THE LANDSCAPE FOR IMPACT INVESTING IN SOUTHERN AFRICA
ACKNOWLEDGMENTS

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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.

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COMM CMA 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
ZIMBABWE

OPPORTUNITIES AMID ONGOING POLITICAL AND ECONOMIC RISK
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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

Zimbabwe has experienced considerable economic challenges over the last fifteen years, and its political future remains uncertain. Land reform in 2000 was followed by years of economic decline, mass emigration of Zimbabweans, and one of the worst periods of hyperinflation in history. After a brief rebound following the introduction of a multi-currency regime in 2009, Zimbabwe’s economy has once again decelerated sharply since 2012, and extremely low bank liquidity has driven the cost of capital to prohibitive levels. Businesses are often unable to source either needed working capital or capital to invest in new equipment and growth.

At the same time, Zimbabwe boasts one of the best-educated workforces in Southern Africa, along with vast tracts of prime farmland. Before its economic decline, the country was known as the region’s breadbasket, as well as one of its economic powerhouses (see Figure 1 for its location in the region). Despite Zimbabwe’s current difficulties, significant potential remains, and there are opportunities for investors to realize strong financial returns while driving positive social outcomes.
COUNTRY CONTEXT

Significant macroeconomic upheaval continues to have strong effects on Zimbabwe’s economy today. In May 2000, the government embarked on “fast-track” land reform, amending the Land Acquisition Act to give the government effectively the power to expropriate land without compensation. The government then seized 110 thousand square kilometers of arable land from white Zimbabwean farmers, cancelled their title deeds, subdivided the pre-existing farms, and settled black Zimbabweans on the land.1 Ownership of such land remains contested to this day between the government, the original holders of the title deeds, and newly settled persons.

The subdivision of commercial farms and settling of new farmers substantially reduced agricultural output. For example, production of tobacco, the country’s main cash crop, declined by 64 percent between 2000 and 2008.2 Over the same period, commercial production of maize dropped 76 percent.3 Between 1998 and 2001, exports contracted by more than 40 percent, from USD 2.1 billion to USD 1.3 billion.4

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3 Ibid.

Large amounts of government spending accompanied this economic decline. Tax revenues did not keep pace with spending, and the poor economic conditions launched a wave of emigration to neighboring countries (roughly 10 percent of Zimbabwe’s population had emigrated by 2010), further reducing the available tax base. In response, the government of Zimbabwe printed increasing amounts of money to finance expenditures—notably its involvement in the Second Congolese War—which led to rampant inflation (see below).

In 2009, the government adopted a multi-currency regime, which permitted the US Dollar, the South African Rand, and the Botswanan Pula to be used as legal tender. For several years, the economy rebounded, but growth has since slowed; investors remain wary of country risk in Zimbabwe. Many investors fear that government policy could shift at any time and that executive succession to 91-year-old President Mugabe could spark further instability. In addition, some interviewees expressed continuing fears regarding the expropriation of private property or extortion by government officials.

**Gross Domestic Product**

Zimbabwe’s gross domestic product (GDP) has been volatile over the last ten years (see Figure 2). Contracting steadily between 2005 and 2007, it plunged roughly 15 percent in 2008 alongside hyperinflation. Since then, GDP has rebounded strongly, averaging 7.5 percent annual growth from 2009 to 2012 after the introduction of the multicurrency regime. Since 2012, the economy has slowed significantly, dropping from 12.6 percent GDP growth at purchasing power parity (PPP) in 2012 to six percent growth in 2013 and 4.7 percent growth in 2014.

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8 Ibid.

9 Open Capital Interviews.

Meanwhile, Zimbabwe is de-industrializing. Driven by aging machinery, a high cost of production, cheap imports, tight liquidity conditions, higher input costs, and inconsistent electric power, industrial capacity utilization stood at just 36.3 percent in 2014, declining more than three percent from its already low base of 39.6 percent in 2013.\(^\text{11}\) This low utilization rate has led many manufacturing businesses to become unprofitable and close. By contrast, South Africa’s industrial utilization stood at 81.5 percent in the first quarter of 2015.\(^\text{12}\)

Across sectors, the economy also continues to shed formal businesses in favor of the informal sector. Though challenging to collect statistics tracking the informal sector, Zimbabwe’s 2014 Labour Force Survey estimated that the informal economy now provides 94.5 percent of all jobs, up more than 10 percentage points over three years from 84.2 percent in 2011.\(^\text{13}\) Though interviewees noted that government statistics are frequently unreliable, they widely acknowledged that the economy is rapidly becoming increasingly informal.\(^\text{14}\)


\(^\text{14}\) Open Capital Interviews.
Foreign Direct Investment

Until the economic rebound in 2009, net flows of foreign direct investment (FDI) into Zimbabwe were meager, averaging just USD 35 million per year between 2000 and 2009 (see Figure 3). However, net FDI flows increased following the introduction of the multi-currency regime, rapidly growing to roughly USD 400 million annually before plateauing in recent years. The primary sources of FDI are China, Mauritius, and South Africa.

