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Impact-focused enterprises, the BOP and the Future:

The case of East Africa

Daniel Silveira

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Resumo

Título: Companhias com foco em Impacto, o BOP e o Futuro: O caso de África de Leste

Autor: Daniel Silveira

O futuro é incerto, é expectável que algumas vozes estejam a pronunciar-se sobre o sector privado a intervir em mais esferas da sociedade para além da coleção de capital. No entanto serão as companhias tradicionais capazes de responder?

A tese foca-se em alternativas de modelos de negócios, companhias com foco em impacto, que estão presentemente a ser exploradas para aliviar as preocupações derivadas do capitalismo do século 21 numa das camadas mais afetadas, discutir a sua viabilidade e como chegar ao futuro que essas alternativas propõem.

Para este propósito, a tese encarou a problemática de duas formas: a análise de documentos em relação ao crescimento destas companhias e várias entrevistas com profissionais e especialistas presentes nas indústrias desta alternativa. O estudo sugere que as multinacionais não estão preparadas um futuro lucrativo e benéfico com as camadas pobres da população, apesar do potencial destas últimas. No entanto, há tipos de organizações que estão a ter sucesso relativo; a tese tenta perceber o seu trabalho para perceber que lições podem ser retiradas, se eles são capazes de responder às preocupações ambientais e sociais e se conseguem contribuir para um futuro nestas camadas populacionais.

O que foi encontrado sugere um aumento no crescimento e na atenção face a companhias com foco no impacto e como o seu ethos é similar às ideias defendidas pela teoria do BOP. Sugere adições às noções contemporâneas do mercado do BOP e como ser uma companhia bem-sucedida dentro deste.

Key words: Companhias multinacionais, Teoria do BOP, Camada do BOP, Companhias com foco no Impacto, Futuro

Abstract

Title: Impact-focused enterprises, the BOP and the Future: The case of East Africa

Author: Daniel Falcão Silveira

The future is uncertain, it is expected that some voices are asking the private sector to intervene in more spheres of society than collecting capital. However, are traditional businesses capable of answering these calls?

This thesis focuses on the business-alternatives, impact focused enterprises, which are presently being explored to alleviate the concerns of 21st century capitalism in the most affected layer of all, to discuss its viability and how to reach the future this alternative proposes.

For this purpose, the thesis approached the problematic in two ways: analysis of reports regarding the growth of these enterprises and several interviews to experts in the industries of these businesses were conducted. The study suggests that multinational companies are unfit to perpetuate a lucrative and benefic future with poor layers of the population, despite its potential. However, there are types of organizations that are having mild success at it; the thesis tries to understand their work and perceptions in order to understand what can be the lessons retained, and contribute for a better future at these layers.

The findings suggest an increased growth and attention regarding impact-focused enterprises and how their ethos is similar to the ideas defended by the BOP theory. It adds to the contemporaneous notions of how to approach the BOP market and how to be a successful enterprise amongst it. This thesis also addresses the need to study individual characteristics of BOP layers and provides insights to managers and investors.

Key words: Multinational companies, BOP theory, BOP Layer, Impact-Focused Enterprises, Future

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1. Introduction

In recent times we have seen significant advances in sustainability. New products are created every day, such as Tesla's durable and cheap sun tiles and Massachusetts University transparent solar panels which goal is to serve as windows. The investment on sustainability is rising, shown by the recent doubling down in investment regarding climate action by the World Bank to 200 billion dollars in its 5-year investments program (World Bank, 2018). The legislative institutions are passing bills that fill certain voids for companies that focus in garnering non-financial value (Strom, 2011). The value of impact-oriented projects seems to be becoming increasingly conspicuous because of the increase of attention it has enjoyed (Dallmann, 2018).

As such we should attempt to analyze closely the aspects in which this attention has derived from and what is the current stance of perspectives regarding the future of these investments. One way to address this is to observe the business of impact-focused companies (i.e: Cookswell, Cleanfund) - which for this thesis refers to *hybrid companies and impact investors* - in one of the most vulnerable economical layers and note its survivability and development alongside a theoretical framework (UNDP, 2018).

East Africa has a plethora of vulnerabilities, for example, regarding social it can be noted the high level of unemployment; environmentally, the destruction of ecosystems in order for communities to survive; economically, the lack of capital in order to satisfy primary needs (i.e.: food, medicine, etc). In addition, has potential to raise strong sustainability-oriented industries and has comparable stability (in contrast with other African regions). Hence it seems indicative that it is a good setting to analyze.

The BOP theory is the name given to the presently existing human sphere on the globe of four billion individuals that live on less than 2\$/day, (Prahalad 2012; Hammond, Kramer, Katz, Tran, and Walker, 2007; Sharma and Jaiswal, 2017). According to the World Resources Institute (2007), it has an overall purchasing power parity of \$5 trillion, making it an unexplored and hence untapped market for private companies. Most of this sector is informal, inefficient and unorganized.

In order to garner the economic value of the BOP, the key is to gather these fragmented markets unto common sustainable missions (Prahalad, 2007). An increasing number of authors (Delios, 2010; Guthrie and Durand, 2008) believes that it is essential for any corporation to have an active role and lengthy in social and environmental problematics. At least half of the world largest economies were multinational companies (Cavanagh and Anderson 2000). Hence it was a logically conclusion that these corporations should be the ones pursuing it, as they would have relatively bigger capabilities to explore this “uncharted land” and capture its value (Prahalad and Hart, 2005).

The theory resonated poorly. There are cases of multinationals being able to reach the BOP but with only intentions of using cheap manpower, there was no foresight to see focus on more than providing jobs (Munir, Gregg and Ansari, 2010). The reasons seem to point out to the disruptive nature of the changes the corporations needed to partake in (The Guardian, 2014; Hart 2016), both technologically-wise and structurally (i.e. trickle-up returns; size). Hart (2014) justified these claims by acknowledging that the premature expectation of returns has killed many ventures that attempt to penetrate the BOP market. They lack adapted capabilities and true knowledge and connection with their markets (Hart 2016), by being mostly “imported” to a market so disfranchised of their own knowledge and precedent-based procedures.

From another view, there are organizations – hybrid organizations – and a ramification of investment that focus on the previous enterprises - impact investment - that combine financial objectives with value in the social and environmental sphere (Jay, 2013; Porter and Kramer, 2011), that equally attend to the needs of communities but also make use of aptitudes of developing nations in serving markets with their products and services (Holt and Littlewood, 2015) and that have been fairly successful.

As Hart (2016) suggested, new models and lexicon have grown to the academic eye that could supply important input with it. This was a far cry from old beliefs that only traditional corporations were the ones with capacities to be able to adjust to the bottom of the pyramid and that the focus should be in the primary stakeholders (Frooman, 1999; Hillman and Keim, 2001). As it was suggested by the title “*Impact-focused enterprises, the BOP and the Future*”, the connection between the mentioned enterprises and the BOP is a relevant one. The BOP is the layer that is most affected and exposed to negative consequences of traditional companies’ business (Oshionebo, 2018). Impact-focused enterprises wish for the betterment of communities and of the

surroundings that affect them, directly and indirectly (Yunus and Weber, 2007). As such the pertinent question is these sorts of companies can be the future for capturing and creating value derived from these investments in this layer.

