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.

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
MOZAMBIQUE
LIMITED ACTIVITY, ABUNDANT POTENTIAL
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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 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.
INTRODUCTION

Mozambique’s path to stability has been long and difficult. After gaining independence from Portugal in 1975, the Mozambique Liberation Front (FRELIMO) took over as the ruling party, banned all other political parties, and supported the struggle for independence in neighboring Rhodesia (now Zimbabwe; see Figure 1). Attempting to destabilize the FRELIMO government, in 1976 the Rhodesian Central Intelligence Organization founded a rebel movement, the Mozambican National Resistance (RENAMO). The struggle between FRELIMO and RENAMO became a brutal civil war that is estimated to have caused more than one million deaths before its 1992 end.

The war and its aftermath left Mozambique as one of the poorest countries in the world, but the last two decades have seen a rapid recovery. Growth in gross domestic product (GDP) has hovered around nine percent annually over the last decade, and the government has relaxed its once staunchly socialist policies. Along with the discovery of vast oil and natural gas reserves, this economic liberalization has caused a surge in foreign investment.

Impact investing in Mozambique has kept pace with rising commercial investment. Led by large DFI deals in infrastructure and energy, Mozambique has received the third-highest amount of impact capital of any country in the region. Realizing opportunities across sectors, however, will require addressing significant remaining challenges. Non-DFI impact investors have struggled to place capital, citing as some of the main obstacles the country’s poor infrastructure, low levels of education, lingering political tensions, and high linguistic and cultural barriers for non-Portuguese speakers.

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COUNTRY CONTEXT

After decades of colonial rule and a brutal civil war, Mozambique’s economy is now on the rise. Natural resource exploration—often funded by foreign direct investment (FDI)—and robust government spending have led to strong growth rates over the past decade. Moreover, the country benefits from proximity to major markets, neighboring South Africa (see Figure 1) as well as having excellent shipping access to Asia and the Middle East. Nonetheless, the recent economic boom has emerged from a low baseline. Mozambique remains one of the poorest countries in the world.

FIGURE 1. MAP OF MADAGASCAR

Gross Domestic Product

Mozambique’s GDP has grown steadily at approximately nine percent year-on-year in purchasing power parity (PPP) terms between 2005 and 2014, making it the fastest-growing economy in the region and the fastest-growing non-oil economy in sub-Saharan Africa (see Figure 2). Much of this growth has come from FDI in Mozambique’s extractives sector, particularly coal and aluminum, along with exploration and early infrastructure for its vast and undeveloped natural gas reserves.


Government spending in construction, services, transportation, and energy—financed largely by foreign debt—has also been a major driver of GDP growth. Despite record levels of growth, however, GDP per capita remains at just USD 1,174 in PPP terms, the second-lowest in Southern Africa. Although its population is roughly similar to that of Angola’s (at approximately 26 million), Mozambique’s economy is around a fifth the size of that of its fellow former Portuguese colony.

![Figure 2. GDP (PPP), 2005–2014](image)

**Figure 2. GDP (PPP), 2005–2014**

Mozambique averaged 9% annual GDP growth over the last 10 years

Source: IMF World Bank Economic Indicators, April 2015

**Foreign Direct Investment**

FDI flows have been a major driver of economic growth in Mozambique. Particularly in recent years, international investments in extractives have dramatically increased levels of FDI. In 2013, net inward FDI flows totaled almost USD six billion, up from only USD one billion three years earlier (see Figure 3). Mozambique’s primary trading partners and sources of FDI include South Africa, Portugal, and China.

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10 Ibid.


Inflation and Exchange Rates

Financial-sector reform and an emphasis on discipline at the central bank have kept inflation in Mozambique at comparatively low levels.13 Though inflation rates spiked to 12 percent briefly in 2006 and again in 2010, inflation was below three percent in 2012 and has since remained below five percent, giving Mozambique one of the lowest inflation rates in Southern Africa.14 Price stability has been accompanied by currency stability. After a sharp depreciation and subsequent correction in 2010 and 2011, the value of the Mozambican Metical (MZN) has since depreciated slightly against the US Dollar (see Figure 4).15

SUPPLY OF IMPACT INVESTING CAPITAL

Considering both DFI and non-DFI activity combined, Mozambique has had the third-highest number of impact investing deals in Southern Africa, after South Africa and Zambia. Similarly, Mozambique has seen the third-highest amount of DFI impact capital. However, with only the seventh-highest amount of non-DFI capital disbursed among the 12 countries in Southern Africa, nearly all impact capital invested in Mozambique (>96 percent) has come from DFIs. These DFI-led projects have focused primarily on the manufacturing and energy sectors. In addition, there are fewer than 15 active non-DFI impact investors who have placed just USD 52 million in Mozambique to date, with the majority in agriculture. As a result, despite high overall inflows, social enterprises across sectors in Mozambique struggle to source impact capital.