Hyperinflation and Exchange Rates

Between February 2007 and the 2009 introduction of the multi-currency regime, Zimbabwe experienced hyperinflation, defined as an inflation rate above 50 percent per month. At its peak, inflation in Zimbabwe was among the worst ever recorded globally. In July 2008, inflation stood at a staggering 2,600 percent per month, or more than 231 million percent annually. By September 2008, the International Monetary Fund (IMF) had estimated annual inflation at 489 billion percent. Businesses that quoted prices in local currency updated these prices several times.

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20 Ibid.
21 Zimbabwean Dollars lost nearly all value, and all accumulated local-currency debts, reserves, and savings were wiped out in a matter of months.

In response, most transactions shifted to US Dollars or other hard currencies. In February 2009, the government of Zimbabwe officially adopted a multi-currency regime, accepting the US Dollar, the South African Rand, and the Botswanan Pula as legal tender. The US Dollar today remains the dominant currency in Zimbabwe, even as the list of accepted currencies has grown to nine.

Though historical inflation rates are skewed by hyperinflation and interviewees expressed skepticism at attempts to calculate precise rates, Zimbabwe is likely presently experiencing substantial deflationary pressure. Under the multi-currency regime, Zimbabwe has few tools to manage deflation and is experiencing a net outflow of US Dollars. For example, Zimbabwe has a substantial current-account deficit, with estimated exports of USD three billion compared to imports of USD six billion. The majority of exports are derived from mining, which is capital-intensive and linked weakly to the rest of the economy, further reducing US Dollar availability. Remittances, estimated in 2013 at USD 1.8 billion, only partially offset these outflows. These reductions in the total money supply apply strong downward pressure on inflation, particularly in the context of an economy that continues to grow, albeit slowly. External factors have additionally contributed to deflation, including a weak South African Rand and low international oil prices.

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SUPPLY OF IMPACT INVESTING CAPITAL

With 52 impact investments and almost USD 375 million in impact capital disbursed, Zimbabwe ranks in the middle of Southern African countries in terms of total impact capital inflows. Despite these sums, the practical availability of impact capital remains limited for most businesses. Of the roughly USD 107 million disbursed by non-DFI impact investors, almost USD 90 million went to the extractives industry or housing projects. Meanwhile, DFIs placed more than USD 225 million of approximately USD 267 million into projects of USD five million or greater. Notably, between 2001 and 2010, impact investors made just one deal in Zimbabwe.

Broader Investing Landscape

Zimbabwe is experiencing a severe liquidity crunch, and access to financing remains sharply constrained. In 2012, as many as 43 percent of business owners were financially excluded, and only 18 percent of business owners used formal financial services. Interviewees noted that the liquidity crunch has since intensified.

Nearly half of banks in Zimbabwe face liquidity challenges. Hyperinflation eliminated all debt assets, while the multi-currency regime eliminated all local currency reserves, devastating most banks’ balance sheets. Foreign governments have not subsequently offered any large-scale injections of hard currency, meaning that commercial banks have had to rebuild slowly and unevenly. Though the banking sector showed signs of improvement in 2014, the financial sector remains divided between strong (frequently international) banks and weak banks.

Until recently, bank lending rates averaged roughly 20 percent in US Dollar terms. Effective October 1, 2015, interest rates are capped at 18 percent per annum for both new and existing borrowers. With such high rates in hard currency terms, bank financing is unaffordable for all but a tiny minority of businesses. Even if a business were able to afford the interest, banks frequently have high collateral requirements, a particularly restrictive hurdle since much of the agricultural land in Zimbabwe remains contested after the land reforms of the early 2000s. Interviewees report that banks will often not accept such land as collateral, making it very difficult for businesses, particularly agricultural businesses, to get loans.

Beyond commercial banks, there are few alternative sources of capital. The several large-scale microfinance institutions active in the country charge interest rates

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typically between four and five percent per month. As such, they are primarily able to serve traders looking to meet short-term needs for financing but are too expensive to act as longer-term funders.30

Interviewees were able to identify only a handful of local funds that actively place capital in Zimbabwe. There are also high-net-worth individuals who invest in local businesses, but they purposefully remain off-the-radar to avoid political risk; thus, they have limited scale and can be difficult to attract without a pre-existing relationship.31

Impact Capital Disbursed

Zimbabwe has seen a modest amount of impact investment activity, ranking sixth in Southern Africa by number of deals and seventh in total impact capital disbursed. As in most of Southern Africa, DFI investments constitute the majority of impact investments; DFIs placed roughly USD 267 million across 41 investments (see Figure 4). Non-DFI impact investors disbursed just over USD 107 million across 11 deals (see Figure 5).