The thesis strives to understand the current paradigm in East Africa and regards that impact-focused enterprises such as impact investment firms and hybrid companies are the future to penetrating the BOP layer. In order to do so, Africa was chosen as a test tube, both for the inefficacy of multinational companies and the possible success of hybrid companies. By being both a fertile area of the BOP and facing immense pressure from a global neo-liberal market and as a latecomer economy (Abdulai et al, 2012) this is particularly relevant. In particular, this thesis will explore the context of East Africa, analyze the BOP and the mindsets that take place and how impact- focused enterprises are dealing with it.

In order to study the thesis proposal, we propose the following research questions:

- 1. Is this a wanted future?*
- 2. At what stage is currently the development of this future?*
- 3. What shift is needed for this future to happen?*

I will attempt at answering it through different ways, always having Africa, namely Sub-Saharan East Africa, as a setting. Despite its recent improvement, many nations of Africa have serious development problematics. Just short of half of citizens in sub-Saharan Africa have a Purchasing Power Parity (PPP) of less than US1.25 (UNDP, 2018). They seem to fit the ideal context due to their large layer of BOP.

An analysis of the impact of multinationals and hybrid companies will allow for a comparative analysis of the flaws and advantages of the business models in terms of impact and action in Africa's BOP. In addition to secondary data (journals and reports), primary sources of data (interviews with experts) will be used to understand the perspective of the premise proposed.

In terms of methodology, the thesis will at first focus on the context chosen and the needs that seem to be most dire, then proceed to examine the characteristics and the impact of traditional companies and of hybrid companies. After these chapters, the thesis will advance in understanding the financial capabilities of impact-focused enterprises through the reports of the impact

investment market. As a final chapter, I have collected primary data through interviews in order to understand the current mindsets and predictions of employees with relation to impact-focused enterprises.

1.2. Managerial Relevance & Theoretical Contributions

In terms of managerial relevance, I intend to suggest adding to the discussion that the BOP markets are not lost but was simply analyzed with an incompatible business model and that the will of market is currently pointing towards this layer.

The managerial contributions are to provide insight for investors and managers regarding not only Africa but also how different connotations and models are the way to approach BOP markets, for example in community-based approach and “wider not taller” (Oshionebo, 2018). If managers and investors intend to pursue investments in this type of industry the findings provide a clear image on what strategies to pursue and what mindsets to possess. Additionally, the thesis can be seen as a way to provide exposure to impact-focused enterprises which, consequently, might spread awareness over these new types of business to the public.

Most of the BOP contributions (i.e. Hammond, 2007; Karmani, 2007; London, 2010; Landrum 2007) contributions have been focused on the deconstruction or construction on the BOP theory with traditional corporations as the object of study. One must imagine a closed microsystemic debate that is only restricted by its own apparent limits. As hinted by Hart (2016), new models and lexicon have emerged in the past years and for this reason, I intend to analyze the work done in the BOP layer from these impact-focused enterprises.

In short, the theoretical contributions will be: a) the analysis, through the BOP theory, of a geographical setting (East Africa); b) the comparisons between certain aspects of the theory and the hybrid business model and; c) the deconstruction of traditional companies as a reliable method for penetrating the BOP market.

2. Literature Review

2.1. Bottom of the Pyramid (BOP)

The BOP theory is defined at the conception of new profitable market prospects through the 4 billion of people from low-income layers in the emergent economies (Hammond et al, 2007). At the same time has the objective of helping to resolve massive societal and environmental problems in these regions (Olsen and Boxenbaum, 2009). The belief of this theory is that there is yield to be collected in helping these problematics. Another key component in the BOP theory is that these market prospects (i.e. new products, cost and payment structures, etc) allows for output to be sold to these low-income layers without making a loss and hence guaranteeing the survivability of the producer. Contrary to philanthropy, it requires an income generating factor (Faria and Hemais, 2017).

“Collectively, we have only begun to scratch the surface of what is the biggest potential market opportunity in the history of commerce. (...). In a very real sense, the fortune at the bottom of the pyramid represents the loftiest of our global goals.” - Prahalad and Hart (2002, pag 15)

There is currently a panoply of problems, and consequent concerns, associated with the modern global capitalist system. It was the hope of many that modern times and “help” approaches would help alleviate them. Unfortunately, the perception of the majority is that it was inefficient and hence market-based solutions has been recently regarded as a viable alternative (Roxas and Ungson, 2011). The situation provides an optimistic view: where companies get profits while at the same time the poorer layers benefit from their services and goods that have a specific focus on their needs (Munir, Gregg and Ansari, 2010).

Prahalad (2005) stresses the need for multinational corporations to grab the opportunity of lower economical classes, as not doing so is overlooking a golden opportunity. He claims that not only it would open a new perspective for profit but also have humanistic consequences, such as easing global poverty (Landrum, 2007). While meeting economic objectives of low cost and high returns, it would allow for an agenda based on social advantages to the less-fortunate (Kolk et al., 2014).

However, in order to make the last paragraph into a reality, the BOP argues that it is essential to have a shift in preconceptions about growth, interactions with institutions, institutions, etc (Munir, Gregg and Ansari, 2010). Creating new ways of obtaining commercial, social and environmental value would be necessary for the change (Martinez and Carbonell, 2007; Prahalad, 2005). For example, one situation that happens in markets of developing countries is that local monopolies exist regularly in informal businesses and poor communities are forced to pay more for items and services (Mendoza, 2011). If there was an enterprise that took the knowledge of these informal monopolies, adapted to them and made honest business, it could find success. For London and Hart (2010) there should be a shift in focus from “finding a fortune at the bottom of the pyramid” to “creating a fortune with the bottom of the pyramid.”

Driven by expectations of growth of the middle class and overzealous belief in multinational corporations, Prahalad and Hammond (2002) researched on the disposition of corporations to invest in the BOP. For them only through the involvement of multinational corporations could developing nations reach a state of economic growth and mark a period of prosperity. This would not mean direct investment, but dealing in their own self-interest. Individuals economic power would not be advantageous, but the potentiality of the BOP would be large and worth the effort. Hart and London (2011) would later state that a market-based ecosystem would be preferable with SME's, NGOs, entrepreneurs and cooperatives instead of simply multinational corporations.

For London (2008), multinationals revealed not to be well-suited to deal with the BOP due their precedent approach. The failures of changing their modus operandi resulted in a deeply rooted disruption. However, the authors see such as potential business opportunities: those companies entering this segment can try to meet the needs of the BOP consumers; that the relationship between making profits and alleviating poverty could create mutual value creation that would serve as a catalyzer for a strategic strength for the company. Hammond et al. (2007) expanded on this notion by claiming that the reform should have only sustainable solutions as part of the repertoire to meet the needs of the BOP.

However, the question of how the selling of non-essential products would alleviate poverty remained (Karnani 2007). There was such a focus on the financial side to the matter that the social part was being left unexplored. The theory prophesied how to make profits from BOP, but no figures or evidence on the easing of scarcity of this layer nor of how multinationals impacted their

customers seemed to exist. It seemed that the sustainability part of the premise was mostly used as rhetoric (Sharma and Jaiswal, A. K. 2017). Jaiswal (2008) concurred with this notion and expanded that the solution was not only through co-value creation but also by helping the poor becoming selective consumers.

