

Research Report

Landscape Analysis of Social Investment in East Africa

Roland Mwesigwa Banya

Centre on African Philanthropy and Social Investment, University of Witwatersrand, Johannesburg, South Africa

**Correspondence to: rmbanya03@gmail.com*

TABLE OF CONTENTS

INTRODUCTION.....	2
EVOLUTION OF SOCIAL INVESTMENT IN EAST AFRICA.....	2
METHODOLOGY	4
FINDINGS AND DISCUSSION	5
CONCLUSION AND RECOMMENDATION.....	8
REFERENCES	9
APPENDICES.....	11
APPENDIX A: DATABASE OF SOCIAL INVESTMENT ORGANIZATIONS IN EAST AFRICA.....	11
APPENDIX B: SURVEY INSTRUMENT.....	11
Social Investment Survey in East Africa	11

ABSTRACT

Social investment in East Africa is a nascent but fast-growing phenomenon with immense potential to realize the achievement of the sustainable development goals. It plays a very important role in the financing of a plethora of development sectors in East Africa, for instance, financial inclusion and poverty eradication, health and well-being, education, responsible energy production and consumption in the region. This article applies a mixed methods approach to carry out a non-exhaustive landscape analysis of the social investment market in East Africa with a keen focus on Kenya, Uganda and Tanzania. Based on relevant literature, available secondary data and a survey administered to social investors, this article applies the basic social investment market framework to highlight the dominant players in the demand and supply market spheres. The findings show that the supply of investment capital is misaligned with the demand from organizations and businesses and demand outweighs the supply.

This article further analyses the challenges faced by the social investment players and also provides viable recommendations to drive the scale of social investment in East Africa.

Keywords: Social investment, demand, supply, impact investment, philanthropy, DFIs, non-profit

INTRODUCTION

The attainment of the sustainable development goals (SDGs) in developing countries is largely inhibited by the challenge of gross funding gaps that exist across all the SDG-related sectors. According to the SDG Centre for Africa, the SDG financing gap for Africa is estimated at between USD 500 billion and 1.2 trillion annually (The Sustainable Development Goals Center For Africa, 2019). As articulated in the existing literature (Gallicchio and Marszalek, 2020; Castellás et al., 2018; Suehrer, 2019; Arif et al., 2020), social investment is emerging as a new and proactive approach to development with a promise of long-term sustainability. East Africa, as a region, has been a favourable destination for social investment and this can be attributed to the high economic and population growth recorded in the region over the last decade. Despite the current Covid-19 pandemic, East Africa's economy has showed remarkable resilience as it enjoyed 5.3 per cent growth in 2019 and an estimated 0.7 per cent growth in 2020. Real GDP is projected at 3.0 per cent and 5.6 per cent in 2021 and 2022, respectively (African Development Bank Group, 2021). Kenya remains a key market for investing in the region; however, Tanzania and Uganda have experienced significant growth in GDP over the past decade and this has inevitably led to the opening of new investment opportunities (GIIN, 2015).

Although East Africa is poised to reap the benefits of social investment, there is scant information of the current landscape of the social investment market in the region. Who are the dominant investors? Which sectors do they invest in? Is the demand for investment aligned with the supply? What are the challenges associated with social investment from both the demand and supply perspective? These questions still remain unanswered to a large extent. Given the potential impact that social investment can have on the region, it is therefore imperative to find answers to

these pertinent questions. This study makes contributions to the existing body of knowledge in three ways – first, it paints the current portrait of social investment as well as investment trends in East Africa. Second, it analyses the social investment challenges from the demand and supply perspective, including the impact of the recent Covid-19 Pandemic, and lastly it offers recommendations and solutions to some of the challenges in order to scale up social investment.

The article proceeds in the following structure; the immediately following section lays out the evolution of social investment in East Africa. Thereafter, the social investment market framework employed in analysing the data is presented. This framework provides a systematic method of classifying the key market players and their roles into demand and supply spheres. We go further to highlight the relationship between demand and supply of social investment. Following from this, the methods used for data collection and analysis are explained, and this is followed by the discussion of results and the conclusion with some key recommendations is presented lastly.

EVOLUTION OF SOCIAL INVESTMENT IN EAST AFRICA

Conceptually, there are broad and diverse interpretations of social investment; however, it can be viewed generally as the resources needed to bring about social and/or environmental impact. These are not only limited to financial capital (money) but could also include social capital (networks) as well as human capital (skills and expertise) (Nicholls and Pharoah, 2008). In recent years, social investing has increased in popularity globally, as traditional sources of capital for funding the world's social issues have proven to be inadequate. Within the social investing space, there are many specialized approaches to achieving economic, social and environmental goals. Some of these include impact

investing, socially responsible investing, social enterprise investing, Community Development Financial institution investing, philanthropy to mention but a few (African Venture Philanthropy Alliance, 2020).

In the context of Africa, social investment has existed since time immemorial in a myriad of variations that can collectively be termed “African philanthropy.” This is deeply rooted in moral and philosophical principles of solidarity, unity, humanity, self-sufficiency and self-reliance, relationality and Ubuntu (Moyo and Ramsamy, 2014). As a practice, this kind of philanthropy among Africans is commonly understood as helping or giving to others in efforts to promote social good. In the recent years, social investing has evolved further through movements like corporate social responsibility, fair trade and the microfinance movement to a more proactive approach. In East Africa, Social investment has been a fast-growing industry over the past decade with numerous milestones and achievements. Governments, institutional investors from the private sectors and financial services providers have played a vital role in scaling up social investment.