Impact Capital Disbursed

Zimbabwe has seen a modest amount of impact investment activity, ranking sixth in Southern Africa by number of deals and seventh in total impact capital disbursed. As in most of Southern Africa, DFI investments constitute the majority of impact investments; DFIs placed roughly USD 267 million across 41 investments (see Figure 4). Non-DFI impact investors disbursed just over USD 107 million across 11 deals (see Figure 5).

**FIGURE 4. DFI IMPACT INVESTMENTS**

<table>
<thead>
<tr>
<th>USD (MILLIONS)</th>
<th># OF DEALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td></td>
</tr>
<tr>
<td>300</td>
<td>41</td>
</tr>
<tr>
<td>250</td>
<td>40</td>
</tr>
<tr>
<td>200</td>
<td>35</td>
</tr>
<tr>
<td>150</td>
<td>30</td>
</tr>
<tr>
<td>100</td>
<td>25</td>
</tr>
<tr>
<td>50</td>
<td>20</td>
</tr>
<tr>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>10</td>
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<tr>
<td>10</td>
<td>5</td>
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<tr>
<td>15</td>
<td>5</td>
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<tr>
<td>20</td>
<td>5</td>
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<tr>
<td>25</td>
<td>5</td>
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<td>30</td>
<td>5</td>
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<tr>
<td>35</td>
<td>5</td>
</tr>
<tr>
<td>40</td>
<td>5</td>
</tr>
<tr>
<td>45</td>
<td>5</td>
</tr>
</tbody>
</table>

Average deal size (USD millions) 6.5  
Capital disbursed  
Deals

**FIGURE 5. NON-DFI IMPACT INVESTMENTS**

<table>
<thead>
<tr>
<th>USD (MILLIONS)</th>
<th># OF DEALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td></td>
</tr>
<tr>
<td>120</td>
<td>11</td>
</tr>
<tr>
<td>100</td>
<td>10</td>
</tr>
<tr>
<td>80</td>
<td>8</td>
</tr>
<tr>
<td>60</td>
<td>6</td>
</tr>
<tr>
<td>40</td>
<td>4</td>
</tr>
<tr>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>15</td>
<td>0</td>
</tr>
<tr>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td>25</td>
<td>0</td>
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<tr>
<td>30</td>
<td>0</td>
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<tr>
<td>35</td>
<td>0</td>
</tr>
<tr>
<td>40</td>
<td>0</td>
</tr>
<tr>
<td>45</td>
<td>0</td>
</tr>
</tbody>
</table>

Average deal size (USD millions) 9.8  
Capital disbursed  
Deals

Investments over time

Impact investing activity has paralleled Zimbabwe’s macroeconomic trajectory. Notably, though there have been only a handful of non-DFI impact investor deals, most without publicly available information, nearly half of known deals occurred before 2000. No non-DFI impact investor placed capital in Zimbabwe between 2000 and 2009, with such investment only returning to the country after the introduction of

30 Open Capital interviews.  
31 Ibid.
the multi-currency regime and the subsequent economic rebound. DFI investments follow the same general trend. More than half of all DFI deals occurred before 2000: between 2001 and 2009, there was only a single DFI investment (see Figure 6). Since the introduction of the multi-currency regime, DFI investments have steadily risen both in number and in total capital disbursed.

![Figure 6. Total 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**

Non-DFI impact investment activity has been heavily concentrated in financial services and extractives (see Figure 7). Of the approximately USD 107 million non-DFI impact investors have placed in Zimbabwe, fully USD 60 million was in a single deal acquiring a position in a large gold mine. An additional USD 29 million was placed into banks to finance housing projects in a number of deals by a single non-DFI impact investor. Non-DFI impact investors provided another USD 11 million to a housing project and a financial services provider. As a result, of the entire USD 107 million placed in Zimbabwe by non-DFI impact investors, just USD seven million went to the broader social-enterprise landscape.
DFI impact investors disbursed capital across a wider range of sectors (see Figure 8). Financial services received more than 35 percent of all deals and almost 55 percent of all capital disbursed. Manufacturing constituted nearly another 20 percent of all DFI deals, but with a smaller average deal size, they contributed roughly 10 percent of total DFI disbursements. Similarly, agriculture comprised over 20 percent of total DFI deals but less than 10 percent of total disbursements.
Deal Size

Non-DFI impact investors did not make any investments in Zimbabwe under USD one million (see Figure 9). Among other countries in the region, only Lesotho, Botswana, and Swaziland likewise had no deals below USD one million, and all three boast fewer than half the number of non-DFI impact investor deals completed in Zimbabwe. Instead, the majority of non-DFI impact investor deals in Zimbabwe were for amounts of USD five million or above.

