Cultures and Local Practices of Sustainability

ROUTES Towards Sustainability Network

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Financing sustainability: A trend analysis of impact fund allocation in East Africa

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Abstract

The East African region has become a thriving market for investment with increasing inflows of private capital within Sub-Saharan Africa. Despite this regional progress, East African countries are still characterised by social exclusion and poverty, translating into a common need for impact funds. Notably, the amount of impact funds deployed in the region is non-homogeneous, as their allocation tends to occur on more mature markets such as Kenya's, Uganda's, Tanzania's, and Ethiopia's, while countries with relatively lower levels of social inclusion such as Burundi, Somalia, and South Sudan are left behind. This article focuses on the potential of impact investment in financially sustainable projects and activities that seek to generate positive social and environmental value alongside financial returns and, therefore, investigates the existence of trends in the allocation of impact funds to various countries and projects in East Africa.

Keywords: investments, innovation, financing, impact investing, sustainability, East Africa.

Introduction

Tackling social and environmental challenges in Africa has long been left to the realm of Official Development Assistance (ODA) via public sector and non-for-profit entities, whose efforts have been undermined by a series of structural inefficiencies and financial constraints, especially after the financial crisis of 2008 (UNDP, 2015). Consequently, leveraging the private sector's ethos in improving the status quo via conscious investing and, more precisely, impact investing, has become a priority to ensure the financial solidity of global efforts toward more sustainable and equitable global growth. With the primary goal of intentionally and actively generating measurable positive social and environmental impact, in addition to financial returns, impact investments are the ideal private investment tool for financing the annual USD 5-7 trillion estimated to be required for the implementation and accomplishment of the Sustainable Development Goals globally (IFC, 2020). Indeed, since the term was coined in 2007, impact investment has grown at a substantial rate from a global market size of approximately USD 228 billion in 2017, to USD 502 billion in 2018 (GIIN, 2019). Impact investments are made across asset classes, geographies, and high impact sectors including agriculture, clean and renewable energy, healthcare and information technology by high-net-worth individuals, and financial institutions.

Notably, impact investors are risk-takers, as they provide patient capital by accepting longer time periods for investment maturity (Viviers, Ractliffe, & Hand, 2011). They are typically found in market domains characterised by imperfect information, uncertainties regarding the achievement of financial returns, governance problems, limited exit strategies, small deal sizes, and rigid institutional practices (Brest & Born, 2013). Moreover, impact investors can be classified based on the financial returns that they expect (Brest & Born, 2013); concessionary investors are those who are risk-taking, as they may demand lower financial returns or below standard market rate returns and usually provide seed or patient capital for start-up social enterprises (Brest & Born, 2013). Non-concessionary investors, on the other hand, demand superior returns on their impact investments (Brest & Born, 2013). It is important to note that the different financial returns are based on investors' strategic objectives, with some even accepting a return of capital at minimum (GIIN, 2020; Mudaliar & Bass, 2017). Mudaliar & Bass (2017) define private equity, private debt, and real assets as the most preferred asset classes on the impact investing continuum. It is also worth noting that most impact investors do not consider themselves 'impact investors'. They may operate under private equity, venture capital, foundations, and social entrepreneurs (Arosio, 2011). Therefore, impact investment strategies and venture capital and private equities share similar characteristics (Arosio, 2011). For instance, the estimated value of the global impact investing market of USD 502 billion is found in assets collectively managed by 1340 investors (Mudaliar & Dithrich, 2019). According to Mudaliar & Dithrich (2019), asset managers account for 64% of these 1340 investors, showing a global preference for indirect investments primarily dealt in equities, venture capital, fixed income, and real assets. The remaining 36% includes Development Finance Institutions, foundations, banks, pension funds, insurance companies, NGOs, and family offices (pp. 5-7). Developed countries and, mainly, the USA, Canada, and Europe are the largest sources of impact funds and they are expanding their investment activities to emerging markets, with Sub-Saharan Africa representing their preferred destination (GIIN, 2019).