Broader Investing Landscape

Impact capital represents a small portion of the total capital available in Mozambique. The country’s financial landscape is dominated by banks, which control approximately 95 percent of total assets in the financial sector (87 percent of which are concentrated at the country’s five largest banks).16

Access to capital remains a challenge for businesses. While interest rates on commercial debt have declined since 2005 from nearly 20 percent, they still remain near 15 percent, making them impractical for many businesses.17 In addition, banks often have high collateral and reporting requirements, which many smaller businesses are unable to meet.18 Interviewees noted that few financial service providers cater to the needs of small, growing enterprises. In addition to the difficulty securing loans from established financial institutions, interviewees noted that Mozambique generally lacks an entrepreneurial culture or the involvement with entrepreneurs of high-net-worth individuals and angel investors.19 Thus, many businesses fail to scale because they lack capital and mentorship.

18 Open Capital Interviews.
19 Ibid.
Impact Capital Disbursed

Mozambique boasts the third-highest amount of DFI impact capital disbursed in the region, trailing only South Africa and Zambia. However, as mentioned above, the country ranks seventh in the region when considering non-DFI impact capital disbursed. In sum, there have been 137 identified investments in Mozambique (six percent of total regional deal volume), representing approximately five percent of total impact capital disbursed in Southern Africa (or approximately USD 1.4 billion).20

The vast majority—more than 96 percent—of this activity has been driven by DFIs (see Figure 5). Less than one percent of the non-DFI impact capital disbursed in the region has been placed in Mozambique, amounting to only USD 52 million across 42 deals (see Figure 6). Much of this activity is from a handful of local investors, as interviewees suggested that flows of non-DFI impact capital from nearby South Africa are limited due to perceived language barriers, country risk, and strong domestic opportunities in South Africa.21

Investments Over Time

Though a lack of public information about deal timing prevents drawing concrete conclusions about the history of non-DFI impact investing in Mozambique, interviewees confirmed that its non-DFI impact investing landscape remains in its infancy.

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20 Open Capital Interviews.
21 Ibid.
There is, however, a robust history of DFI investments in the country (see Figure 7). DFIs have historically shown strong interest in Mozambique, with more than 40 percent of recorded DFI investments placed before 2005. The reduction in deal flow shown in 2015 can be attributed to the timing of data collection in the middle of 2015, which therefore could not capture the full extent of impact investing activity in that year.

![FIGURE 7. DFI IMPACT INVESTMENTS BY YEAR](image)

Notes: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Open Capital Research

**Sector**

Of the sectors targeted by non-DFI impact investors, agriculture accounts for nearly 80 percent of deals and more than 60 percent of total capital disbursed (see Figure 8). Deals within the agricultural sector varied greatly by subsector, including investments in input production, fruit processors, sugar manufacturing, honey production, and various livestock businesses. Non-agricultural small- and medium-sized enterprises (SMEs) received just USD 20 million in non-DFI impact capital, which accords with statements from interviewees that these SMEs have trouble accessing impact capital. Additionally, a single investor completed approximately half of all non-DFI impact deals, indicating an even more constrained funding landscape for entrepreneurs who do not meet that specific impact investor’s investment criteria.

22 Open Capital Interviews.
FIGURE 8. NON-DFI IMPACT INVESTMENTS BY SECTOR

Notes: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.
Source: Open Capital Research

By contrast, DFIs have been active in a broader range of sectors, though they have focused most of their attention on energy, financial services, manufacturing, and agriculture (see Figure 9). Notably, investments in manufacturing, which represented the largest number of deals of any sector in Mozambique, included a number of investments in facilities that serve the extractive and agricultural industries.