Simanis and Hart (2008) agreed this to be an adjacent problematic and expanded on the idea. Foreign aid and a top-down perspective - as sellers-consumers - would be economic inefficient. Instead they proposed a process in which corporations would invent and create business with BOP communities, a partnership to develop sustainable expenditure in these societies. By understanding the delicate equilibrium of BOP economic relationship and perpetuating its value, long term corporate growth could be achieved. (Dunford, Palmer and Benveniste, 2010).

Agnihotri (2012) empirically criticized the examples used by Prahalad (2005). The cases that were described on his work did not actually serve BOP customers, and ethical issues emerged. Not only such but only 1 out of 7 companies – a microfinance case, the most common within developing countries- succeeded. In the 6 other cases there was no evidence of profits.

Due to the attempts made in the last decade, it was possible to understand that the potential for generating profit from these market segments had still been absent, many of the BOP projects attempted had failed (Reficco and Gutiérrez, 2016). There was little evidence of multinationals who had created based values, gained commercial trust or grown into a relevant scale (Simanis, 2012). Warnholz (2007) studied the question and found that, again there, is no evidence that supports that multinational companies are more efficient in addressing these issues than informal enterprises at the BOP. Karnani (2007) even claimed that multinational's business in these markets destroys many small businesses, which the latter are able to meet the market needs better due to the local roots and proximity to the cultural behaviors of the community.

Such resonates with several authors (Barney, 2005; Mahoney and McGahan, 2007) that feel that there is a need to incorporate several disciplines in order to understand the complex relations of businesses, government and communities in order to be able to grow alongside the BOP layer.

Research shows that the contradicting nature of sustainability and profitability could not simply be ignored or removed by choosing one value over another (Smith and Lewis, 2011) – with basis on traditional structures - puts economic objectives first and only then they target social goals

(Carroll and Shabana 2010; Hahn et al. 2015). Additionally, the vulnerability of the BOP due to the lack of education could lead to undesired effects such as easier manipulation and misallocation of resources (Jaiswal and Gupta 2015), thus subverting the social mission into a more financial focus.

Given that this tension would be inherit to structures of traditional companies, only organizations that find newer structures built to consolidate these values could maintain a serving nature (McMullen and Warnick, 2016).

Besides poverty Hart (1997) reflected an interest in also essential factor, the ecosystems of the developing economies. For him, the multinational industries degraded the bionetworks in which many rural populations depended upon. Alongside the pressures of “short-term survival” forced practices that caused long term damage to the “forest, soil, water and biodiversity”, thus making it more difficult to search for fuel and water and driving the populations deeper into poverty.

The inclusive market idea, in contrast with the more corporate biased focus of the original BOP concept, included the notion that cooperation with governments and other institutions was essential (UNDP, 2008). This progression of the mentality of the BOP has shown us that the penetration and sustainability of this market is not solely exclusive for multinational corporations (Halme, Lindeman and Linna, 2012).

Hence, a correction of sorts was attempted with the BOP 2.0, which underlined the importance of co-creation of products, of a mutual value approach, innovating from the bottom-up, leap frogging technology for environmentally sustainable practices in the communities and creating a way to measure the success of sustainability (Hart, 2015; London and Hart, 2011).

Given that the argument that the multinational corporations were the only entities with the possibilities to garner the potentialities of the BOP has been extinguished in the recent years, the implicit suggestion that hybrid companies are fitting to have the bigger impact seems hinted at but not yet clear. In the next chapter the thesis will explore how the literature faces the impact of multinational corporations in the region chosen.

2.2. Impact of Multinational Corporations

Before one can comprehensively understand how to create alternatives that garner the most value, it is essential to understand why those alternatives are needed.

Traditionally, Sub-Saharan investments have been predominantly composed of multinational corporations interested in the mining and exploration of natural resources, such as oil. It is natural then, that the economic influence of multinationals often dwarfs the will of host developing countries, deepens economical class inequalities and worsens the tendencies of a liberal market (Oshionebo, 2018). With corporations with that level of economic power, nations are dependent and vulnerable. Roach (2007; page 1) expands this idea by claiming that “*corporations exert political influence to obtain subsidies, reduce their tax burdens, and shape public policy*” when their private interests are pursued.

Following this logic, emerging nations that are fortunate to possess natural resources lack the investment for technology and the know-how to extract them. It creates a dependency on multinational corporations to provide it for them. Multinational extractive industries are more economically influential than host nations, and therefore the latter are incapable of regulating and preventing wrongful actions (UNCTAD, 2016). As of 2015, global foreign investment was of US\$1.76 trillion; multinationals from developed nations financed US\$1.1 trillion in foreign operations and businesses (UNCTAD, 2016).

Many initiatives to limit their influence and irresponsible actions are delegitimized by transnational corporations. For example, in Nigeria the extractive industries of gas and oil jammed several attempts by governmental institutions to regain internal control over their production of these resources and increase taxes to these industries (Perouse De Montclos, 2014).

Although the dependency and vulnerability of these relationships differs from nation to nation, it regularly produces a “revolving door” of interests between governments and multinational corporations (Laryea, 2011). For example, problematic political paradigms - like those created by despots and warlords in Nigeria, Sudan and Sierra Leone – are sometimes sustained by networks financed by multinationals (Oshionebo, 2018).

This over bureaucratic hierarchy and opaque structure is a channel that feeds fraud, money laundering, bribery in Sub-Saharan Africa, and more prominently, price transfer operations – “shipping goods and services whose unit value, decided by the (multinational) itself, is often biased by tax considerations” (Contractor, 2016, pág 29).

According to Aguilera-Caracuel et al. (2013) the notion that scholars have is that multinational corporations “develop their own metrics” for environmental and social impact, independent of those used by host countries. It increments a further deepening of the mentioned income inequality, which, as mentioned, cyclically hurts ecosystems.

The African needs and progressive growth must be understood. Another shift of perspective needed is on the size of enterprises from the west, the small and medium enterprises (SME) role in Africa’s recent growth has been severely underrated (McMillan et al., 2014). Unfortunately, due to usual western perception and it being present in a more informal sector, they are understood as retrograde, informal and fruitless efforts (Loayza and Rigolini, 2011, McMillan et al., 2014).

For Manning et al. (2017), building a “wider” market landscape - constituted by small and medium-scale hybrid organizations with incentives from the government – could have several positive effects such as comprehensive business sourcing employment and be a buffer from pressure from the international markets. Such goes against the notion that this relatively smaller size is an employment barrier and has little competitive advantages.

As Temple (2005) points out, the problem legislators face in emerging nations is that they solely focus on how to economically grow. Instead one should focus on structures and in which strategies to grow employment and thus revitalizing the poorest economical classes of society. If investment is not redirected into cultivating the capabilities of local communities, through infrastructures, profit in the short-term will not develop into more.

I then follow the suggestion of with London et al. (2004, 2011), which argues the many institutions who believe in a sustainability agenda, gain value from it. In the next chapters, the impact- focused models are analyzed.