Looking more closely at the area of study, the East African region has become a thriving market for impact investment with increasing inflows of private capital occurring within Sub-Saharan Africa. The relevance of social and environmental concerns related to impact investment has been emphasised throughout the development of the concept. Clearly, impact investments vary geographically and among individual investors. For instance, the Global Impact Investing Network (GIIN) and Open Capital Advisors (2015) recount that 155 impact investors had collectively deployed more than USD 9.3 billion through more than 1000 direct deals in the region as of 2015 (p. 9). Although a vast majority of impact investors operate in several markets or countries within East Africa, Kenya has received the lion’s share of the USD 9.3 billion followed by Uganda, which has received 13 percent; Tanzania, which has received 12 percent; Ethiopia, which has received 7 percent; and Rwanda, which has received 4 percent with little or no active impact investments made in the remaining East African countries. Kenya remains the main destination for impact investment in Africa (Alliedcrowds ltd, 2018).

With the aim of bringing to light new empirical evidence on the criteria employed by impact investors in allocating funds and thereby contributing to the body and growth of knowledge in this regard, this article builds on the following question: What variables influence the allocation of impact funds and how do macroeconomic country-specific conditions influence fund allocation?

The first chapter of this work introduces the reviewed literature and highlights the key research findings of this field. The second chapter describes the methodology, data sources, and data treatments used. Finally, the third chapter presents the analysis, the key findings, and a concluding discussion chapter which provides an interpretation of the evidence.

1. Relevant literature

The concept of creating social impact through investment has been long existent, despite bifurcated attitudes that separate business returns from social improvements. Indeed, it has been assumed that capital donated to generate social and environmental progress (with no regard for monetary gains) is philanthropic, while the one invested to prioritise financial returns with little or no consideration for social or environmental improvements constitutes investment (Bugg-Levine & Emerson, 2011; Trelstad, 2016). In effect, historical trends of impact investment date back to early investments that challenged the predominant line of thinking, characterising investments with the sole responsibility of generating financial returns (Bugg-Levine & Goldstein, 2009). Some of these efforts include early investments made by church/faith-based investors, microfinance, community reinvestment, Socially Responsible Investment (SRI), investments in clean technologies, and the community finance sector (Bugg-Levine & Goldstein, 2009).

Regarding the significant growth of the global impact investment market, there must be reasons why people undertake impact investing (Dorfleitner & Utz, 2014). In East Africa, for instance, the United States of America and Europe are the largest sources of impact funds, the focus of which is gradually drifting away from high-risk investments to concentrate more on business returns and demanding commercial terms (Lighting Global & Dalberg advisors, 2018; Jackson & Harji, 2016). That is, their criteria for allocating capital relate to investment risks, returns, and the likelihood of liquidating their stake (Jackson & Harji, 2016; Dorfleitner & Utz, 2014).

The first line of reasoning focuses on the strong financial performance of impact investments (GIIN & Cambridge Associates, 2015). Overall, a continuing and long-standing debate comparing the financial performance of social investments to conventional ones has yielded positive, neutral, and negative responses (von Wallis & Klein, 2015). A number of studies have shown that: (1) strong financial performance is a critical driver of impact investments or SRI (Mudaliar & Bass, 2017)[5] (2) financial returns are primary objectives, while social aspects are considered secondary conditions (Revelli, 2017); and (3) investors are applying conventional financial strategies to their investments (Revelli, 2017; GIIN, 2020; Lighting Global & Dalberg advisors, 2018). Cortez et al. (2009), Erragragui and Lagoarde-Segot (2016), and Hamilton et al. (1993) found a neutral relationship between the financial performance of SRI and conventional investments. Additionally, Brest and Born (2013) posit that the achievement of social impact alongside commercial returns is unlikely to occur. Their assertion emerges from growing concerns about what they describe as "potentially unrealistic expectations of simultaneously achieving" social impact and standard market-rate or superior returns (p. 22). Applying the notion of causation, these authors believe that the expectation of market-rate returns by both impact and conventional investors will result in: 1) less impact investments as the social change perspective becomes an extra cost for the impact investor, and 2) conventional investors automatically investing for impact when the same returns are to be generated (Brest & Born, 2013).