FIGURE 9. DFI IMPACT INVESTMENTS BY SECTOR

Notes: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.
Source: Open Capital Research
Deal Size

Nearly 75 percent of non-DFI deals were below USD one million (see Figure 10). Of the 10 deals over USD one million, 65 percent were in agriculture, corroborating the statements of many interviewees who identified difficulties finding larger deals outside of agriculture.²³

DFI direct investments in Mozambique, by contrast, were significantly larger, averaging nearly USD 15 million (see Figure 11). This difference is primarily due to the larger ticket sizes typically seen in investments in the DFIs’ preferred sectors of energy, manufacturing, and financial services.

FIGURE 10. NON-DFI IMPACT INVESTMENTS BY DEAL SIZE

Notes: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.
Source: Open Capital Research

FIGURE 11. DFI IMPACT INVESTMENTS BY DEAL SIZE

Notes: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.
Source: Open Capital Research

²³ Open Capital Interviews.
Instrument

Non-DFI impact investors in Mozambique have used a fairly even split of traditional debt and equity (see Figure 12). Debt has accounted for nearly 60 percent of known transactions. Equity transactions were also used in a substantial fraction of deals, accounting for a third of known transactions. However, more capital has been deployed overall using equity than debt, given the larger deal sizes common with this instrument.

![Figure 12. Non-DFI Impact Investments by Instrument Type](image)

Notes: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Open Capital Research
Based on available data, DFIs have an overwhelming preference for debt (see Figure 13). Debt instruments account for 65 percent of known deals and more than 85 percent of all known DFI capital disbursed.

**Local Presence**

Very few impact investors have offices in Mozambique, and fewer than 15 non-DFI impact investors have placed capital in Mozambique. That said, interviewees noted there are significant advantages to operating with local presence, as investing in Mozambique often requires deep local knowledge, language proficiency, and connections to navigate a bureaucratic landscape. Having a local presence provides significant advantages in terms of enabling investors to source proprietary deals.

**Impact Tracking Standards**

As in other countries in Southern Africa, impact investors typically do not use one specific impact tracking standard to measure social return. Interviewees noted that metrics are often customized on an investment-specific basis to fit the circumstances of the business and in order to minimize the administrative burden for portfolio companies and investors alike.

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24 Open Capital Interviews.
25 Ibid.
26 Ibid.
DEMAND AND NEED FOR IMPACT INVESTING CAPITAL

Interviewees report that few entrepreneurs in Mozambique are looking for impact capital. Though foreign investment has boomed, FDI has focused on major projects in oil and gas; the country’s SME landscape remains underdeveloped. Nonetheless, a new generation of Mozambican entrepreneurs is emerging, actively supported by the government. There remain significant gaps in the provision of key goods and services, particularly outside of Maputo, which creates opportunities for entrepreneurs to build enterprises that fill key needs while also realizing financial returns.

Development Context

The country has seen recent improvement in terms of development indicators, but Mozambique’s score on the United Nations’ Human Development Index (HDI) of just 0.39 ranks 178th of 187 countries, the lowest in Southern Africa. This ranking is reflected in poor performance across a number of indicators covering poverty, health, and education (see Table 1).

<table>
<thead>
<tr>
<th>DEVELOPMENT INDICATOR</th>
<th>Mozambique</th>
<th>Regional Average</th>
<th>Global Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDI SCORE (RANKS 178TH OF 187 COUNTRIES)</td>
<td>0.39</td>
<td>0.55</td>
<td>0.69</td>
</tr>
<tr>
<td>GDP PER CAPITA (USD, PPP)</td>
<td>1,174</td>
<td>6,874</td>
<td>17,975</td>
</tr>
<tr>
<td>UNEMPLOYMENT RATE (%)</td>
<td>22</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>POPULATION BELOW USD 1.25 / DAY (%)</td>
<td>60</td>
<td>51</td>
<td>25</td>
</tr>
<tr>
<td>UNDER-FIVE MORTALITY (PER THOUSAND BIRTHS)</td>
<td>90</td>
<td>75</td>
<td>47</td>
</tr>
<tr>
<td>POPULATION WITH SOME SECONDARY EDUCATION (%)</td>
<td>43</td>
<td>37</td>
<td>27</td>
</tr>
</tbody>
</table>

27 Ibid.
Mozambique’s educational levels are among the lowest in the world. Less than four percent of the population has received some secondary education, by far the lowest in Southern Africa and the second-lowest globally for countries for which there are data. At 26 percent, Mozambique’s gross enrollment in secondary education is the lowest in Southern Africa, six percentage points behind Angola, the next-lowest country. Similarly, almost 60 percent of Mozambique’s population, or more than 15 million people, lives on less than USD 1.25 per day, well over double the global average and above average for Southern Africa. Mozambique also significantly underperforms on health indicators. Mozambique’s under-five mortality rates are close to double the global average and are the third-highest in the region behind Angola and Lesotho. Levels of under-five stunting, an effective proxy for childhood and later general health, are close to the regional average, still considerably above the global average.