**Figure 9. Non-DFI Impact Investments by Deal Size**

<table>
<thead>
<tr>
<th>Capital Disbursed (USD Millions)</th>
<th>Number of Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 250k</td>
<td>-</td>
</tr>
<tr>
<td>250-500k</td>
<td>-</td>
</tr>
<tr>
<td>500k-1m</td>
<td>-</td>
</tr>
<tr>
<td>1-5m</td>
<td>3.0</td>
</tr>
<tr>
<td>5-10m</td>
<td>5.9</td>
</tr>
<tr>
<td>&gt; 10m</td>
<td>60.0</td>
</tr>
</tbody>
</table>

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, nearly a quarter of DFI deals were for less than USD one million (see Figure 10). A further 35 percent of deals were for amounts between USD one million and USD five million. Altogether, nearly 60 percent of DFI deals were for less than USD five million. Indeed, at just over USD 6.5 million, Zimbabwe has the lowest average DFI deal size of any country in Southern Africa.
**Instrument**

Though a small sample size—few deals have public information—prevents definitive conclusions, non-DFI impact investors appear to prefer self-liquidating debt instruments, potentially reflecting concerns about longer-term equity investments (see Figure 11). No deals were recorded that used any instrument other than debt or equity.

**FIGURE 11. NON-DFI IMPACT INVESTMENTS BY INSTRUMENT TYPE**

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Capital disbursed (USD millions)</th>
<th>Number of deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>11</td>
<td>5.5</td>
</tr>
<tr>
<td>Debt</td>
<td>615</td>
<td>5.1</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>Unknown</td>
<td>66</td>
<td>22.0</td>
</tr>
</tbody>
</table>

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
Similarly, DFIs also prefer debt instruments, using them in nearly 40 percent of all deals and capital disbursed (see Figure 12). Interestingly, DFIs also used quasi-equity instruments in nearly 20 percent of deals in Zimbabwe, exceeding even their use of standard equity instruments. Zimbabwe ties South Africa for the highest number of quasi-equity DFI deals in Southern Africa, despite having but a fraction of the total number of DFI deals completed in the regional powerhouse. Reflecting the predominance of the US Dollar in the multi-currency regime, almost all transactions, regardless of instrument or source, were denominated in US Dollars.

**FIGURE 12. DFI IMPACT INVESTMENTS BY INSTRUMENT TYPE**

<table>
<thead>
<tr>
<th>Average Deal Size (USD Millions)</th>
<th>Capital disbursed</th>
<th>Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>2.9</td>
<td>7</td>
</tr>
<tr>
<td>Debt</td>
<td>6.7</td>
<td>107</td>
</tr>
<tr>
<td>Other</td>
<td>7.1</td>
<td>16</td>
</tr>
<tr>
<td>Unknown</td>
<td>8.5</td>
<td>64</td>
</tr>
</tbody>
</table>

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

**Local Presence**

Only a handful of impact investors have a local presence in Zimbabwe, and interviewees identified few private institutional investors in Zimbabwe more generally. Local incorporation remains difficult for private-sector actors as a result of the indigenization policy, which requires that 51 percent of locally incorporated businesses be owned by indigenous Zimbabweans.

Nevertheless, interviewees uniformly stressed that local presence and local knowledge are critical to investing successfully in Zimbabwe. With the country experiencing such rapid changes in the recent past and with continuing uncertainty for the future, interviewees noted that local context was necessary to accurately identify trends. Moreover, with the informal sector increasingly monopolizing the economy, investing in and operating a business in Zimbabwe is heavily relationship-based, even more so than in other countries in the region. To build the necessary trust and rapport, local presence is vital.

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32 The totals for “Other” instruments referenced in Figure 12 predominantly include these quasi-equity instruments but also include a credit guarantee instrument.
Impact Tracking Standards

As in the rest of Southern Africa, interviewees reported that impact investors placing capital in Zimbabwe do not use a specific standard for measuring impact but instead customize impact tracking metrics to each investment. Interviewees noted that this customization reduces the administrative burden on portfolio businesses and allows impact investors to focus on the most meaningful metrics.

DEMAND AND NEED FOR IMPACT INVESTING CAPITAL

There is strong demand for impact capital in Zimbabwe. With the severe liquidity crunch, businesses have difficulty sourcing the capital they need to grow. Moreover, Zimbabwe continues to face significant development gaps that create opportunities for businesses that fill key needs while also realizing financial returns.