The establishment of the East African Philanthropy network (EAPN)¹ in 2003, formerly known as the East African Association of Grant-makers, marked the first concerted effort to galvanize like-minded individuals, foundations and trusts to advance philanthropy in the region. In the same year, the Safaricom Foundation², one of the leading cooperate foundations supporting initiatives in health, education and financial inclusion in Kenya, was formed. The East African chapter of the ASPEN Network of Development Entrepreneurs (ANDE)³ was launched in 2009 to propel entrepreneurship in the region by lending support to small and growing businesses. In 2012, the Kenyan government introduced the Public Benefit Organization bill to establish and regulate the operation of PBOs in Kenya, and in the same year, the East Africa Venture Capital Association (EAVCA)⁴ mandated with promoting East Africa as a private capital destination was established. The year 2014 saw the launch of the Kenya, Uganda and Tanzania national philanthropist forums to arise awareness of the contribution of philanthropy to national development. The following year, 2015, saw many activities particularly in Kenya, for instance, there was the launch of the social investment focused agenda which promotes leverage of resources from the private sector to align them with the 2030 Kenya National Development Plan. The launch of the Victoria Business Angel Network, Kenya, SDH Forum, Kenya and the investment of a lump sum of USD 19 million into M-Kopa solar of Kenya were remarkable milestones in the social investment industry of Kenya. Subsequent years saw the launch of Social Enterprise

Society of Kenya, African Venture Philanthropy Alliance (AVPA) and Association of Startup and SMEs Enablers of Kenya in 2017, 2018 and 2019, respectively. Notably, Kenya seems to have attracted the most investment within the region; however, Uganda and Tanzania also recorded an increase in social investment in the last decade (African Venture Philanthropy Alliance, 2020). However, the 2020 Covid-19 pandemic saw a retardation of social investment activity in the region.

The next section presents the social investment market framework, juxtaposing the demand side with the supply while analysing the dynamic relationship between the two sides.

As depicted in Figure 1, a vast range of actors exist within the social investment market. These include the sources of social investment (supply), institutions that are recipients of the investment (demand) and intermediaries. When thinking about the social investment ecosystem, we have to be cognizant of the power dynamics and interrelationships among the key actors because the progress of social investment largely depends on the collaboration of the actors.

The demand domain comprises all participants or organizations seeking investment funding and finances for social and environmental objectives. The term social enterprise has been used in literature as a collective term for social investment demand participants. Social enterprises include non-profit organizations, charity organizations, community organizations and social businesses. Social enterprises, however, are not exempt from challenges just like high-profit firms. One of the major challenges faced by social enterprises, as reported by Saltuk et al. (2014), is finding innovative ways to address real social problems and maximize impact. Some social ventures fail for a multitude

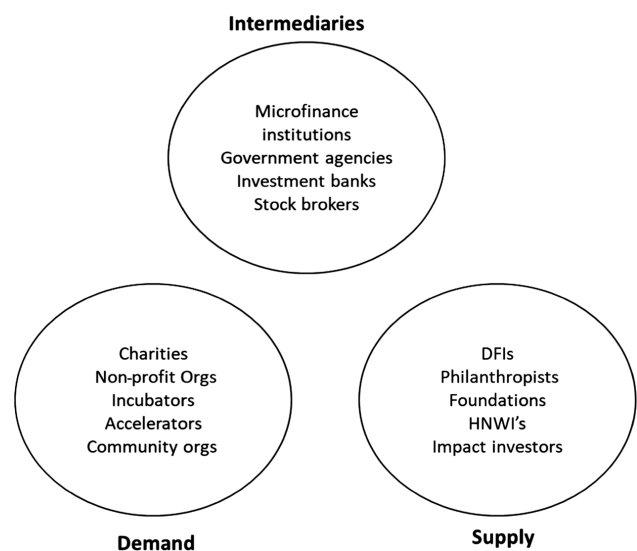


Fig 1: Social investment market framework.
Source: Nicholls and Pharoah (2008)

¹<https://www.eaphilanthropynetwork.org/about-us/who-is-eapn>.

²<https://www.safaricomfoundation.org/who-we-are/>.

³<https://www.aspeninstitute.org/about/>.

⁴<https://eavca.org/about/>.

of reasons, including poor management, regulatory and administrative barriers; however, evidence from a recent report in the United States indicated that social enterprises fail less than for-profit organizations because their foundation is built upon real social problems and the market is growing because unfortunately, real social problems are infinite (Wilson, 2014).

Social investment entails using private sector investments to amplify public benefits. Participants within the supply domain in the social investment market exist over a spectrum, ranging from “impact-first” investors who are willing to provide funding for organizations that are not able to generate market returns to “financial-first” investors who are concerned with market returns, but with an interest in “responsible investing” (Freireich and Fulton, 2009; Wilson, 2014; Bridges Ventures, 2012). The different actors in this domain include foundations, high-net-worth individuals, philanthropists, impact investors and commercial investors. According to World Economic Forum (2014), the most active social investors are the high-net-worth individuals because they have more flexibility and autonomy than other organizations. In addition, some pension funds and insurance companies have entered the social investment market; however, these prefer to have a market risk adjusted financial return (Wilson, 2014).