Like much of sub-Saharan Africa, Mozambique has a disproportionately young population; 45 percent of the population is under the age of 15, and 65 percent is below 25. This has led to high youth unemployment, and Mozambique’s low levels of education will make it challenging for the country to translate its youth boom into positive economic growth.

**Entrepreneurs**

Mozambique has few early-stage or growth-stage privately owned businesses—especially given its robust economic growth over the past decade—and its culture of entrepreneurship remains weak. Investors and intermediaries interviewed for this report identified Mozambique’s comparatively recent escape from colonial rule and the lingering effects of socialist government as impediments to developing a culture of individual entrepreneurship.

Those early-stage entrepreneurs who do exist in Mozambique face substantial challenges to getting their businesses investment-ready and struggle to find financing beyond friends and family. Bank financing is typically expensive, with interest rates on small-business loans rarely below 15 percent, which—though these rates are similar to those found in many other countries in sub-Saharan Africa—is particularly challenging in Mozambique given that inflation remains low. Such high rates prove especially

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30 Open Capital Interviews.
31 Ibid.
32 Ibid.
33 Ibid.
34 Open Capital Interviews.
37 Open Capital Interviews.
38 Ibid.
challenging for entrepreneurs in low-margin sectors like agriculture, which has seen the most non-DFI impact investment activity and still has substantial investment opportunities going forward. Furthermore, because the government owns all agricultural land in Mozambique, entrepreneurs cannot use land as collateral.

Impact investors also note that many interesting early-stage businesses—and even some mature businesses—lack professional accounting and management systems. Accounts are often informal, as many entrepreneurs lack sufficient accounting expertise to prepare accurate reports. In such cases, it is difficult for impact investors to build confidence in a business’s operations or to trust the entrepreneur enough to place capital in the business.

Beyond access to capital, early-stage businesses also face significant challenges due to Mozambique’s geographic size and poor infrastructure. The country stretches more than two thousand kilometers along Africa’s eastern coastline, and internal road connections are underdeveloped and hazardous. The country has low population density and has been slow to urbanize, which requires growing businesses to rapidly expand their geographic reach in order to grow their revenues. One entrepreneur, for example, reported that the cost of transporting agricultural produce by lorry from an inland town to the nearest port 200 km away was the same as the cost of shipping that produce from the port to North America. Businesses seeking to scale to new geographic markets often operate multiple offices largely as separate endeavors. For example, inventory, sourcing, and distribution must often be re-created and run independently for each new location.

Sourcing adequate human capital to manage these dynamics is one of the most prominent challenges. As in much of the region, the pool of educated labor is small and consequently expensive, particularly at the levels of middle and senior management. Government restrictions on the number of expatriates businesses are allowed to hire exacerbate this problem. Depending on their total number of employees, Mozambican businesses are only permitted to employ foreign labor as five to ten percent of their total staff depending on the total staff size. Educated Mozambicans are able to command high salaries that many early- or growth-stage SMEs cannot afford. The shortage of educated labor in Mozambique is particularly acute because the country does not have a large returning diaspora to supplement in-country talent.

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39 Open Capital Interviews.
40 Ibid.
41 Ten percent foreign labor is permitted in small companies (maximum ten employees), eight percent in medium companies (11-100 employees), and five percent in large companies (over 100 employees). “Corporate Immigration Mozambique,” Law Business Research, September 29, 2014, https://gettingthedelethrough.com/area/47/jurisdiction/137/corporate-immigration-mozambique/.
42 Open Capital Interviews.
ENABLING IMPACT INVESTING: THE ECOSYSTEM

As with impact investment activity itself, the broader ecosystem supporting impact investors in Mozambique is still developing. Tellingly, one intermediary noted that when they first approached authorities with the idea to launch a business incubator, they were asked to explain why they wanted to enter the hatchery business. Mozambique’s rapid growth may be expected to present attractive opportunities for intermediaries and service providers in the future, but the country’s nascent culture of entrepreneurship and challenges in the regulatory environment mean that its ecosystem development may be slow. Regulatory considerations include:

- **Land ownership:** The state owns all land in Mozambique, and land-use laws can be daunting, privileging those who involve local counsel early in the process.