Development Context

Zimbabwe is classified as a low human development country, ranking 156th out of 187 countries on the United Nations Human Development Indicators (HDI) index (see Table 1).33 Zimbabwe has a score of 0.49, and though its indicators have improved in recent years, it remains well below the global average of 0.69.

<table>
<thead>
<tr>
<th>DEVELOPMENT INDICATOR</th>
<th>Zimbabwe</th>
<th>Regional Average</th>
<th>Global Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDI SCORE (RANKS 156TH OF 187 COUNTRIES)</td>
<td>0.49</td>
<td>0.55</td>
<td>0.69</td>
</tr>
<tr>
<td>GDP PER CAPITA (USD, PPP)</td>
<td>1,337</td>
<td>6,874</td>
<td>17,975</td>
</tr>
<tr>
<td>UNEMPLOYMENT RATE (%)</td>
<td>5</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>POPULATION BELOW USD 1.25 / DAY (%)</td>
<td>No available data</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>55</td>
<td>41</td>
<td>59</td>
</tr>
</tbody>
</table>

The most recent United Nations Human Development Report did not estimate a percentage of Zimbabweans living on less than USD 1.25 per day, but more than 70 percent of the population is below the national poverty line, and rural poverty by that standard increased from 63 percent in 2003 to 76 percent in 2014. At the same time, the World Bank estimates unemployment at a modest five percent, but this estimate uses a model from the International Labor Organization that relies on old data. Other estimates of unemployment vary remarkably widely, from 11 percent in the latest official labor survey, which used a broad definition of unemployment that does not require those without work to be actively looking for work, to a staggering 95 percent by the country’s National Association of Non-Governmental Organisations, which did not identify a specific methodology. Besides widespread poverty and potentially extraordinary unemployment rates, Zimbabwe has under-five morality rates nearly double the global average. In addition, the country has experienced a rising prevalence of HIV, increasing from 14.3 percent in 2012 to 15.0 percent in 2013.

Reflecting its history of strong investment in education, more than half of the population has some secondary education, which is nearly equal to global averages and significantly better than the regional average. However, gross secondary enrollment stands at just 26 percent, which is the lowest in Southern Africa and less than half the regional average. This agrees with statements from interviewees, who report that educational quality has fallen dramatically over the past decade and that government schools are now in very poor condition.

This deterioration threatens to erode a traditional national strength: Zimbabwe’s well-educated workforce. This is particularly worrying given Zimbabwe’s skewed age demographics (see Figure 13). Youth under the age of 25 make up more than 65 percent of the total population, and those under 35 are more than 80 percent of the total population. This sharply skewed age profile can be explained in part by the large-scale emigration during the country’s macroeconomic upheavals. With such a high proportion of youth, declining educational quality could rapidly diminish the availability of skilled labor.

35 Ibid.
37 Sintha Chiumia, “Is Zimbabwe’s Unemployment Rate 4%, 60% or 95%? Why the Data is Unreliable,” Africa Check, October 1, 2014, https://africacheck.org/reports/is-zimbabwes-unemployment-rate-4-60-or-95-why-the-data-is-unreliable/.
39 Sintha Chiumia, “Is Zimbabwe’s Unemployment Rate 4%, 60% or 95%? Why the Data is Unreliable,” Africa Check, October 1, 2014, https://africacheck.org/reports/is-zimbabwes-unemployment-rate-4-60-or-95-why-the-data-is-unreliable/.
Entrepreneurs

Access to capital is the primary constraint facing entrepreneurs in Zimbabwe. As discussed above, a severe liquidity crunch has made capital difficult to access. Even when available, bank interest rates are often above 20 percent in US Dollar terms, which makes bank loans impractical for all but a few, extremely high-margin businesses. In some instances, entrepreneurs may be able to receive funding from high-net-worth individuals, but these investments are often informal and constrained to existing relationships. As a result, most businesses must fund growth out of their own cash flows, which limits their potential.

Political risk also remains a concern for entrepreneurs, so many choose to operate informally rather than engage with government systems. Interviewees were split on their assessments of the risk of expropriation or extortion, but their divided opinion clearly indicates that uncertainty remains around the effect of operating “above the radar.” The potential or perceived danger associated with growing too large limits the possible scale a business can achieve.

For businesses seeking to formalize, full compliance with government regulations is time-consuming and expensive. For example, it takes an estimated 90 days to start
a business, and doing so costs nearly 115 percent of average per capita income.\(^{42}\) After starting the business, any additional regulatory requirements—such as those for registering property, getting electricity, or obtaining construction permits—take additional time and expense. Zimbabwe ranks 171\(^{\text{st}}\) out of 187 in the World Bank’s “Ease of Doing Business” rankings.