Intermediaries play a critical role of creating linkages between the demand and supply players. They typically include microfinance institutions, government brokers and private brokers. They also create liquidity and facilitate financing mechanisms within the investment market (Wilson, 2014). Currently, the intermediation landscape is fragmented, and as such there is a need for better transparency and clear information that would be helpful for some investors. In addition to this, more regular, public, reporting on performance would also be helpful to some types of investors (Nicholls and Pharoah, 2008). In its current state, the costs associated with the fragmented and individualized nature of intermediary sector within the social investment ecosystem are a barrier to new investors and investees. In the global North, the social investment market has been given a strong push by supply-side government initiatives. These are targeted primarily at stimulating social enterprise organizations, some of these include tax incentives for social investment, specialized investment funds as well as ring-fenced public services market opportunities to generate demand. These initiatives have created a framework for the development of social investment (Nicholls and Pharoah, 2008). There however remains a general challenge of investment readiness in some cases, and this is exacerbated by lack of data on social enterprises with the result that it is impossible to judge just how effective these initiatives have been thus far. There is however scope for governments in Africa to adopt similar initiatives to drive social investment in their respective markets given their unique position as market intermediaries.

METHODOLOGY

The study used a mixed method research design, employing an exploratory sequential design methodology. This involved three phases: (1) an initial phase of secondary data collection and analysis, followed by (2) a phase of quantitative data collection and analysis, with (3) a final phase of integration or linking of data from the two separate strands of data. In this way, the findings from the survey were explained in more detail through the secondary data collected in the first phase.

The first phase was a qualitative exploration of social investment organizations in East Africa. This involved a non-exhaustive collection of information and data scoping. Information that were collected on who the main players in the social investment landscape were from both a supply and demand perspectives, potential size of these investments and sectors of focus. Quantitative research questions and subsequent instrument to be used were formulated after the completion of the initial qualitative phase. The research considered the supply side of the social investment ecosystem, including Development Finance Institutions (DFIs), Foundations, Impact Investors and Investment Funds. It also looked at the demand sides of the social investment market, non-profit organizations, incubators as well as Academia. For purposes of this research, we did not look at intermediaries and that is potentially an area to be considered for further research. The data collected helped to uncover the gaps in research and enable the researchers to design the primary research tool that was used.

The second phase of the research entailed a survey of social investment activity in East Africa, in which a total population of 141 social investment organizations from Uganda, Kenya and Tanzania were contacted via an online survey to assess the scale and scope of their social investment activity (Appendix A). In total, 23 organizations undertaking social investment responded to the survey. (Appendix B provides a copy of the survey tool.) A reason for this response can be attributed primarily to the pandemic that limited organizations’ operations across the regions, with some offices actually being closed temporarily as a result.

In the last phase, analysis was carried out against the objectives of the research to analyse the landscape of Social Investment in East Africa. The research team synthesized all the information gathered through desktop research and primary survey to understand the insights on social investment trends, drivers of social investment activity and uncover gaps across the supply, demand and ecosystem levels of social investment in the region.

Our research was not without any limitations. First, we focused on a region with a nascent social investment industry where limited research had been conducted. As such, access to secondary data was limited. Second, the Covid-19 pandemic meant that organizations were unable to respond to the survey given the fact that most were working remotely. As a result of this, some critical stakeholders

were unable to participate in research activities. Last, the unwillingness to share information – philanthropic and social investment activities in East Africa – is often kept discreet; for this reason, some organizations were reluctant to disclose information.

FINDINGS AND DISCUSSION

In trying to understand the extent of social investment in the region, we noted that there are no consolidated comprehensive datasets showing the flows of social investment. From the supply side, the data that is readily available is Overseas Development Assistance (ODA) flows. These figures are usually an aggregate of many of the supply-side social investors, including DFIs, multilateral organizations as well as bilateral organizations. ODA flows play a significant role in the growth and development of economies in East Africa. In 2019, Kenya received USD 3.251 billion, Uganda and Tanzania both received USD 2.1 billion in ODA flows. These flows contributed 19.56 per cent, 23 per cent and 8.8 per cent in Kenya, Uganda and Tanzania, respectively, towards their economy's gross capital formation (World Bank, 2019).

DFIs made up 11.8 per cent of the respondents in the sample. The total capital deployed by DFIs in East Africa between 2015 and 2019 was USD 6.6 billion (African Venture Philanthropy Alliance, 2020). From the survey carried out, DFIs represented 11.8 per cent of the respondents in the sample. Most of the DFIs investing in East Africa are from the global North, with long-term projects and interventions across the region. The CDC Group which is the United Kingdom's DFI, for instance, has been investing in the region since 1948. Notable local DFIs with a specific focus on the region are the East African Development Bank which was established in 1967 and later the Preferential Trade Area Bank now Trade and Development Bank established by the Common Market for Eastern and Southern Africa in 1985.