2.3. Hybrid Companies in Africa

Businesses are progressively distinguishing opportunities for revenue generation and “shared value” creation (Porter and Kramer, 2011) in exploring or developing new business models and products that include challenges of sustainability in its discourse. This awakening has created philosophies of “trade not aid” in emergent economies, leading to tactical approaches to the base-of-the-pyramid sector and shared-value initiatives (Porter and Kramer 2011; Hart and London, 2011).

Becoming competitive by upgrading and reforming traditional companies has been shown to be losing credibility and has created a cynical approach to and from African businesses. (Africa Report, 2012).

Therefore, it is expected that more philanthropic organizations are sprouting into hybrid organizations with the intent of self-funding themselves (Holt and Littlewood, 2015).

Hybrid organizations are progressively being developed in order to complement a few misses of traditional organizations and of, in emerging economies, institutions (Mair et al., 2012; Kolk et al., 2014). One that taps a market of bringing inexpensive goods to the poor and provides alternative, that stimulates the markets (Lindeman, 2014). One must be reminded that the landscape for both traditional companies and hybrid is filled with certain deficiencies, faced by low-income homes and challenges in line with emerging economies (McMullen and Warnick, 2016).

Logically, such causes a relatively smaller dimension of many African companies in comparison to those of the developed nations. While an apparent drawback and block for the creation of jobs, the construction of a “wider” market landscape of small and medium industry players, would be able to develop as many jobs and reduce the burden of competing with other major players (Iacovone et al, 2013) while at the same time reinforcing local economies.

Most hybrids focus on a panoply of sustainable development opportunities that provides value in the long-term. The Book Bus Foundation (founded in 2008), a charity, operates with a network of hybrid partnerships to bring books to illiterate children, a key tool in climbing the economic ladder. These niches should not be underestimated; provisions point that impact sourcing, for example,

will occupy 17% of the industry by 2020 and be a key business within global services (Avasant, 2012).

In view of this, socially responsible and locally embedded impact sourcing may be another example of viable strategy to differentiate for both smaller and large providers. As it would be grown from the ground-up with the values of the employees and of the context, it would have fewer tensions. (Manning et al, 2015).

The studies of Littlewood and Holt (2015) add that the economic impact is shared amongst the close communities of the workers. In the Khayelitsha Cookie Company case, for example, employees support their dependents and the dependents of several members of the family, both close and afar of South Africa. Such generates income and stimulates more consumption power, revitalizing layers of rural spheres of the BOP.

In addition to social impact, there is also an environmental one. An example is “Kenya Seeds of Change” which engages in forestry related research, consultancy, education, impact sourcing and environmental efforts. Additionally, they sell seeds in small quantities to appeal to customers. With an emphasis on small-scale and BOP customers (Littlewood and Holt, 2015), it aims to encourage tree planting to result in fuel self-sufficiency for each household once the trees reach maturity (after approximately 10 years). This need for alternative energy is becoming more apparent. According to estimations, the need for renewable energies is now at around \$34 billion (UN, 2015), which provides great ground for “new age” companies.

This chapter illustrates examples of some of the qualitative impacts often by hybrid organizations. These impacts are more intangible and with private progression therefore difficult to measure. In order to be inclusive to most of hybrid organizations and the demand for them, we shall use impact investment as a mean to show it.

2.4. Impact Investment

Impact investing is when there is a thought-out choice to reach for a financial return alongside a social and environmental focus from the investment (Hebb, 2013). These investments are normally regulated by an in-depth analysis of the company in question on grounds of their impact and work, regarding social, economic and environmental spheres (Mahn, 2016). This type of investing has a

plethora of other designations, such as triple bottom line, blended- value, social finance, mission-related investing, economically targeted investing, etc. (Hebb 2013; Godeke and Pmares 2009)

Impact investment can be as straightforward as banking with and for the community they are based on, helping to expand the capabilities of low-income stakeholders or through micro-financing funds (John and Carole, 2016).

Impact investors understand that prioritization of transforming informal business into one’s that might be brought to the system is essential, since most of the bulk of businesses in the regions they invest in are informal, that there is a lack of financial aid for local entrepreneurs, and that businesses should be bred through incubators in order to achieve early stage (Dalberg, 2011). Investors also want to reenergize diasporas to get savvier workers, and in order to a focus on education is necessary to allow for talent to flourish (Saltuk, Idrissi et al., 2015).

Social impact investments can have a panoply of consequences across classes and nations which produce an even wider range of returns (Bridges Ventures, 2014). Not only with a diverse reach, these investors provide forms of capital that tackle social and environmental concerns, allowing for bigger scalability (Rangan, Appleby and Moon, 2011).

For impact investors, investments need to be made with the intention to generate measurable social impact alongside a financial return (Hebb 2013).

Figure 1: Spectrum of Investment Approaches

Social value > "Blended" social & financial value > Financial value

| Philanthropy | Impact Investment | Socially Responsible Investment | Responsible Investment | Traditional Investment |
|---|--|--|--|---|
| Capital seeks to create positive social &/ or environmental impact & does not seek financial return | Investments that seek measurable social &/ or environmental impact alongside financial returns | "Negative screening" to exclude investments not compliant with ESG | Investments that acknowledge ESG factors | Investments that only seek financial return |

Source: UNDP- Impact Investment in Africa (2014)

Their interest in investing in mission-driven organizations encapsulates a demand for blended social and financial values as shown below:

Figure 2: Spectrum of Investees

| Social value | | > “Blended” social & financial value | | | | > Financial value | | |
|--|--|---|--|--|---|--|---|---------------------------------|
| Charities | | Sustainable Social Enterprises | | | | Profit-maximising Businesses | | |
| Grants only: No trading, includes traditional philanthropy | Majority grants & some trading revenues | Potentially sustaina- ble social enterprise (>75 percent in trading revenues) | Breakeven: all income from trading revenues | Profitable sustainable social enter- prise: surplus reinvested (no loss, no dividends) | Profitable social enterprise: surplus profit distribution | Responsible business (consider ESG, value chain restructuring) | Strategic social investment (percent of profits allocated to CSR / CSI) | Mainstream Market Company |

Source: UNDP- Impact Investment in Africa (2014)

Impact investment is helping to reach the BOP population, helping with the mission in strategies and impact but also allowing a greater dimension to the targeted organization (Wilson, 2016). While this would be problematic with traditional investors, their *raison d’etre* is both for the mission and for returns, thus the need for leveraging executive power for returns is less dire. Additionally, one might add that this sentiment is furtherly reinforced by the fact that foundations and family offices have played a pivotal role in “the development of impact investment” (Koh, Karamchandani and Katz, 2012). What this means is that agents with bigger independence are the ones to break away from traditional values and allowed to explore innovative ways of obtaining cash flows.

However, investment capital, in the very least, needs to be repaid out of the cash flows generated by the business activity. One of the current challenges for making social impact investment work effectively, therefore, is identifying (and working creatively to expand) the opportunities for aligning revenue/profit generation for long-term survival with the achievement of social and environmental goals. Figure 3 represents this identification while figure 4 represents the benefits of this consolidation of goals.