  Broadly speaking, land use is regulated through government ordinances known as DUATs (*Direito de Uso e Aproveitamento dos Terras*). The government issues DUATs to locals based on occupation or traditional norms, as well as to foreign investors and corporations after approval by the Investment and Promotion Center of Mozambique (CPI). Foreign investors must first consult with local communities to determine if the land is occupied and to negotiate the conditions under which the community will agree to cede their rights. If approved, applicants have two years to implement projects, after which a final DUAT, valid for a maximum term of 50 years, is granted. Should the applicant fail to implement their project within the allotted two years, the land, along with all improvements therein, reverts to the state without compensation.

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43 Open Capital Interviews.


A DUAT itself cannot be bought, sold, or used as collateral to secure credit.\textsuperscript{49} However, improvements and assets on DUATs in urban areas can be transferred,\textsuperscript{50} though they must first be approved by the same authority that originally approved the DUAT.\textsuperscript{51}

- **Government and private sector:** State Owned Enterprises (SOEs) dominate a variety of sectors, from telecommunications to transport and utility services, such as electricity. The state has recently privatized many publicly owned enterprises,\textsuperscript{52} and the government has introduced reforms to promote free-market competition. For example, Mozambique adopted a new Competition Law in 2013 that applies to both private enterprises and SOEs. However, this new legislation has not created a level playing field, as reports of SOEs receiving favorable treatment, such as state subsidies and delayed tax payments, have continued.\textsuperscript{53}

- **Government incentives for foreign investors:** A variety of investment incentives are available to both foreign and domestic investors in Mozambique. These include:
  
  - VAT exemption on certain capital goods during the first five years of a project’s implementation.\textsuperscript{54}
  - Credits on taxable income for projects located in certain rural provinces.\textsuperscript{55}
  - Tax deductions based on modernizing equipment and training Mozambican workers.\textsuperscript{56}


\textsuperscript{50} Regardless of where the land is located, an urban area is defined as any where income is primarily derived from private property, such as buildings, that has been developed on the land, whereas a rural area is any where the primary source of income is from the land itself. Zaida Kathrada, “Acquiring Land Rights in Mozambique,” Norton Rose Fulbright, August 26, 2014, http://www.financialinstitutionslegalsnapshot.com/2014/08/acquiring-land-rights-in-mozambique/.

\textsuperscript{51} Ibid.


• **Exit opportunities/restrictions on exits:** Companies are able to repatriate capital, profits, dividends, royalties, interest, and loan repayments, provided that:
  1. the investment was larger than MZN 2.5 million (approximately USD 65,500 as of July 31, 2015),
  2. the investment was approved by the Investment and Promotion Center (CPI), and
  3. the approved investment was registered with the Banco de Moçambique (BoM), the central bank, within 90 days of approval.

Foreign investors who fail to meet all the requirements of the Investment Law are not allowed to remit funds.

• **Forex controls:** BoM approval is required for all transactions by private individuals exceeding USD five thousand, for non-residents who wish to open bank accounts in foreign currencies, for issuance of credit to residents in foreign currency, for all foreign capital transactions between residents and non-residents, and for the transfer of liquid instruments into and out of the country. Obtaining approval for foreign exchange transactions can be a lengthy process, as it requires the Ministry of Economy and Finance to clear a foreign investor of any tax obligations. Investors are advised to ensure that clearance to carry out foreign exchange transactions is included in their documents regarding investment approval and registration.

• **Required local shareholding:** There are restrictions on foreign participation in certain sectors of the economy. For example, foreign ownership of media companies is limited to a maximum of 20 percent of share capital, and half of the share capital of foreign entities engaged in aviation, explosives, and mineral

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trading must be held by Mozambican nationals or companies.\textsuperscript{67}

- **Quotas on foreign labor:** The government maintains strict quotas on the number of foreign employees Mozambican businesses can employ, limiting them as follows:\textsuperscript{68}
  - 10 percent of all employees may be foreign for businesses with up to 10 employees;
  - Eight percent may be foreign for businesses with 11 to 100 employees; and
  - Five percent may be foreign for businesses with over 100 employees.