In addition, on the supply side, 47.1 per cent of the institutions that responded to the survey we carried out were foundations, of these 50 per cent were local foundations. A plausible reason for this could be the growth in giving on the continent that has been driven by increased levels of economic growth on the continent. This has led to a growing middle class, leading to a healthy increase in the pool of actual and potential philanthropists. We see foundations in East Africa that also play a large role in financing investment that is geared towards the attainment of social investment. Foundations in East Africa range from local foundations (defined as foundations headquartered in East Africa), corporate foundations and foreign foundations. Some of the notable foreign foundations operating in the region are the Bill and Melinda Gates Foundation and the Mastercard Foundation. The Chandaria Foundation and Aga Khan Foundation are examples of local foundations, and Safaricom is one of the biggest corporate foundations

in the region. Research shows that USD 22.17 million was deployed by local East African foundations, while foreign Foundations (predominantly from the United States) deployed over USD 710.4 million between 2015 and 2019 (African Venture Philanthropy Alliance, 2020). Foundations are often viewed as vehicles of choice for donors (individuals and corporations) to conduct their giving or corporate social responsibility activities. In most cases, they are used because of their tax-exempt status, and this could also explain their prominence in the landscape.

From the survey we carried out, 17.6 per cent of the respondents from the supply side were impact investors. East Africa has over 155 impact investors that currently manage 203 active investment vehicles, with others considering the region for future investment (GIIN, 2015). According to the Global Impact Investor Network's 2020 survey, 43 per cent of impact investors have funds allocated to the African continent (GIIN, 2020). Over USD 9.3 billion in impact capital has been disbursed to East Africa over the past 4 years and almost half of this has been to Kenya. This figure is more than three times the amount deployed in Uganda and Tanzania (GIIN, 2015).

Looking at the demand side of the ecosystem, non-profit organizations were 11 per cent of the respondents from the survey. We see that non-profit organizations play a dominant role in the region. They provide an important service to the society through social value creation, as well as concentrating on the gaps in the society that are not addressed by corporate or governmental sectors (Wright, 2015). There is not any data available on the amount of funds disbursed by non-profits, but what is clear is the source of the funds that they disburse. A report done by AVPA showed that donors, international foundations and international non-governmental organizations (NGOs) contributed most of the financial resources for local NGOs and attributed to more than 80 per cent and 95 per cent of the total NGO funding in Kenya and Uganda (African Venture Philanthropy Alliance, 2020). The funds are often disbursed to the non-profits in the form of grants. The CDC recently launched a GBP 75 million impact fund to disburse capital to non-profits among other institutions (GIIN, 2015).

Lastly, from a demand side, business incubators have been a nascent but growing industry in East Africa. About 5.9 per cent of the respondents from the primary survey carried out were incubators. A plausible reason for this could be that in most cases these organizations that have had their funding adversely affected by the pandemic and have scaled back on operations. Incubators offer different sets of support to entrepreneurs, including technical support, skill-building, networking connections and direct or indirect funding. Incubators in East Africa receive support from several sources, including governments, foundations, corporations and universities. Some notable incubators in the region include Chandaria Business, iHub and Incubation Centre by Kenyatta University.

Most of the institutions surveyed operated in more than one East African country. However, Tanzania (29.4 per cent) and Kenya (11.8 per cent) had most of the organizations operating within their borders. This could be for a myriad of reasons, for instance, in these two countries, there is access to a better pipeline of projects and organizations; in addition, there could be better institutional governance which acts as pull factors for supply-side social investment organizations. In addition, it is important to highlight that most of the foreign DFIs that operate in East Africa, for example, Swedfund, Norfund and BIO are headquartered in Nairobi, which service the whole region from this base.

The survey undertaken also sought to understand which were the priority focus areas for social investors to fund in the region. Organizations choose areas to fund on the basis of their strategic mandates, or as a result of the focus of the donors that fund them. From a supply side, we saw that DFIs, the majority of the respondents (67 per cent) reported to focus their funding on financial inclusion and agriculture. These are common priority areas for many of the DFIs that invest in the region, as they look to financial inclusion as integral for unlocking development. Most of the funds provided are in the form of guarantees to financial institutions (African Venture Philanthropy Alliance, 2020). DFIs in the region also focus on financing agriculture, as most of the economies in the region depend on agriculture as a key source of employment and contributor to economic development (Kanu et al., 2014).

Further on the supply side of the social investment landscape, the survey showed that foundations (local and foreign) reported to funding primarily poverty eradication (25 per cent), health care (25 per cent) and education (25 per cent). This is consistent as foundations often provide funding to address social challenges. Safaricom, which is one of the biggest foundations in Kenya, for instance, set aside USD 892,458 in 2021 for its Ndoto Zetu initiative which focuses on health, education and economic empowerment (Icyizere, 2021).

The survey also showed that some foundations are non-thematic and their grant-making panel makes diverse final decision grant requests on an annual basis based on the need that is identified.

Impact investors in the survey reported to fund mainly financial inclusion (50 per cent) and agriculture (50 per cent) in East Africa. This is consistent with research that has been done in East Africa which shows that agriculture and financial services have received the most impact investment deals (approximately 50 per cent of all known deals in East Africa) (GIIN, 2015). This also follows from the fact that many of these impact investors receive funding from DFIs and bilateral organizations and thus deploy them according to the mandate stipulated by the donors.

Looking at the demand side, research shows that incubators in East Africa focus their support on the needs of the region (i.e., agricultural development and health care); however, many of them operate in multiple sectors and are

usually sector agnostic (GALI, 2020). The survey results corroborate these findings and we see that the respondents indicate that they are agnostic to sectors to support. The survey also highlighted that non-profit organizations in East Africa focused their giving on poverty eradication (50 per cent) and agriculture (50 per cent). Their giving most of time is in-line with the mandates for their funders, which is aligned to addressing the SDGs.