Figure 3: The Spectrum of Capital

| | Financial only | Responsible | Sustainable | Impact | | Impact only | |
|--------|--|--|--|---|---|--|---|
| | Delivering competitive financial returns | | | | | | |
| | Mitigating environmental, social and governance risks | | | | | | |
| | Pursuing environmental, social and governance opportunities | | | | | | |
| | Focusing on measurable high-impact solutions | | | | | | |
| Focus: | Limited or no regard for environmental, social or governance practices | Mitigate risky environmental, social or governance practices in order to protect value | Adopt progressive environmental, social or governance practices that may enhance value | Address societal challenges that generate competitive financial returns for investors | Address societal challenges where returns are as yet unproven | Address societal challenges that require a below-market financial return for investors | Address societal challenges that cannot generate a financial return for investors |

Figure 4: Goals in Impact investment

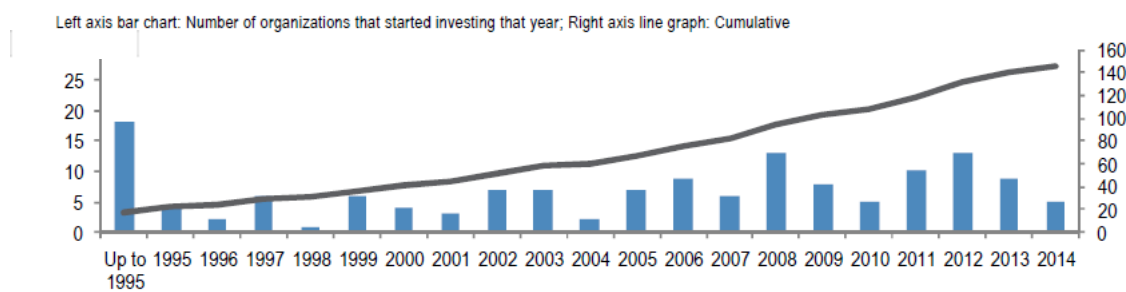
| <u>Impact Goals</u> | <u>Financial Goals</u> |
|---|---|
| Leveraging philanthropic dollars. Investment returns can be reused repeatedly to compound the impact. | Strong ESG practices have been shown to lead to financial outperformance. |
| Freedom and flexibility to test innovative ways to achieve a financial return as they seek impact. | Merging investment and impact efforts can streamline strategy and help achieve returns with larger pools of money (and a bigger impact). |
| New life into complementing their strategy and incorporating impact investing in a redesign of their approach to social change. | Investors do not risk making investments that are contrary to their values while at the same time testing financially healthy approaches in accordance to them. |

Source: Wilson (2016)

One of the examples that came most naturally was the one of the frog-leaping and proliferation of the mobile phone. They have had significant impact in not only improving internal communications but also as financial inclusion and disease response, for example. And of course, they provided a significant amount of returns for their investors. While on the early stages of hybrid companies, or for-profit motives, impact investment can help to develop new business models that would garner this market's potential.

Successful cases are encouraging others in the private sector to seek out and further develop these BOP untapped markets as shown by the figure below.

Figure 5: Year of first impact investment



Source: J.P. Morgan GIIN “Eyes on the horizon: The Impact Investor survey” (2016)

As it is possible to observe, the graph shows a constant cyclical numbers of firms that get into impact investment for the first time. While it does reflect the motivations of investors, it does not represent the current number of funds. In terms of global growth, the following figures allow a portrait of the exponential rise in funds and investment.

Figure 6: Sustainable Investments Growth

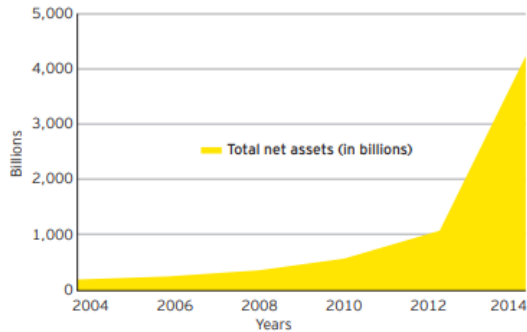


Figure 7: Sustainable Funds Number

| Growth in sustainable investing funds | | | | | | |
|---------------------------------------|------|------|------|------|------|------|
| Year | 2004 | 2006 | 2008 | 2010 | 2012 | 2014 |
| # of Funds | 200 | 231 | 338 | 493 | 720 | 925 |

Source: EY’s Sustainable investing: the millennial investor (2017)

As it is observable from the figures, we can conclude that sustainable investments and funds not only keep attracting newcomers but have grown exponentially. While in a different category from impact investment, figures 3, 6 and 7 show there is becoming a tendency to go to the left in the spectrum of capital. Before a further analysis on the growth of impact investment in Africa it is important to note that JP Morgan (2015) conducted a survey regarding impact performance management out of 146 respondents (from impact investors). For 99% of the sample, the social and environmental performance of their investments is measured through a pre-defined metric and framework, albeit there not existing a universal measurement.

3. Methodology and Data collection

The aim of this thesis is to understand the current paradigm in East Africa and regards that impact-focused enterprises such as impact investment firms and hybrid companies are the future to penetrating the BOP layer.

To achieve this purpose, one should follow a specific and accordingly research methodology (Crabtree and Miller, 1999). Hence the methodology should always be connected to the indications from the research framework, meaning to the agents explored above (BOP, Impact-focused enterprises, multinational companies). Hence, we chose a qualitative research demonstrated through empirical evidence of an industry, which has coinciding/representative vision to those of the BOP theory and of the previously mentioned impact-focused enterprises. According to Stern (1980) qualitative research should be realized when a topic is underdeveloped or at an early stage. Such matches the idea that the BOP theory has met difficulty it has been for the discussion to empirically be applied (London, 2010).

Secondary data is here used in order to understand both the scenario and the demand for impact-focused enterprises (research question 1: *Is this a wanted future?*) with primary data (interviews) being used to answer what are the mindsets that need to be interiorized by investors in order for businesses of the BOP to be successful and where do they stand presently (second research question – *At what stage is currently the development of this future?* – and third research question: *What shift is needed for this future to happen?*) .

The interviews were used in an exploratory perspective, to obtain further contextualization on the topic and help reflect the already existing parallels of this research. The objective of the findings is to understand the why impact-focused industries in East Africa are in demand and in which way it is necessary to understand the mindsets needed for penetrating the BOP and their mechanisms. The interviews will be used as a further argument to the needs of the BOP and what needs to shift, which was established through the context of Africa. Secondary data includes utilizing sources from news articles, reports from a number of companies, interviews, and empirical reported events.

The research scenarios, Sub-Saharan Africa and more specifically East Africa, will supply a landscape that has seem to be been hurt by the current liberal globalization and adoption of neo-

liberal practices from multinationals but also one that is being shaped by the increase of the number of hybrid companies and investment in sustainability. Additionally, Africa has been a reference case for the failure from multinational corporations adapting to other BOP (Landrum, 2007). East Africa, in contrast, has been a port of development for hybrid companies and serves as a portrayal of a parallel paradigm.

In the next chapter the thesis will first take a closer look at the context in the region and the capabilities of Sub-Saharan Africa to elucidate the potential through secondary data collected. After this contextual chapter, the thesis will then move on to answering the questions described in the beginning of the methodology.