By contrast, evidence from the *Annual Impact Investor Survey*, conducted by the GIIN (2019), reveals that most impact investors who participated in the survey pursued competitive standard market-rate returns comparable to the fiduciary sphere of conventional investments. In fact, out of the 266 survey participants, 66 % had pursued market-rate returns, 19 % had accepted less than but closer to market-rate returns, and 15 % had accepted close to capital preservation or the return of capital

[5] (GIIN & Cambridge Associates, 2015; Arosio, 2011; Pena & Cortez, 2017; Revelli, 2017; Nilsson, 2008; Kempf & Osthof, 2007; Statman, 2000)

(GIIN, 2019). For instance, revenue generation is prioritised due to the high cost or riskiness of investing in the off-grid solar market serving quite low income off-grid populations (Lighting Global & Dalberg Advisors, 2018).

Another motivation (behind impact investing) stems from the availability of entrepreneurs. In their study on the attractiveness of various emerging markets for private equity and venture capital investments, Groh & Liechtenstein (2012) show that the state of the economy of a country (like, income, growth, employment levels, the size of the economy, the type of capital market (whether it is made up of banks or a stock market), taxes, legal structures and the protection of property rights, human and social environments, innovative capacity, and bureaucracy) have positive effects on investments. Notably, their study identifies a predominant role of entrepreneurial activity, which absorbs and reflects the impacts of the abovementioned parameters (Groh & Liechtenstein, 2012). In other words, entrepreneurial activities directly affect investments as they occupy the demand sphere. One impact investment company in Uganda, namely, COSEF, recalls that small to mid-size enterprises (SMEs) make up 98% of all businesses in Kenya, well over 3 million enterprises in Tanzania and Uganda and over 72,000 SMEs in Rwanda (COSEF, 2018).

The view on private sector being the engine of progress through technological activities and innovation stemming from proprietary firms is touted by Joseph Schumpeter (Nelson, 1990). Technology affords entrepreneurs access to a wide array of information, both on trending problems that need solving and possible solutions (Bornstein, 2007). Again, innovation has been identified as a driver of market competitiveness, sometimes with positive consequences for social and environmental issues (Corradini et al., 2014; Gilli et al., 2014). As social value creation alone may not be enough incentive to drive innovation in the private sector, innovation efforts toward social progress would not be exploited, as financial incentives are lost from the public good of innovation information and free riding (Léger & Swaminathan, 2007; Corradini et al., 2014). For an innovation to be undertaken in the private sector, there may be a need for financial incentives because innovation may be too expensive to be adopted at a systemic level, and this scenario is when government intervention via intellectual property rights is needed most. At this point, the suggestion of mixed good-related financing for environmental improvements proposed by Corradini et al. (2014) furthers the concept of impact investment based on economic reasoning.

Nelson (1990) also sheds light on the predominant role of government in the success of technological activities, which the scholarship of capitalism fails to address. Such governmental roles target the foundations of innovation, including university research funding, investments in higher education, and policies encouraging education and industrial research and development (Nelson, 1990). Some practical examples include free secondary education in Tanzania and the Adolescent Girl's Initiative (AGI). The AGI is a comprehensive training programme for girls in Rwanda and South Sudan provided through a partnership between the governments of these countries and the World Bank (World Bank, 2014). Literacy rates are of 82% in Kenya as of 2018, of 78 % in Tanzania as of 2015, of 77 % in Uganda as of 2018, and of 73 % in Rwanda as of 2018 (World Bank, 2019), and they follow an entrepreneurial culture, prompting business ideas and impact investments in these countries. A government can also boost innovation by establishing and strengthening national innovation systems or, better still, innovation ecosystems (Nelson, 1990).

Porter and Van der Linde (1995) summarise the contributions of public regulations to the achievement of desired environmental and economic benefits with six points, namely: (1) regulations render companies aware of the harmful effects of their activities on the environment, which could serve as a potential cause for environmentally benign innovations; (2) regulations report information that could benefit companies; (3) regulations reduce uncertainties of environmental investments; (4) regulations push companies to be environmentally innovative; (5) regulations reduce the cost of environmental innovation and, finally, (6) regulation sets the record for return appropriability (pp. 99-100). According to Hall and Jones (1998), variations in institutions and government policies explain the gaps that exist across countries in terms of capital accumulation, educational attainment, productivity, and income (p. 114).