Regarding the funding channels, from the supply side, the majority of the respondents in the survey reported to fund organizations (35.3 per cent) with 17.6 per cent reporting to fund communities. DFIs reported to provide financing for private companies as well as impact funds. These then act as a channel to reach the last mile recipient of the funds. Fifty per cent of foundations in the sample reported to support organizations, and 38 per cent support communities. In addition, some respondents claimed not to provide funding but rather to provide training, which this has also been observed as a non-financial approach that has been adapted by some foundations across the region; for instance, those looking to empower youth and women through skills development. The majority of impact investors fund organizations (75 per cent). This is intuitive from a supply side, as all the previous organizations channel funding on to demand side organizations. From a demand side, the survey results show that non-profit organizations fund both communities (50 per cent) as well as organizations (50 per cent). Incubators in the sample also reported to only funding organizations (start-ups) in the region.

Looking at where both the supply and demand side social investment organizations operate, 76.5 per cent of the sample reported to operate in both rural and urban areas with 11.8 per cent claiming to operate in either just urban or rural areas. Those that reported to operating in just rural areas were foundations and non-profit organizations focusing on agriculture in the region. This is consistent as most of the agricultural activities in East Africa are carried out in rural areas.

Regarding gender equity and a focus on youth, the results in Figure 2 show us that overall, 11.8 per cent of the organizations in East Africa from the sample focus their investments on women and youth. A total of 29.4 per cent of the respondents reported to focus 75 per cent of their investments on women and youth. Given that there is an urgent need to support marginalized and vulnerable groups, such as women and youth in Africa; the fact that 64.7 per cent of these organizations focus their investments on women and youth is an encouraging trend in the region.

From a supply side, we see that DFIs focus on average 25 per cent of their investment on gender equity and youth. This is consistent with literature that tells us that an outlook on international financing evinces that investment in projects that primarily focus on gender equality is very low, with multilateral organizations dedicating only 5 per cent of their total financing to this cause (OECD, 2020). This indicates that there is scope for gender lens

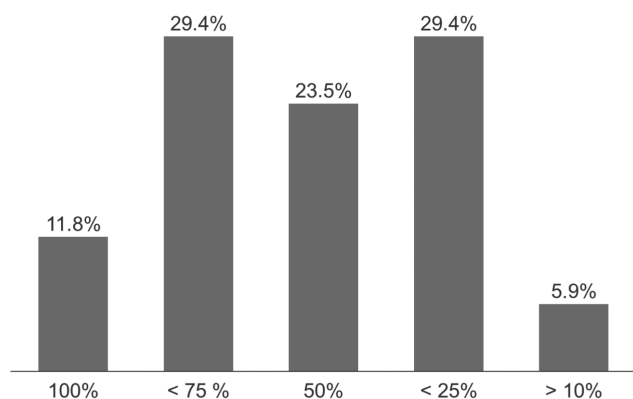


Fig 2: Percentage of investment focused on gender equity/youth.

Source: Survey results

investing to be fully adopted by DFIs. Foundations on the other hand focus a huge percentage of their investments on gender equity and the youth. In the sample, foundations reported to focus on average 71 per cent of their investments on gender equity and youth. Many foundations that are working in East Africa have earmarked big investments towards gender equity, for instance, Bill and Melinda Gates foundation in 2018 set aside USD 170 million towards women's economic empowerment, and in 2020, formally launched the foundation's Gender Equality Division (Bill and Melinda Gates Foundation, 2021). Impact investors in the sample reported to focusing about 43 per cent of their investments on gender equity and youth; this is still low but much better than DFIs.

On the demand side, non-profit organizations in the sample reported to focus 50 per cent of their investments on gender equity and youth. Approximately USD 198 million on average per year was committed specifically to NGOs working for gender equality (OECD, 2020). Incubators in the sample reported to considerably low levels (10 per cent) of investment on gender equity and youth. This is because of a myriad of reasons, for instance, there is USD 42 billion funding gap for female entrepreneurs in sub-Saharan Africa. In addition, gender imbalance is also witnessed among the investors with research showing that they preferred pitches presented by male entrepreneurs compared to pitches made by female entrepreneurs (African Venture Philanthropy Alliance, 2020).

In terms of the average size of the investments that these organizations make, the results indicate that 41.2 per cent have an average size of investment of over USD 500,000. The majority of the entities that provide this average size of investment are supply-side organizations – DFIs, impact investment funds and foreign foundations. The overall average deal size for DFI direct investments, for instance, stands at more than USD 26 million (GIIN, 2015). On the other hand, the survey shows us that local foundations tend to disburse smaller sizes of investment. A reason for this

could be that local foundations may lack the necessary skills to promote adequate resource mobilization, networking, lobbying, communication and organizational development. For instance, to have successful resources mobilization campaigns, a foundation should have very committed boards of administration (Sy and Hathie, 2013). On the demand side of the market, the survey shows smaller ticket sizes which are a function of financing from supply-side players, as well as resource mobilization capacity. Incubators, for instance, tend to disburse small amounts of funding to entrepreneurs. In addition, the smaller ticket sizes are also seen in local foundations and non-profits, which often times have to fundraise these funds within their respective countries.