3.1. Research setting- Sub-Saharan Africa as a test tube

Africa has all the conditions necessities to be a future successful case of hybrid companies and of impact investors. The continent is beginning to agitate creativity in investors, executives and academics as a market filled with new openings and prospects (African Investing for Impact Barometer, 2017).

Despite its average growth of 5 % in the last 15 years (World Economic Forum, 2015), Africa's economies are still mainly agrarian, subject to informal markets and collection of natural primary resources. Regardless of the differences between territories, the continent has enjoyed a constant development due to economic integration, infrastructural revamp, "leap-frogging", new business opportunities (such as renewable energy) and creation of new services and consumer products (African Development Bank, 2014).

Literature shows us that Sub-Saharan Africa has opened several precedents: that it has been a fertile soil for community/social entrepreneurship (Harris et al., 2013; Rivera-Santos et al., 2015); for policies and vanguard approaches to the bottom-of-pyramid demographics (Kistruck and Beamish, 2010; Kistruck et al., 2013) and for corporate sustainability inventiveness.

As a continent filled with latecomer economies, which faces over pressuring struggle from developed countries and other developing nations (Abdulai et al., 2012), hybrid companies and

BOP oriented-practices are essential to create their own growth and understand their own context. Africa has specific conditions.

However, trends like these have been changing the business landscape in Africa. Technology has given the continent many new chances, creating a sort of new-age infrastructures, connecting businesses to their clients to products and services (George, Khayesi, Has et al., 2016). By 2025, most communities in Africa will have Internet, giving them further possibilities not only to break from unfair informal businesses but also to connect them to institutions and to providers of their basic needs (McKinsey Global Institute, 2010). This, alongside that currently more than half the continents workforce is be under the age of 25, will provide a future with specialized demographic than the previous generations, allowing for bigger involvement in new investments.

Numerous efforts for new businesses in Africa have been thwarted by infrastructure problematics, corruption, political volatility (London et al., 2010), the high expenses and pressure to shift the operations into a more profitable way, and the lack of (flexible) procedures from traditional corporations to use the advantages of Africa. (Manning, 2013), lack of institutional support and legislative enforcement, inefficient mediators and conditions that perpetuate isolation - such as poor transportation and communication grids. (Khanna and Palepu, 2013).

As a positive take, according to London (2010), African enterprises are progressively being drawn to the expansion of social agendas, for example in business services. It is natural then that these businesses are in the vanguard of embracing the hybrid model (Holt and Littlewood, 2015), meaning embracing a corporate culture and modus operandi that mixes both profitable and social ambitions (Lee and Battilana, 2014).

Additionally, more African countries, due to growing entrepreneurial activity, are gradually obtaining stable institutional governance and structures due to growing entrepreneurial activity. This is creating solid foundations for legislative and regulative frameworks, which in turn affects the development of the local markets (African Development Bank, 2014). However, close interaction between private and the governmental sector, especially in terms of policy, should be analyzed in a cautious way.

There are many multinational companies there are many scholars that argue their impact is toxic to the host countries (Oshionebo, 2018; London, 2016).

Successful BOP businesses are frequently intrinsically entrenched in local communities; they have advanced means for sustainability-oriented mission goals and create a bridging of partnerships with institutions (governmental and private). Hence, in this context, they are better to solve certain problems - with an unalienated and contextual vision – that not only englobe economic problems but also social and environmental ones. (Bitzer and Hamann, 2015).

3.2. Secondary Data Analysis

Given that there is extensive work on the positive effects of hybrid companies, the intention of the study, as previously remarked, is to find the financial reasons that try to explain and incentivize its growth and value. With that in mind, during the first section the study found how the industry of impact investment has grown and performed in previous years through the gathering of several reports (UNDP, GIIN, World Bank, etc).

| Source | Year | Number of reports |
|-------------------------------------|------------------|--------------------------|
| UNDP | 2008; 2014; 2018 | 3 |
| GIIN | 2015; 2016 | 2 |
| African Development Bank | 2014 | 1 |
| Avasant Report | 2012 | 1 |
| Bridge Ventures | 2014; 2015 | 2 |
| EY Sustainable Investing | 2017 | 1 |
| World Bank | 2019 | 1 |
| McKinsey | 2010 | 1 |
| UN | 2015 | 1 |
| UNCTAD | 2016 | 1 |
| World Economic Forum | 2015 | 1 |
| Dalberg Global Development Advisors | 2011 | 1 |
| The Africa Report | 2012 | 1 |
| OECD | 2019 | 1 |
| World Resources Institute | 2007 | 1 |

| | | |
|--|------------|-----------|
| The African Investing for Impact Barometer | 2017 | 1 |
| Total | N/A | 20 |

The second section tried to understand, in a more micro-level, about the work and perceptions of leaders in the industry of impact investment and hybrid companies. The section will be englobed by the collection of primary data, through informal interviews of around 25-40 minutes with six specialists. Further details will be given in the subsequent chapter.

3.2.1. Sub-Saharan Africa

As remarked, the African Continent has a measurable BOP layer which brings not only an opportunity for discovery in strategies for impact but also for investment. In order to contextualize the East African region in the continent it is situated in, the thesis will use a short chapter to frame the region. The continent (more specifically Sub-Saharan Africa) allows for opportunities in the development of access to basic services in education, water, healthcare and energy (UNDP, 2014). Data (JP Morgan GIIN, 2015) indicates that Sub-Saharan Africa harboured 19% of active assets in impact investment (US \$ 49.5 billion). Globally this is the region with the second biggest allocation, next to North America. The point is that impact investment has, consequently, the latent capability to balance public spending and complement areas in need of assistance by garnering private capital. Such would allow to buffer the vulnerabilities of these economies and of the BOP layer, providing unorthodox market-based strategies to address their needs and resist external pressure.

The figures below encapsulate this feeling, showing a progression of intent of investment in these opportunities.

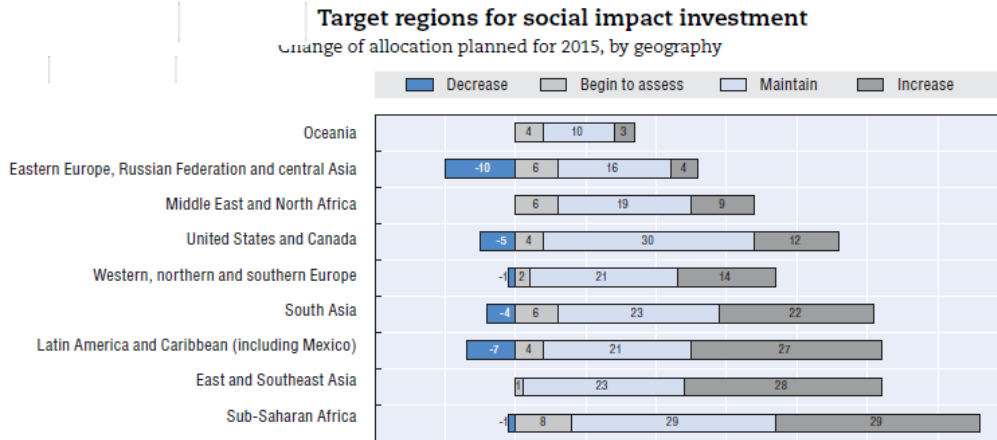


Figure 8: Survey of 145 impact investors regarding decrease/increase of allocation of capital in specific regions