## Ecosystem Players

The research team identified 15 active ecosystem organizations (see Figure 14), and though not all of these had a local presence, the number who do is growing. In addition, there are a number of individual consultants. Several of the impact investors and entrepreneurs interviewed reported working with local ecosystem players on a project-by-project basis, though the small number of active investors has limited the growth of the ecosystem.\textsuperscript{69} Investors noted that given low deal flows, they have been able to support their investees with one or two in-house staff on the ground.\textsuperscript{70} Encouragingly, many of the smaller ecosystem players active in Mozambique have launched recently, suggesting that the sector as a whole may be growing.\textsuperscript{71}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{Figure14.png}
\caption{Selection of Currently Active Intermediaries and Service Providers}
\end{figure}

\begin{footnotesize}


69 Open Capital Interviews.

70 Ibid.

71 Ibid.
\end{footnotesize}
As in much of the region, Mozambique’s ecosystem predominantly comprises incubators and accelerators focusing on seed or very early, venture-stage businesses in specific sectors, such as information and communication technology (ICT). The relatively small number of growth-stage businesses has limited the opportunity for service providers to provide tailored support to SMEs. As Mozambique’s economy continues to grow, service providers should see increased opportunities to provide support to businesses.

Other Ecosystem Players

In addition to intermediaries, a number of accountants, lawyers, and other service providers are active in Mozambique, though, like all educated professionals in the country, they tend to be scarce and expensive. It can be challenging, particularly for small companies, to develop clear financial documentation and obtain high-quality legal representation. Several of the major global professional-services firms have local offices in Maputo, but their services are rarely affordable for early-stage businesses.

CHALLENGES AND OPPORTUNITIES FOR IMPACT INVESTORS

Given the lack of competition, pressing need for capital, and positive overall economic outlook, Mozambique offers opportunities for impact investors to generate both social and financial returns. The current investing landscape presents a clear gap that impact capital could fill. However, impact investors seeking to place capital will face the following challenges:

• **Poor infrastructure:** Though its civil war has been over for two decades, Mozambique’s infrastructure remains underdeveloped outside Maputo. The existing transportation infrastructure is under increasing pressure as the extractives industry taps large coal and gas reserves. Fewer than 15 percent of Mozambicans are connected to the national grid; the majority of generated electricity is exported to South Africa.\(^{72}\) Moreover, near-term demand for electricity is expected to grow approximately 15 to 20 percent annually, compared to just an 11 percent expected annual increase in supply.\(^{73}\) Large-scale investment is required to keep pace with the growth of the extractives industry and its associated use of infrastructure. Overall, these infrastructure limitations, in combination with Mozambique’s vast

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\(^{73}\) Ibid.
geography, can increase the costs of placing capital and monitoring portfolio companies.

- **Workforce**: Interviewees reported that one of the primary challenges they face in Mozambique is the population’s low levels of education and the corresponding difficulty sourcing qualified staff to scale.\(^74\) Qualified domestic labor is often entirely absorbed by the extractive industries, which creates additional demand for skilled foreign and vocationally educated labor. The lack of skilled labor has been partly offset by an influx of unemployed Portuguese moving to Mozambique in search of work.\(^75\) The scarcity of local labor is particularly acute because Mozambique’s labor laws, discussed above, restrict the number of foreign employees a Mozambican business can employ.

- **Crowding-out by donor funding**: Owing to historically high levels of poverty and poor scores on development indicators, Mozambique has been a major destination for foreign aid. Some impact investors interviewed noted that the abundance of donor funding in Mozambique has made return-seeking capital less attractive to businesses that believe that they can source cheaper capital from donors.\(^76\) With a limited entrepreneurial landscape and few investable businesses, many attractive SMEs are able to meet their financing needs through grants or soft loans. If these businesses are able to continue to grow, however, impact investors should be well-positioned to provide additional rounds of growth capital.

- **Potentially high due-diligence and monitoring costs**: Given that most non-DFI impact investors lack a local presence and because of the time and difficulty associated with evaluating business opportunities outside of Maputo, due-diligence and ongoing portfolio-monitoring costs can be relatively high, especially considering the low average deal size for non-DFI impact investors.

- **Language and culture**: Investors must adapt in Mozambique to using Portuguese, which makes due diligence and investment more difficult. In addition, Mozambique’s legal system is founded on civil law, not the English common-law system familiar to Anglophone impact investors. This different legal foundation can create misaligned expectations and increase the cost of legal due diligence.