These social investment organizations also reported to facing a myriad of challenges in the administration of their funds. These differed from a demand and supply side, although there were common cross-cutting challenges that were faced. From a supply side, the DFIs reported to facing a main challenge of a lack of bankable investment opportunities in East Africa, as well as lack of investment partners. That is in part because African projects are often held to higher standards than those in other parts of the world; they face the prejudice of a blanket risk perception (Neil, 2021). As a result of this, there is often a rigorous investment process for DFIs that begins with the outbound identification of suitable projects and is interrupted by up to a dozen subsequent steps that involve manual diligence and deliberations (ORBITT, 2018).

Foundations reported to face a number of mixed challenges in the region. Some of them reported that there was a challenge of how to articulate their vision and values and how that translates down to the partners in implementing their activities. For others, the inclusion of young people and, in particular, women in the design of interventions was a challenge, which highlighted and impacted their ability to reach and serve these groups. Some local foundations also face a challenge of finding funds or organizations that were aligned with their area of focus for investment, for instance, early-stage technology-focused companies. Similar to DFIs, foundations also reported to facing a challenge of finding like-minded donors or investors that are interested in supporting similar focus areas, and local organizations with capacity to effectively use their funds. Internally, they also mentioned that there was a shortage of funds, as well as a lack of fundraising skills, and a shortage of organizational policies. Further on the supply side, impact investors reported to face a challenge of a lack of investable ready companies to absorb the funding. Some also reported that there is a weak exit environment for equity investments. This is coupled by limited funding for technical assistance services for portfolios, as well as difficulties in meeting fundraising deadlines.

From a demand side, non-profit organizations in East Africa reported to facing a main challenge of lack of funds. This lack of funding limits the quantity and quality of the work they do and it affects large international organizations,

such as the United Nations, down to the smallest local non-profits (Viravaidya and Hayssen, 2001). This raises an important issue of a mismatch of supply and demand of funds in the social investment landscape. On one hand, we see previously that DFIs claim that there are not enough investment opportunities in the region, and on the demand side, non-profits claim that there is not enough funding. Further, non-profits also reported that most of the entities they fund have limited business and financial management capacity to effectively manage the finances. Non-profits also highlighted the challenges internally of corruption, greed as well as laziness. On the demand side as well, incubators face a lack of funding that ultimately impacts on their operations (Tengeh and Choto, 2015). There is a funding gap, referred to as the missing middle and this affects incubators who deal with start-ups and social enterprises seeking growth capital, as well as small and medium enterprises. These organizations are often considered too small or risky for commercial investors and banks, yet too big to be catered to by microfinance institutions (African Venture Philanthropy Alliance, 2020). Incubators in the survey also reported to face a challenge of being able to track spending, commitment of the entrepreneurs and also lack of clarity regarding follow-on financing.

The current Covid-19 pandemic has also impacted the operations of social investment organizations in East Africa. The pandemic caused economic disruption with global FDI expected to decline sharply in 2020; for East Africa, FDI dropped to \$6.5 billion, a 16 per cent decline from 2019 (UNCTAD, 2021). In addition, the IMF (2020) foresaw a 3 per cent global contraction. As a result, the analysis wanted to understand what the impact of the Covid-19 pandemic had been on the operations of the social investment organizations from a supply as well as demand perspective. Overall, we observe that the pandemic has impacted the organizations financially and has reduced their activities.

From a supply side, DFIs reported that the pandemic had delayed their pipeline as a result of lockdowns experienced in the region. This has significantly limited their operations due to the fact that there are limited on-the-ground engagements. However, there has been a pivot to most African governments redirecting resources meant for development projects to the health sector to help mitigate the pandemic (McDonald et al., 2021).

Foundations have also been impacted in a similar way: they reported that there were cuts in funds from donors. This delayed activity due to restrictions has caused a delay in building new partnerships. In addition, travel has been severely curtailed; as a result, for some foundations, training has been put on hold. There are also challenges of mental health concerns for their staff members as stress levels have increased. However, this has also led to redesign of interventions to adapt to the new normal. Some foundations reported to that they have had to pivot towards digital organizing which means investing in digital systems

and structures, while ensuring safety for themselves and their constituencies. Similarly, some foundations also reported that their partners had to rapidly pivot their goals and operations to spread the word about Covid-19 in their communities, especially placing a higher priority on hygiene and sanitation facilities and prevention of the virus. To this end, these foundations highlighted that they offered flexible funding and tried to adapt to the needs of their partners.

On the supply side, impact investors reported that the pandemic had an impact on their cash flows. In addition, for some the pandemic halted and led to closure of portfolios leading to no or little returns for themselves as well as investors. However, some other impact investors are also pivoting their focus to deal with mitigating the impact of the pandemic. For instance, Vital Capital, an Impact Investor focused on companies in sub-Saharan Africa, announced a new debt facility providing loans to promising businesses to help them get through the coronavirus pandemic, while continuing to offer essential services (Tshikululu Social Investment, 2020).

From a demand-side perspective, incubators reported that the pandemic had reduced their revenue and forced them to re-engineer their business model. A study carried out on incubators and innovation centres in Europe found that 86 per cent of them had shifted towards virtual service delivery and 44 per cent of them were rethinking their strategy and business model (Maini, 2020). Further from a demand side, non-profit organizations highlighted that the pandemic had limited the business operations of most clients due to restrictions for Covid-19 and inability to monitor field activities. Some, however, mentioned that the impact was minimal as they were already operating under difficult circumstances prior to the pandemic; so ironically, it found them unintentionally but adequately prepared.