For entrepreneurs who do not meet the definition of “indigenous,”\(^{43}\) the indigenization policy can be a substantial barrier. By requiring 51 percent “indigenous” ownership, the policy means that non-indigenous entrepreneurs must cede ownership and potentially control of their businesses to their partners. As trusted indigenous partners may not have the capital or time to contribute to the business, entrepreneurs may as a result part with a large part of the business for less than its true value. The required indigenous ownership can also strongly reduce the financial incentive for entrepreneurs to grow their businesses.

Many entrepreneurs also struggle to compete with cheaper imports. The macroeconomic fluctuations over the past 15 years have prevented many businesses from investing in upgrading aging equipment, which raises their cost of production relative to businesses in neighboring countries, such as South Africa. In addition, Zimbabwe faces a significant power deficit;\(^{44}\) regular load shedding can last as long as sixteen hours a day,\(^{45}\) though interviewees estimated that load shedding lasts on average between six and eight hours a day.\(^{46}\) To compensate for load shedding, many businesses operate diesel generators, which increase costs.

Entrepreneurs in Zimbabwe, however, benefit from a robust market for talent. Reflecting a history of investment in education, in 2014 Zimbabwe had the highest literacy rate in Africa—91 percent—and its population is widely acknowledged to be very well-educated in general.\(^{47}\) The resulting broad market for managers and middle management is currently further supplemented by broader economic deterioration as talented managers become available after their previous companies decline.


\(^{43}\) Indigenisation and Economic Empowerment Act, 2007 (2008), http://www.africayouthskills.org/images/pdf/lrg/National_Indigenization_and_Empowerment_Act.pdf. The definition of “indigenous Zimbabwean” is “any person who, before the 18th April, 1980, was disadvantaged by unfair discrimination on the grounds of his or her race, and any descendant of such person, and includes any company, association, syndicate or partnership of which indigenous Zimbabweans form the majority of the members or hold the controlling interest.” In effect, this definition refers only to black Zimbabweans.


\(^{45}\) Ibid.

\(^{46}\) Open Capital interviews; and “Why Do We Have Load Shedding?” ZESA Holdings Private Limited, http://www.zesa.co.zw/index.php/component/k2/item/17-why-do-we-have-load-shedding?. The Zimbabwe Electricity Supply Authority (ZESA), the state-owned company responsible for power generation, transmission, and distribution, estimates that load shedding will be “for not more than 5 hours.”

Contrasting sharply with most of the rest of Southern Africa, interviewees almost universally noted that it was easy to source capable, experienced staff in Zimbabwe.

Despite this abundance of talent, labor laws create challenges for entrepreneurs, requiring employers to provide long notice periods and generous retrenchment packages. Because these laws make it more expensive and time-consuming to let workers go, businesses face increased overhead costs and struggle to restructure to adapt to changing conditions. At the time of writing, the Supreme Court and the President are revisiting these laws.

ENABLING IMPACT INVESTING: THE ECOSYSTEM

Regulatory Environment

Government policy in Zimbabwe remains a significant source of concern for investors, who perceive policy as being inconsistently applied and subject to sharp and unpredictable change. At the same time, interviewees noted that Zimbabwe’s court system is effective and fair in adjudicating commercial disputes. Well-educated judges give thoughtful, impartial rulings on issues of business law, though interviewees were careful to note that rulings on any politically sensitive matters could be unpredictable. Nevertheless, the general availability of legal recourse for most disputes eases operation.

Several aspects of Zimbabwe’s regulatory environment are particularly relevant to entrepreneurs and impact investors planning to place capital in the country:

- **Land ownership:** Land ownership in Zimbabwe remains highly sensitive. As described above, the government embarked on a “fast-track” land reform program in May 2000, amending the Land Acquisition Act to allow the government to acquire land without compensation. The government then effectively seized 110 thousand square kilometers of arable land from white Zimbabwean farmers, cancelled their title deeds, subdivided the pre-existing farms, and settled black Zimbabweans on the land. Ownership of resettled land remains contested to this day among the government, the original holders of the title deeds, and the resettled persons. In March 2015, for instance, a sitting minister of government publicly tried to take over part of a chicken farm in Masvingo province.

48 Open Capital interviews.
49 Ibid.
• **Indigenization and Economic Empowerment Law:** On March 7, 2008, President Robert Mugabe signed into law the Indigenization and Economic Empowerment Act, which stipulates that at least 51 percent of “every public company and any other business” as well as any “projected or proposed investment” should be owned by indigenous Zimbabweans. The term “Indigenous Zimbabwean” is defined to effectively refer only to black Zimbabweans. Though sweeping in its scope, this law has not always been applied consistently. For instance, the Indigenization Law includes exemptions for Chinese companies operating in certain sectors, such as agriculture.