Furthermore, research regarding the impact of population growth on economic performance, investments, and productivity have yielded positive, negative and, in some cases, neutral stances. Bloom et al. (2003) identified the age structure of population as a critical issue that has been insufficiently investigated in previous literature. A report produced by the African Institute for Development Policy (AFIDEP) and the University of Southampton (2018) contributed to this line of literature by indicating that youth of the East African Community (EAC) exhibit a great capacity to accelerate growth and development in East Africa, should they be in good health, skilled, and employed. Ideally, the youth bulge in East Africa and its position as the most populous region in Africa renders the region a viable destination for investments in terms of the availability of cheap labour and of a sizeable and addressable market (GOGLA, 2019).

A challenge of the impact investment debate is reflected by the idea that every investment made in Africa constitutes an impact investment due to high levels of social exclusion and poverty characterising the African continent (Jackson & Harji, 2016). To this end, Bugg-Levine and Emerson (2011) argue that even though all investments can create social change, impact investment prioritizes environmental and social value creation. Therefore, simply placing capital in poorer geographic regions does not qualify as impact investment. The intention to seek social and environmental impact and the measurement of impact as a management practice are mandatory to qualify an investment as an impact investment (Bugg-Levine & Emerson, 2011).

The following chapters clarify strategies that impact investors use in allocating impact funds in East Africa.

2. Methodological frameworks

Impact funds are increasingly being allocated to East Africa but to specific countries within the region (GIIN & Open Capital Advisors, 2015). While some investors may choose to invest in frontier markets, the vast majority prefer to invest in more mature ones. In this article we aim to identify which micro-level conditions are motivating impact fund allocation and the role of macro-level conditions in countries of business implementation. Accordingly, we employ a semi-structured qualitative research methodology, typically involving the use of secondary and primary data sources. Considering the United Nations Development Program conclusions (UNDP, 2015), the research draws on a systematic review of synthesized secondary sources of data, supplemented by case studies and interviews held with impact investors in East Africa. In doing so, information gaps and inconsistencies surfacing during the research are bridged and clarified while research outcomes of secondary sources are verified against real world examples to ensure high-quality and transparent research.

Data sources

Primary data were collected through semi-structured questionnaires and interviews held via email from May 23rd to August 29th of 2019. Semi-structured interviews and questionnaires were considered suitable for this study because they focus on addressing questions in an exploratory way, using open-ended questions as opposed to purely structured surveys, which require participants to choose from a "range of predetermined possible answers" (Blandford, 2013, p. 3). We should note that some questions were developed during the interviews. A request for an interview attached to a set of pre-determined questions was sent out to over thirty East African impact investors and stakeholders. Their various websites were initially analysed to gather data to be used to answer the research question. Then, the interview consultations followed, undertaken to retrieve any relevant information that was not publicly available. The selection of impact investors and stakeholders was limited to those who actively operate within the sectors of agriculture, renewable energy, information, and communications technology (ICT), and healthcare in East Africa. Four respondents agreed to participate, and interviews were conducted remotely. One respondent is an impact investor in smallholder farmers whose investment portfolio focuses on Tanzania. Another respondent is a recipient of impact investments from Tanzania of the renewable energy sector. The third respondent is a representative of an organization for private equity and venture capital funds in East Africa, and the last respondent is a representative from a development institution in East Africa that invests impact capital in agriculture and agribusiness, renewable energy and adaptations to climate change, financial services, and communications systems. The case study methodology was used to develop a deeper understanding of the practicalities of impact investment and of approaches that impact investors employ based on detailed explanations and descriptive examples (Heale & Twycross, 2018).

The analytical framework of this article derives from a thorough evaluation and assessment of all data at hand from both primary and secondary sources. The framework was fragmented into descriptive and thematic analyses of approaches to impact investing in East Africa (Dionisio & Raupp de Vargas, 2019). The thematic perspective was assessed from two angles: a micro-level analysis of approaches to impact investment among East African businesses and a macro-level analysis of the conditions in countries that motivate impact investment in various East African countries. This analysis was done to understand which private and public characteristics have strong effects on impact investment decisions, considering that impact investment is an impure, public good-related activity, according to Corradini et al. (2014). The concept of the impure, public good has already been applied in the context of charity by Andreoni (1989), who terms it “impure altruism” (p. 1449).