CONCLUSION AND RECOMMENDATION

The landscape of social investment in East Africa is nascent but has been growing over the years. This growth has been linked to a myriad of factors, for instance, the economic growth and progress evidenced in the region. There is limited literature on social investment in East Africa, so this landscape analysis contributes towards the body of knowledge. We used a social investment market framework to highlight who the supply and demand players were in the market, their areas of focus, size of investment and challenges that they were facing. In the first instance, the research highlights the fact that from a supply side, DFIs and Foundations play a predominant role in providing the necessary funding that is necessary to attain the SDGs for the economies in East Africa. From the demand side, we see that non-profit organizations as well as incubators are the dominant entities in the region. There is scope however for many of the other players to participate from a supply-side perspective. The respective governments in

the region could play an intermediary role by pushing supply-side government initiatives to stimulate primarily social enterprise organizations. Examples of these initiatives could include tax incentives for social investment, as well as ring-fencing some public service market opportunities to generate demand.

We also see that the areas of focus for investment are driven from the supply side. Most supply-side organizations use a top-down approach to investment that considers macroeconomic issues such as employment, GDP growth and so forth. In most cases, these are aligned to the SDGs. On the demand side, the analysis shows that these organizations often times get their mandate from their funders. This could mean that some demand side organizations may end up not meeting the actual needs on the ground because they do not fit the funders' mandate. There is a need to align both a bottom-up and top-down approach to meet the actual contextual investment needs in the region.

Another area that came up in the analysis was the issue of gender equity and the findings also show us that the majority of organizations (both supply and demand) are embracing gender equality and this is being seen in the percentage of their investments that focus on women and youth in the region. Gender equality can enhance economic growth and social progression. For a continent like Africa where inequalities between women and men are among the greatest in the world (AfDB, 2018), the fact that we are seeing that 64.7 per cent of these organizations focus their investments on women and youth is an encouraging trend in the region. Some funds and foundations that have already included Gender lens investing in their strategy and advocate for the same in Africa include AlphaMundi, Root Capital (Women in Agriculture Initiative), African Enterprise Challenge Fund and Graca Machel Trust to mention but a few. We do see that DFIs in particular are still lagging behind in aligning their investment focus to address issues of gender equity. However, there is some progress that is being done by DFIs, for instance, being transparent, setting targets and providing relevant trainings (Lee et al., 2020).

The survey also highlighted the number of challenges that were being faced by organizations both on the supply and demand side. The analysis however identified that there is a mismatch in the supply and demand for social investment in the region. DFIs and foundations in the survey highlighted that a key challenge they face is lack of bankable projects and organizations. Further, non-profit organizations and incubators surveyed across the region mentioned that lack of funds was a challenge that they faced. There is therefore a need to address this apparent mismatch by clearly identifying and addressing the barriers from a supply and demand side perspective. In addition to this, there was also the issue of limited financial and management capacity of demand side organizations. There is therefore a need to carry out capacity building, especially

around fund management to make sure that the funds given are effectively used. Both supply and demand side organizations need to also adopt alternative resource mobilization strategies, for instance, continually fundraising to avoid over dependence.

This is a lesson that has been driven home by the recent Covid-19 pandemic that has negatively affected the operations of most organizations, with some even closing their offices. It affected revenues for both supply side and demand side organizations, as donors have cut their budgets. The pandemic, however, has also offered organizations an opportunity to pivot and change their business models, moving to a more digital approach to mitigate the impact of the pandemic, and some organizations reported that they had switched to awareness campaigns.

The study has not been without limitation. The collection of data was significantly affected by the pandemic because most organizations in the database had limited availability as staff were working remotely and this may affect the robustness of some of the estimates we presented. In addition, the failure to get certain confidential information, for instance, actual financial flows, has left us dependant on estimates.

REFERENCES

- AfDB. Annual report 2018; 2018.
- African Development Bank Group. African economic outlook 2021. From debt resolution to growth: the Road Ahead for Africa; 2021.
- African Venture Philanthropy Alliance. The landscape for social investments in East Africa; 2020.
- Arif H, Dobrodomova T, Lyschchikova J. Impact investment: a smart strategy for sustainable development goals achievement; 2020: 761–769.
- Bill and Melinda Gates Foundation, 2021. Gender Equality, accessed 11 November 2021, <https://www.gatesfoundation.org/our-work/programs/gender-equality/gender-equality>
- Bridges Ventures. Sustainable & impact investment: how we define the market. London: Bridges Ventures; 2012.
- Castellas, E.I.-P., Ormiston, J. and Findlay, S. Financing social entrepreneurship: The role of impact investment in shaping social enterprise in Australia, *Social Enterprise Journal*, Vol. 14 No. 2, 2018, pp. 130–155.
- Das, Sonali and Wingender, Philippe and Barrett, Philip and Pugacheva, Evgenia and Magistretti, Giacomo, After-Effects of the Covid-19 Pandemic: Prospects for Medium-Term Economic Damage (July 2021). IMF Working Paper No. 2021/203, Available at SSRN: <https://ssrn.com/abstract=4026402> or <http://dx.doi.org/10.2139/ssrn.4026402>
- Freireich J, Fulton K. Investing for social and environmental impact: a design for catalyzing an emerging industry. Monitor Institute; 2009.
- GALI. Landscape study of accelerators and incubators in East Africa; 2020.
- Gallicchio A, Marszalek E. Achieving the SDGs through innovative finance: the role of impact investment. Sustainable Partners, Inc, 2020.
- GIIN. THE Landscape for impact investing in East Africa; 2015.
- GIIN. Annual impact investor survey; 2020.