• **Government activity in the private sector:** There are 76 State-Owned Enterprises (SOEs) operating in a number of sectors, including agriculture, energy, telecommunications, public utilities, and transport. SOEs in Zimbabwe have performed poorly in recent years due to a number of factors, including poor management, corruption, improper maintenance, lack of financing, and high executive salaries. Where in competition with private enterprises, SOEs have often received favorable treatment. In 2014, for example, POTRAZ, the SOE responsible for the licensing and regulation of the telecommunications sector, effectively extended for free the operating license for the state-owned mobile phone services operator NetOne by two years, despite the fact that its private-sector competitors were required to pay substantial sums to obtain similar licenses.

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54 Indigenisation and Economic Empowerment Act, 2007 (2008), http://www.africayouthskills.org/images/pdf/lrg/National_Indigenization_and_Empowerment_Act.pdf; and Indigenisation and Economic Empowerment (General) Regulations, 2010 (2011), http://archive.kubatana.net/docs/legisl/indig_econ_empowrmnt_general_regs_si21_110325.pdf.pdf. The Act was amended in 2010 by the Indigenization and Economic Empowerment (General) Regulations to include the specification that all foreign-owned businesses whose net asset value is USD 500 thousand or above are required to cede within five years a controlling interest of at least 51 percent of shares to indigenous Zimbabweans.

55 Indigenisation and Economic Empowerment Act, 2007 (2008), http://www.africayouthskills.org/images/pdf/lrg/National_Indigenization_and_Empowerment_Act.pdf. In the Act, the full definition of “indigenous Zimbabwean” is “any person who, before the 18th April, 1980, was disadvantaged by unfair discrimination on the grounds of his or her race, and any descendant of such person, and includes any company, association, syndicate or partnership of which indigenous Zimbabweans form the majority of the members or hold the controlling interest.”


61 Ibid.
• **Government incentives for foreign investors:** Investment incentives available to both foreign and domestic investors in Zimbabwe include:

  • **VAT exemptions for agricultural machinery and equipment, as well as for certain farming inputs such as fertilizers, seeds, pesticides, and animals:** Investment incentives available to both foreign and domestic investors in Zimbabwe include:

  • **Tax reductions for income from manufacturing operations that export at least 30 percent of production.**

Additional incentives are available, such as special deductions for expenditures on boreholes and farm fencing, but, as with other government policies, these are not clearly defined and there is considerable uncertainty regarding the consistency of their application.

• **Forex controls:** Zimbabwe operates under a multi-currency regime; transactions can be conducted in US Dollars, South African Rand, British Pounds, Euros, Australian Dollars, Chinese Yuan, Botswana Pula, Indian Rupees, and Japanese Yen. Exchange rates between any two of these currencies fluctuate with daily prevailing market rates.

• **Exit opportunities/restrictions on exits:** Foreign investors may repatriate 100 percent of capital, dividends, and after-tax profits without restrictions. However, to repatriate proceeds from the sale of immovable property, foreign investors must first seek the approval of the Reserve Bank of Zimbabwe.

• **Interest rate controls:** As of October 1, 2015, the Reserve Bank of Zimbabwe capped lending rates at 18 percent in US Dollar terms. The new interest-rate cap is applicable to both new and existing borrowers.

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ECOSYSTEM PLAYERS

Several incubators and accelerators are available in Zimbabwe to support early-stage businesses (see Figure 14). These organizations provide a range of services, including office space, training, networking, and investor linkage. In addition, there are several business plan competitions that offer technical assistance. Though formally available, interviewees noted that these efforts remain small scale and frequently are not visible or remain practically unavailable to entrepreneurs.

A number of intermediaries primarily focus on corporate finance. Interviewees were able to identify more than 10 boutique firms present in Zimbabwe, though their services are typically too expensive for early-stage enterprises to access.

CHALLENGES AND OPPORTUNITIES FOR IMPACT INVESTORS

While the overall macroeconomic environment in Zimbabwe remains challenging, some opportunities continue to prosper, in part by leveraging a talented workforce. Moreover, in an environment of extremely low liquidity, businesses with the financing to make capital investments and fund working capital requirements have a strong competitive advantage.
As described in the Executive Summary, impact investors across all markets in the region face several challenges, such as a lack of investment-ready enterprises. Additional challenges specific to Zimbabwe include:

- **Lack of credit:** As described above, Zimbabwe is currently experiencing a severe liquidity crunch, and businesses struggle to access financing. The cost of capital from commercial banks is prohibitively high for most businesses, and there are few other financing options available. This makes it challenging for investors’ portfolio companies to access additional capital, particularly for short-term financing.