Area of analysis

The East African region is made up of thirteen countries characterised by diverse and unique cultures, different stages of development, and youthful populations with a median age of 18.1 years (UN World Population Prospect, 2019; AfDB, 2019). It is the most populous region in Africa, with a population of approximately 441,151,114[6] (UN World Population Prospect, 2019). Countries within the East African region include Kenya, Uganda, Tanzania, Burundi, Rwanda, Comoros, Ethiopia, South Sudan, Sudan, Eritrea, Djibouti, Seychelles, and Somalia (AfDB, 2019). Data from the *East Africa Economic Outlook* (2019) indicate that, in 2018, East Africa was the fastest growing region in Africa, with a leading level of gross domestic product (GDP) growth estimated at 5.7 % (AfDB, 2019, p. 5). It is the most regionally integrated area of Sub-Saharan Africa and it is a member of The Intergovernmental Authority on Development (IGAD), the Common Market for Eastern and Southern Africa (COMESA), the African Continental Free Trade Agreement, and the East African Community (EAC). The EAC is an intergovernmental organization of East African countries designed to create a single trading bloc through the Customs Union Protocol monetary union; a single political authority and common market facilitating the free movement of goods and people among participating countries (EAC, 2017). It currently includes Burundi, Kenya, Rwanda, Tanzania, South Sudan, and Uganda (EAC, 2017) and has been described as the fastest growing and most integrated region in Africa (EAC, 2017; AUC, AfDB & UNECA, 2016).

Available investment instruments in East Africa include: (1) challenge funds, which are a form of financing purposely provided to decrease the riskiness of impactful projects or businesses for further investments; (2) seed or patient capital, representing a type of funding that targets early-stage business ideas; (3) venture capital, targeting small companies or start-ups with high growth potential; (4) private equity shares, which

[6] Data elaborated by www.worldometers.com, sourced from "*World Population Prospects: The 2019 Revision*", United Nations, Department of Economic and Social Affairs, Population Division (2019).

represent ownership in an entity that is not traded on a public stock market; and (5) debts, which are loans paid back on a schedule. Quasi-equity is an innovative finance mechanism developed from existing mechanisms that have been developed among stakeholders in the impact investment industry of East Africa to address the financial needs of businesses whose monetary demand is too low for equity financing or that do not meet requirements for equity financing. Other innovative capital instruments used in East Africa include micro venture capital, meta finance, blended capital, and growth capital. Finally, the value of capital provided by impact investors in East Africa ranges from below USD 500,000 to over USD 50 million (GIIN & Open Capital Advisors, 2015) with an average investment duration of five to ten years (UNDP, 2015).

Sectors of analysis

The areas of impact investment listed below were selected because they represent key areas for achieving sustainable development and positive impacts from economic, social, and environmental perspectives.

Starting with Agriculture, it is relevant to note that it remains the largest sector in the region, employing 70 % of the East African population. The economies of most countries within the region are fuelled by agriculture, despite the dominance of smallholder farmers who still rely on traditional methods of farming to earn their livelihoods. Thus, investing in agriculture means investing in environmental sustainability, and investing to improve the quality of life of a vast majority of the East African population. For this reason, agriculture is a prominent area of investor interest.

One unfavourable yet prevailing socioeconomic challenge facing East Africa concerns the access to electricity. Only 50 % of the populations of almost all East African countries are connected to electricity and approximately 9 % of the population of Burundi had access to electricity as of 2017 (World Bank, 2018). With an abundance of renewable energy resources in the region (mostly solar and wind systems), renewable energy systems constitute a viable solution to ensuring broader access to affordable, reliable, sustainable, and clean energy in accordance with the 7th Sustainable Development Goal. This is an impactful venture that has attracted substantial impact funds, as universal access and a stable electricity supply enable the informal business sector, which is prominent in the region, to work longer hours, leading to increased incomes.