Source: J.P. Morgan GIIN “ Eyes on the horizon: The Impact Investor survey” (2016)

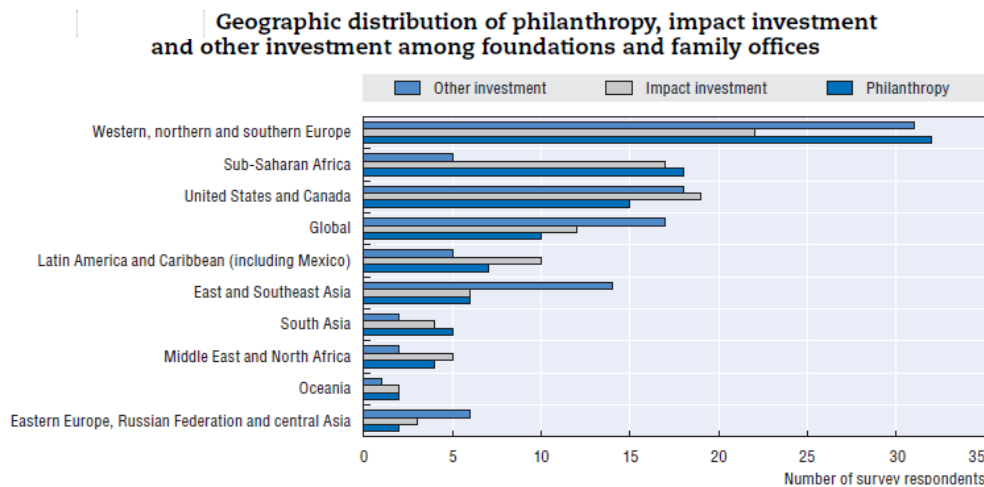


Figure 9: Survey of 180 of foundations and family offices on distribution by region of impact investment, philanthropy and other investments

Source: J.P. Morgan GIIN “ Eyes on the horizon: The Impact Investor survey” (2016)

Data also shows that in 2016, the region was the target of 19 % of the overall impact investment assets, maintaining its position as the second highest regional allocation. Given that the figure 1 also show an intention to increase 29% of investments in the area, it is then possible to conclude that the majority of investors intend to grow or maintain their investments. Given that the number of companies investing for the first time is also progressively increasing, a projection for a growth in Africa is fair.

In regard to the allocation of investment in specific areas, it is a good sign that most of the sectors show intentions of having increased investment. The only one with the biggest decrease is the one of microfinance, while not problematic, one could reflect that the sector has always been attractive to many different impact investors. It is a more developed sector with a larger base through well-established local businesses, so fluctuations are to be expected.

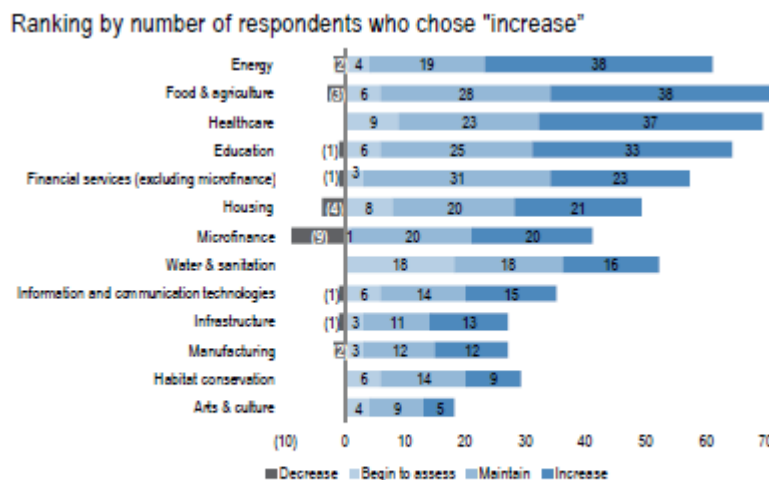


Figure 10: Change of allocation planned for 2015, by sector

Source: GIIN, J.P. Morgan GIIN “ Eyes on the horizon: The Impact Investor survey” (2016)

As it is possible to note the primary needs of the BOP – energy, agriculture, healthcare and education- are the ones whose investment is growing in a more accentuated way. As it was discussed in the literature chapters, by investing in the primary needs of the BOP and its communities a company can create value in the medium-long term (see theory chapters). Although the data shows the predicted increase in demand for these types of investments (and its implicit recent success), one must ask how do these “bets” fair financially.

In a data sample of 146 participants, only 55% expected returns at a market rate level, 27% at a below market closer to market rate and 18% below closer to capital preservation. However, in another sample of 139 regarding financial performance versus expectations, 14% outperformed and 78% were in line. This was more positive regarding the performance of the expected impact, 27 % outperformed and 71% was in line with the expectations. From the data collected we are able

to assume that not only growth is increasing, but also that the expectations for investments (both financially and impact-wise) are justified.

Number of respondents is shown under each category; some respondents chose "not sure" and their responses are not considered here.

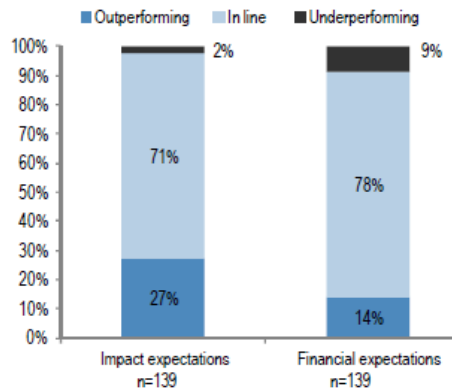
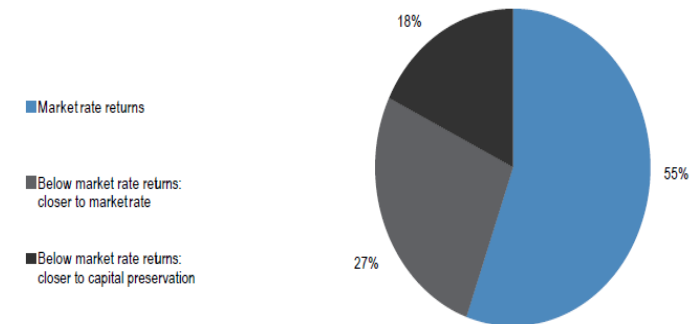


Figure 11: Performance relative to expectations

Source: GIIN, J.P. Morgan GIIN "Eyes on the horizon: The Impact Investor survey" (2016)

n=146



Source

Figure 12: Target financial returns sought

Source: GIIN, J.P. Morgan GIIN "Eyes on the horizon: The Impact Investor Survey" (2016)

As it is possible to conclude, the study finds a healthy evolution in the markets regarding impact investment, not only in terms of international and sector growth and met expectations.