- **Political risk:** Government policy remains unstable and is often inconsistently applied, destabilizing the business environment. Moreover, policies such as the Indigenization Law hamper the ability of white Zimbabweans (less than 1% of the population), foreign investors, and foreign companies to operate freely in Zimbabwe. Interviewees had split opinions about the potential for direct government intervention. Some stated that such concerns, although valid in the past, no longer reflected reality. At the same time, many expressed concern about potential negative consequences if a business were to grow sufficiently to appear “above-the-radar” unless it had some political connections. There is also generally shared concern about potential political upheaval surrounding the succession to President Mugabe. Now 91, the President’s health is closely watched, and there is uncertainty about who will follow him to the Presidency.

- **Difficulty competing with cheap imports:** Businesses in Zimbabwe struggle to compete effectively with imported goods, mostly from South Africa. The high cost of capital limits businesses’ ability to invest in upgrading aging equipment. Without up-to-date machinery, manufacturing companies incur higher costs relative to foreign producers of imports.

- **Limited local power generation:** The cost of production increases further due to persistent power shortages. For example, in July 2015, the country was estimated as having a 200MW power deficit. The result is persistent load shedding, which interviewees estimated as lasting between six and eight hours per day. Companies must thus partly operate on backup diesel generators, further increasing cost.

Despite these challenges, there are opportunities for impact investors to operate in Zimbabwe and leverage return-seeking investments to drive job creation, economic development, and opportunities for disadvantaged populations. Opportunities for impact investors seeking to place capital in Zimbabwe include:

- **Partner with a strong local presence:** Though the importance of local presence is a shared theme across much of the region, the need is particularly acute in Zimbabwe. Zimbabwe’s indigenization policy, confusing political landscape, and large informal economy make it particularly important for any foreign investor seeking to establish themselves in Zimbabwe to have trusted local partners. Trust and strong relationships are extremely important and require regular personal interaction.

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70 Open Capital Interviews.

• **Extend investment time horizons:** Zimbabwe’s near-term economic struggles will likely limit short-term growth and constrain potential exits to domestic investors. Instead, investors will have to realize returns from growth over time, which requires additional patience beyond that required to meet current challenges. At the same time, macroeconomic struggles create the potential for currently small businesses to grow to become market leaders, realizing significant long-term value for early investors.

• **Invest in restructuring existing businesses:** The economic upheavals of the past fifteen years and the ongoing liquidity crunch have led many businesses with sound operations and strong human capital to struggle with bad balance sheets. Often, such businesses have been unable to source the capital they need to invest in growth. Though interviewees noted that substantial overhauls may be needed to turn these businesses around, impact investors could realize significant financial and social returns by doing so.

• **Provide working capital:** Capital remains prohibitively expensive for most businesses, severely limiting their working capital as they manage cash flows. Those businesses with access to liquidity have a substantial competitive advantage at present and can rapidly scale their operations.

Interviewees noted specific investment opportunities in a broad range of sectors, including:

• **Agricultural processing:** Though interviewees were split on the opportunities available in primary agriculture (some noting the political risk and sensitivity around agricultural land while others noted that declining agricultural productivity generated opportunities), most interviewees agreed that there are opportunities in agricultural processing, such as day-old chicks and vegetable oils. Much of the existing agro-processing capacity uses old equipment or has seen declining utilization due to constraints on working capital. Opportunities exist to refurbish capacity and alleviate working capital restraints in order to improve utilization and reduce prices.

• **Construction inputs and other basic goods:** In the context of a faltering national economy, interviewees stressed the value of basic goods with a base level of demand. In addition, interviewees noted that real estate continues to receive significant investment from domestic sources, often funded by remittances. At the same time, many businesses producing basic goods, such as bricks, have struggled in recent years due to liquidity constraints and the legacy of hyperinflation. Developing businesses in these value chains could generate financial and social returns.

• **Healthcare:** Demand for the private provision of healthcare has increased as quality government service provision has eroded. An increasing number of private clinics have emerged, primarily serving high-income consumers. Though additional opportunities likely exist, there is a broad market opportunity for private healthcare provision to lower-income clients.
• **Education:** As the quality of government services declines, the demand for private provision of education has increased. A number of private schools have emerged, offering high-quality but expensive educations. Interviewees predicted that there is still additional space in the market for these high-end educational opportunities, but they also stressed that there are opportunities for mid- and low-income educational alternatives.

• **Renewable energy:** Zimbabwe has an ongoing power shortage, estimated at 200MW in July 2015. Persistent load shedding can last up to 18 hours a day. There are many opportunities to provide backup power options at the retail and commercial levels, as well as to invest in large-scale power production.

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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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