The African health service sector has been described as the poorest in the world (World Bank, 2008, p. vii). For this reason, attention is geared toward the private sector, justifying the need for impact investments to address structural deficiencies.

Finally, the ICT service sector has been resourceful in being socially and financially inclusive of poor and marginalized communities (The Swedish Trade and Invest Council, 2016). ICT has promoted innovation, green and inclusive business models in equally relevant sectors such as agriculture, healthcare, and renewable energy to the point of being considered a proxy of sustainable development in low-income communities. An example of the extent of digital inclusion in the region is reflected by the regional digital health plan outlined by the East African Health Research Commission (EAHRC), in its quest to achieve an improved and unified health sector (USAID, 2017). Another example concerns the adoption of mobile money as a payment mechanism for goods and services, and this adoption has led to the expansion of the customer base of businesses to rural areas with mobile phone penetration. Finally, the pay-go financing model is critical to energy access in the off-grid solar sector.

Data treatment

Retrieved information and data were treated with confidentiality and anonymity where requested and citations have been applied where needed.

3. Analyses

Our findings mainly stem from four interview consultations and evidence gathered from a critical analysis of the websites of thirty-five active impact investors in East Africa. Findings were delineated into macro and micro level conditions. From our investigation, three key preconditions for justifying the disbursement of impact funds at the micro level were identified:

1. **Returns:** Evidence gathered from the interview consultations and from the critical analysis of websites of a significant number of impact investors in East Africa revealed competitive returns as an attractive parameter for the selection of projects or businesses to invest in. How many financial returns were expected on investments was not explicitly expressed. However, one respondent mentioned that Africa is perceived as a "high-risk investment destination by a number of investors" (personal communication, June 3rd, 2019). Hence, this is a likely explanation to why impact investors expect a high return.
2. **Technology intensity and innovation:** Successful, innovative, and dynamic business models with a proven track record are crucial to boosting local growth. For instance, digital business strategies provide a wide array of business growth opportunities within the aforementioned sectors of analysis, from customer intelligence to innovation. One respondent mentioned that sectors and businesses using technology to improve or leapfrog livelihoods are those that are invested in most. Two respondents identified "technology-based interventions" in the energy and agriculture sectors, such as mobile money-related financing of financial innovation and solar irrigation technologies, as important drivers of impact investments (personal communications, June 11th, 2019; June 20th, 2019).
3. **Scalability:** Another relevant criterion for impact capital allocation concerns the growth potential of a business and, namely, the ability of a venture to expand its activities and become profitable, successful, and financially sustainable over the long run. This ability often derives

from a good management team, operational capabilities, technical expertise, adequate internal controls, and entrepreneurial experience in the local market segment within which a company operates.

To combine the above elements with country-specific macro-economic conditions that may additionally influence the allocation of impact funds, the following context-dependent variables were identified from available primary and secondary data.

- **Investment opportunities:** Investment opportunities concern political and economic infrastructure. Evidence gathered from critically analysing the websites of a significant number of impact investors in East Africa revealed the availability of human capital, the availability of entrepreneurs and SMEs, a robust private sector, population growth, and emerging or high growth markets and industries and stable incomes[7] as relevant macro-scale conditions considered for investments. Two respondents mentioned economic infrastructures such as road networks, free lands, mobile phone penetration and mobile banking as integral to strategies for investment (Personal communications, June 3rd, 2019; June 20th, 2019).
- **Investment incentives:** Respondents mentioned business registration systems, state-led objectives, subsidies, and tax credits as key considerations for impact investments made in the various countries in which they operate.
- **Regional trade integration:** Another condition the respondents considered is how well a country is connected along its borders and its relations with neighbouring countries for business expansion and trade or so-called strategic locations. Regional integration influences impact fund allocation in East Africa because it is considered a single market with a common currency. More specifically, parameters for the measurement of the most integrated countries include trade

7 Impact investors consider populations with a stable income for marketable products in the renewable energy sector, for example.

integration, regional infrastructure, production integration, people's free movement, and financial and macroeconomic integration. With respect to these variables, countries such as Ethiopia, Eritrea, Sudan, and Djibouti rank the lowest in the African Regional Integration Index of 2016 with Uganda and Kenya representing the most integrated countries (AUC, AfDB & UNECA, 2016).