- Icyizere P. Safaricom foundation sets aside KES 100 million for Ndoto Zetu initiative. *AFRICA TECH*; 2021.
- Kanu SB, Salami OA, Numasawa K. Inclusive growth: an imperative for African Agriculture. *African Journal of Food, Agriculture, Nutrition and Development*, 2014.
- Lee N, O'donnell M, Ross K. Gender equity in development finance: how are DFIs doing?; 2020. Available from: <https://www.cgdev.org/blog/gender-equity-development-finance-how-are-dfis-doing> 2021.
- Maini L. Shaping the future of incubation; from COVID-19 recovery towards a more dynamic, resilient, and competitive service delivery. *European Business and Innovation Centre Network*, 2020.
- Mcdonald AD, Marois TM, Barrowclough D, editors. Public banks and COVID-19: combatting the pandemic with public finance. *UNCTAD*, 2021.
- Moyo B, Ramsamy K. African philanthropy, Pan-Africanism, and Africa's development. *Dev Pract.* 2014; 24 (5–6), pp. 656–671
- Neil M. Investors' interest falters on lack of 'bankable' African projects. *Financial Times*. 2021.
- Nicholls AJ, Pharoah C. The landscape of social investment: a holistic topology of opportunities and challenges. *Skoll Centre Working Paper*, 2008.
- OECD. Aid focussed on gender equality and women's empowerment: a snapshot of current funding and trends over time in support of the implementation of the Beijing Declaration and Platform for Action; 2020.
- ORBITT. It's time for Development Finance Institutions to join Africa's technological evolution; 2018. Available from: <https://orbitt.capital/time-development-finance-institutions-join-africas-technological-revolution>.
- Saltuk Y, El Idrissi A, Bouri A, Mudaliar A, Schiff H. Spotlight on the market – the impact investor survey. London: GIIN; 2014.
- Suchrer J. The future of FDI: achieving the sustainable development goals 2030 through impact investment. *Global Policy*. 2019; 10:413–415.
- Sy M, Hathie I. Institutional forms of philanthropy in West Africa. *International Development Research Centre*, 2013.
- Tengeh R, Choto P. The relevance and challenges of business incubators that support survivalist entrepreneurs. *Investment Management and Financial Innovations*, 2015. 12(2–1), 150–161.
- The Sustainable Development Goals Center for Africa. Africa 2030: sustainable development goals: three year reality check; 2019.
- Tshikululu Social Investment. Impact investing in light of COVID-19. South Africa: Tshikululu Social Investment; 2020.
- UNCTAD. COVID-19 slashes foreign direct investment in Africa by 16%; 2021. Available from: <https://unctad.org/news/covid-19-slashes-foreign-direct-investment-africa-16>.
- Viravaidya M, Hayssen J. Strategies to strengthen NGO capacity in resource mobilization through business activities. *UNAIDS Best Practice Collection*, 2001.
- Wilson K. Social investment: new investment approaches for addressing social and economic challenges. *OECD Science, Technology and Industry Policy Papers*, No. 15, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5jz2bz8g00jj-en>, 2014.
- World Bank. World development indicators. Net ODA received (% of gross capital formation) [data file]; 2019. Available from: <https://data.worldbank.org/indicator/DT.ODA.ODAT.GI.ZS>.
- World Economic Forum. From the margins to the mainstream: assessment of the impact investment sector and opportunities to engage mainstream investors. Geneva: World Economic Forum; 2014.
- Wright A. Challenges in achieving nonprofit sustainability. A study of social service non-profit organisations in the Central Okanagan. (Bachelor thesis, Okanagan College, Kelowna, British Columbia). Retrieved from <http://www.okanagan.bc.ca>, 2015.

APPENDICES

APPENDIX A: DATABASE OF SOCIAL INVESTMENT ORGANIZATIONS IN EAST AFRICA

APPENDIX B: SURVEY INSTRUMENT

Social Investment Survey in East Africa

Dear Sir/Madam,

I am a Research Associate with the Centre on African Philanthropy and Social investment (<https://capsi.co.za/>), at the University of Witwatersrand. I am currently carrying out research on the landscape of social investment in East Africa; highlighting who the players are, and the opportunities and challenges.

You have been selected for this survey because you have been identified as a social investor in the East African region.

I would really appreciate if you could kindly spend about 5 minutes of your time and assist me with filling in this short questionnaire that will help towards developing my research.

You are under no obligation to answer the questionnaire, if you do not want to. However, we hope that you will participate in this study.

Kind Regards,
Roland Banya.

1. Your name
2. Name of Organisation
3. Please specify where your institution's headquarters are found.
4. Type of organization?
5. Which countries in East Africa do you operate?
6. Please specify which social areas your institution invests in? Write the area if it is not listed below.
7. Please indicate whom you fund?
8. Which geographic area do you mostly operate?
9. What percentage of your investment are focused on women/youth?
10. What is the average size of your investment?
11. Please list the three main challenges that you face in administration of your funds?
12. What has the impact of Covid-19 pandemic been on your operations?