- **Insufficient investment-ready deal flow**: Due to the historical underdevelopment of the private sector, interviewees suggested that there are only a limited number of businesses that are investment-ready and willing to accept external capital. For example, many enterprises operate informally, lacking the historical records and forward-looking strategies and projections needed to attract external capital. Family businesses often have a longer track record, but they tend to be less willing to accept external capital.

Despite the many challenges impact investors face, there are opportunities to deploy capital in return-seeking investments in Mozambique that can help drive economic

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\(^75\) Ibid.

\(^76\) Open Capital Interviews.
development and job creation. Areas of opportunity for impact investors include:

- **Utilize TA facilities for the pre-investment pipeline:** As many of the businesses in Mozambique are not ready for investment, pre-investment support is often needed to help them reach a stage where they can raise capital and use disbursed funds effectively. There is an opportunity for impact investors to leverage technical assistance (TA) or grant funding to offset the upfront investment needed to develop investable deals.

- **Establish local presence:** Given the lack of competition, with an on-the-ground presence, local impact investors report having a significant advantage in their ability to source investment opportunities. Only a handful of non-DFI impact investors have staff in Mozambique, despite the market’s pressing lack of capital. Impact investors willing to invest resources in Mozambique today have the opportunity to source prime investments and establish a brand before the market becomes more competitive.

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77 Ibid.
• **Work with local partners to navigate bureaucratic and legal landscape:** Interviewees consistently stressed the need to work with local partners and advisors in order to navigate the local context and bureaucracy. Without relationships and local knowledge, interviewees noted, placing capital can be significantly more difficult and costly.\(^7^8\)

• **Take advantage of development corridors:** As a result of Mozambique’s vast size, low population density, and poor infrastructure, many impact investors focus their attention on Maputo. However, many entrepreneurs operate outside Maputo and are overlooked. For impact investors who see these businesses as impactful, it will be necessary to build relationships beyond those in the major economic center. To successfully find and source such opportunities, impact investors should focus on development corridors throughout Mozambique. For example, there are potential opportunities in Biera, one of the most important transportation routes in the region, linking landlocked Zambia, Malawi, and Zimbabwe to the Indian Ocean. Of the ten million hectares of arable land in the area of the Biera corridor, only three percent is currently farmed for commercial purposes.\(^7^9\)

• **Invest in greenfield projects:** As there are limited investable opportunities and a general lack of skilled management, impact investors with longer time horizons can look to greenfield projects to drive financial and social returns. Over time, investors who have the appetite, experience, and technical know-how to do so can create and grow these new endeavors into future market leaders.

In addition, impact investors in Mozambique see specific opportunities in the following sectors:

• **Agriculture:** There are significant opportunities in Mozambique to invest in primary agriculture. Only 12 percent of Mozambique’s arable land has been cultivated,\(^8^0\) and Mozambique is advantageously situated to reach key Asian export markets, expanding the potential market well beyond the size of Mozambique’s own population.\(^8^1\) In addition to primary production, interviewees highlighted agro-processing as a key opportunity, as many value chains currently have limited domestic value addition.\(^8^2\)

• **Manufacturing:** Interviewees highlighted potential opportunities in food processing, light manufacturing, beverages, and textile manufacturing.\(^8^3\) In addition, there are opportunities for investors to work with local companies to

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78 Open Capital Interviews.


82 Open Capital Interviews.

83 Ibid.
improve their production practices, help them access capital, transfer technical know-how, train staff, develop products, and expand their market reach. While domestic markets are limited, Mozambique’s strategic location provides access to Asian economies, landlocked African nations, and neighboring South Africa. Moreover, Mozambique has a large supply of unskilled labor to support manufacturing.

- **Ancillary services and infrastructure for natural-resource projects**: Monetizing Mozambique’s recent natural-resource discoveries will require the development of a range of ancillary support services to meet the coming demand. These industries will spur significant job creation, which may meet some impact investors’ investment criteria. In particular, interviewees highlighted opportunities in workforce education, housing, healthcare, and transportation as key areas.\(^8^4\)

- **Energy**: Only 14 percent of Mozambicans have access to the national electrical grid.\(^8^5\) Correspondingly, there are opportunities for micro-grid and off-grid solutions, as well as for large-scale power production and distribution.

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\(^8^4\) Open Capital Interviews.

\(^8^5\) Embassy of the United States in Mozambique, “An Overview of Trade and Investment Opportunities in Mozambique” (Maputo: United States Department of State), http://maputo.usembassy.gov/uploads/images/FYOezSg1q1quHkgFR8tMg/Invop.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