-processing could increase the incomes of rural populations.

32 Open Capital Interviews.
37 This decline over 50 years is largely due to Botswana’s entry into diamond mining, which today contributes one third of GDP and half of government revenues. For more information, see http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/BOTSWANA_2009%20%E2%80%93%202013%20COUNTRY%20STRATEGY%20PAPER.pdf.
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.

30 Broad Street, 38th Floor, New York, NY 10004 USA
+1.646.837.7430 | info@thegiin.org | www.thegiin.org