- **Stability and transparency:** A peaceful and stable political environment void of any form of violence is a necessary condition for investment to grow. One respondent recounted that East African countries with some sort of political stability and economic viability such as Kenya, Tanzania, Uganda, and Rwanda are some of the leading destinations for impact capital. Another respondent also identified corruption as a basic problem and a reason why their company is no longer investing in Tanzania.
- **Conducive fiscal and monetary policies:** Various macroeconomic policies, such as foreign exchange sales adopted in Kenya, Ethiopia, Rwanda, Seychelles, and Tanzania yielded stability in exchange rates as recorded in the various countries in 2018, whereas inflation rates remained high in Ethiopia, Burundi, Sudan, and South Sudan in the same year (AfDB, 2019). Again, the ability of Kenya to maintain a stable interest rate policy renders it the largest and most developed capital market in the region (Africa Financial Market Initiative, 2019).
- **Privatization of public infrastructure:** A key element of the economic reform and reconstruction efforts of the EAC government is rooted in a recognition of the private sector as an engine of growth (EAC, 2017). Ethiopia, Eritrea, and Djibouti are the only three countries in the world wherein state monopolies on telecommunications still prevail (Fukui, 2019). However, the Communications Service Regulation Proclamation approved by the Ethiopian government on June 13 of 2019 will see to the privatization of the telecom sector of Ethiopia, which has long been monopolised by the state (Kiruga, 2019). In opening its telecom sector to competition, the Ethiopian government seeks to attract both domestic and foreign investment to improve the sector (Fukui, 2019).

4. Discussion

This chapter begins from the premise that the criteria considered by impact investors in allocating impact investments at the micro-level include returns, technology-based interventions, and scalability. Seemingly, at the country level, the abovementioned characteristics generate a conducive environment, which was repeatedly identified by respondents as leading to fruitful investments in East Africa. A notable point in this regard concerns the fact that Ethiopia, Rwanda, and Uganda are landlocked countries and yet receive greater funds than the other countries of this category. Rwanda, despite its small market and geographic location, exhibits high degrees of mobile phone penetration and internet coverage relative to other countries in East Africa (UNCTAD & ICC, 2012), which are important drivers of investment. This phenomenon suggests that country-specific conditions do not need to stand simultaneously and yet may be differently tracked in East African countries.

Overall, according to the investigated literature and primary data collected to understand the priorities of fund allocation, it is worthy to note that impact investors like mainstream investors are characterised by rational behaviour prioritizing returns over any other aspect. Inasmuch as social impact drives impact investment, there is a preference for business returns with economic value creation, representing the key impact indicator from which other positive social or environmental impacts may eventually be generated. An example of this preference is illustrated by the case of Mtanga Farms Ltd., a Tanzanian farming operation founded in 2008 with the objective of improving potato farming in the tropical climate of the country by introducing disease-free potato seed varieties for the first time in the territory. The potato seed initiative of the farm attracted four impact investors whose investment decisions were influenced by the financial opportunities of the farm for investors, smallholder farmers, and the farm business itself, after which social and environmental benefits were tracked over the medium to long run because of the investments provided (GIIN, 2011). That said, the profitability of impact investments remains the number one criterion for impact investors.

Another interesting point that emerges from this research concerns the provision of technical assistance as a form of in-kind impact investment, providing knowledge and expertise together with money. This provision is relevant as a de-risking tool for ensuring further investments and the growth of early-stage businesses, especially in very fragile economies where funding opportunities are scarce. The Africa Enterprise Challenge Fund (AECF) is a development institution that is transforming lives in poor rural areas of Africa by providing concessional financing alongside technical assistance to agribusinesses and renewable energy enterprises, as well as supporting adaptation to climate change technologies. The technical assistance and business advisory support services provided aim at strengthening investee financial management, capacity building, and business sustainability and at creating value and enhancing impacts at the beneficiary level. In understanding the high costs of investing in fragile regions such as Somalia (AECF, 2019), the need for successive rounds of project financing, and the inefficiency of investees in attracting further investments, investors tend to provide non-monetary resources to minimize the risks of monetary losses.

To understand why the measurement of social and environmental impact by impact investors in East Africa is inconsistent, it is relevant to recognise that such impacts are complex and difficult to track, especially by firms based in poor communities, as small companies find standard impact assessment tools expensive or mostly developed for large companies, leading to expensive processes of data acquisition (UNDP, 2015). Such companies, in turn, develop and use diverse impact measurement strategies, most of which gauge impact from the growth of businesses, the number of people served, and the number of job opportunities created, which are not necessarily proxies of inclusive and sustainable growth. Recently, a frequently employed tool to measure social and environmental goals of business ventures in East Africa is the Sustainable Development

Goals (SDG) framework developed by the UN 2030 Agenda for Sustainable Development. The SDG are often used as reference points to keep track of social and environmental performance, primarily due to their free access and less stringent enforcement (GIIN, 2019; UNDP, 2015).

Conclusion

The overall trend of impact fund allocation in East Africa is moving toward improving the livelihoods of beneficiaries by supporting profitable ventures regardless of additional and measurable social impacts that may stem from such businesses.

East African countries such as Kenya, Tanzania, Ethiopia, Uganda, and Rwanda receive the most impact funds primarily due to the presence of strong business-enabling climates deriving from political and economic infrastructures, strong regional integration, conducive fiscal and monetary policies, youthful populations, human capital, the privatization of public infrastructure, and stability and transparency.

In conclusion, the concept of impact investment points at supporting ventures that generate local growth; however, economic value creation for beneficiaries remains the main priority of impact assessment in East Africa relative to social and environmental impacts. Indeed, it is possible to say that investors are adopting a conventional approach based on financial returns under the label of impact investment simply because they are based in Africa, a continent with a lower human development index. In this sense, a deeper investigation of the real meaning of “impact” is required not to rebrand a mainstream fund allocation process just to gain visibility and stakeholder praise.

To further strengthen the above conclusions, a broader analysis may be conducted, based on evidence sourced from sectors other than those of agriculture, renewable energy, health, and ICT. Expanding the geographic area of investigation to West African countries could also extend the reach of our analysis.

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Appendix

Direct Sources:

1. Interview consultation with Cheetah Development on June 3rd, 2019.
2. Interview consultation with Mr. Victor Ndiege (Sector Team Lead – Renewable Energy and Climate Technologies) Africa Enterprise Challenge Fund (AECF) on June 11th , 2019.
3. Interview consultation with Devergy Energy Services on June 14th, 2019.
4. Interview consultation with the East Africa Venture Capital Association (EAVCA) on June 20th, 2019.

Questionnaire

Research title:

Financing sustainability: An Analysis of the Existence of a Trend in the Allocation of Impact Funds in East Africa.

Summary:

Impact investment is evident in East Africa, yet several studies have revealed a growing disparity in the deployment of impact capital about country-specific cases. Therefore, this research builds on the following question: What variables influence the allocation of impact capital? The research aims to contribute new knowledge and understanding to a growing body of knowledge in the field of impact investment with a focus on Africa.

1. What are the three top characteristics that a business should have to be supported by your organization or by impact investment?
2. What government policies, institutional frameworks, and macroeconomic conditions favour impact capital allocation in East Africa?
3. What countries and sectors within the East African region are included in your impact investment portfolio? Why have you selected these countries and sectors?
4. How would you rank the agriculture, ICT, healthcare and renewable energy sectors in terms of impact fund allocation? Is there a reason for such an allocation approach?
5. Is the impact market competitive in East Africa, and does this affect capital allocation?
6. What sectors would you like to make future investments in?
7. What measurement mechanisms do you have in place to track the performance of investments?

Interview consultation with Devergy Energy Services on June 14th, 2019.

Questionnaire

1. Why are your services based in Tanzania?
2. Do you use local investors as local sources of finance?
3. What makes your company attractive to impact investors?
4. Roughly how much has been invested in your company since its inception and what are some of the return expectations of your investors?