3.2.2. East Africa

Amongst the regions of Sub-Saharan Africa, East Africa is a center of global impact investing and has attracted significant attention from impact investors recently. Alongside a relative state of political stability, significant international investment and an increasingly numerous BOP layer, the region conjures perfectly the objects of which the thesis is focused on. While Sub-Saharan Africa has had an overall growth and magnitude in terms of investment in impact-focused enterprises, East and Southern Africa are the main contributors (The African Investing for Impact Barometer, 2017). Given that in Southern Africa, capital and initiatives are concentrated in South Africa, East Africa provides a much more diverse array of challenges, opportunities and a new

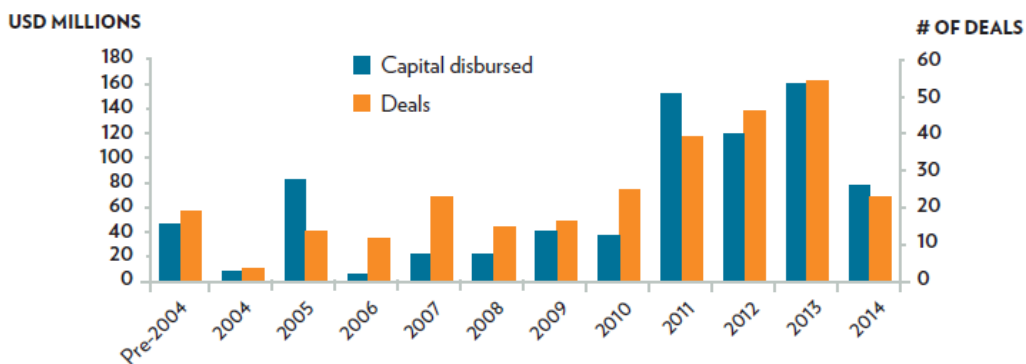
landscape for investors. What constitutes East Africa are the countries of Kenya, Uganda, Tanzania and Rwanda.

In total, 186 impact capital vehicles are active across East Africa, managed by 107 fund managers and 28 other impact asset managers including foundations, family offices, banks, and angel networks. Most impact investors work in multiple nations in the region. Kenya is a clear leader in terms of investor interest, followed by Uganda.

In order to differentiate the nature and source of the investment, for it to be truly partake in by the private sector, the information considered will not englobe the development financial institutions. These institutions are defined by a backing of states with developed economies, hence it exists a tendency that does not reflect the markets. For example, development financial institutions have investment access to countries that put heavy constrictions on the market and focus more on financial and energy institutions (Open Capital GIIN, 2015).

It is noteworthy that a distinction between development finance institutions (DFIs) and Non-DFI. Such is because DFI investments have a large percentage of them done by governments and charities, and hence they are not representative of the markets will.

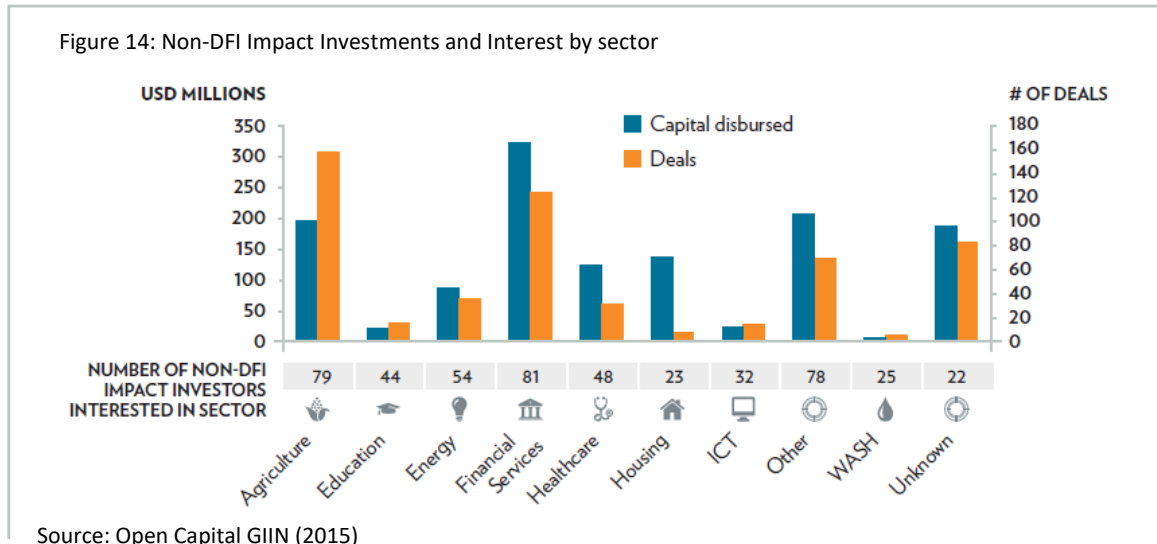
Figure 13: Non-DFI Impact Investments by year.



Source: Open Capital GIIN (2015) Note: 2014 does not represent full data. 274 deals (valuing 586 USD), have been omitted due to unknown year

With the data available, both average deal sizes and capital disbursed are progressively increasing, with a pertinent note on that the amount of capital disbursed increased faster than the number of

deals. As for the decline it may be justified to the incomplete data and that many try to close deals before the year's end.



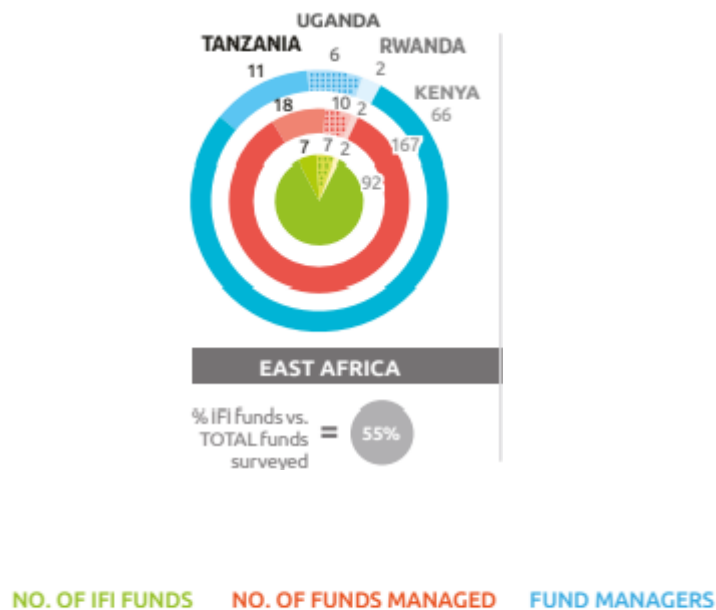
Given the fact that East Africa a rural country, with a great focus in agriculture, it is only expected that, as seen above, the number of deals and the capital disbursed. Disregarding financial services, which have a great volume of deals and capital. What we can observe is that energy, healthcare and housing have noticeable volume while education lacks behind. Interviewed non-DFI impact investors report that most financing is focused on various sectors of early-stage businesses (see above), frequently with the purpose of distributing capital through multiple targets (Open Capital GIIN, 2015). Again, this is a strategy that is suggested by the literature of the theory of the BOP and of what the needs of Africa are.

More specifically the study “The African Investing for Impact Barometer 2017” takes a look at the growing investing for impact (IFI) strategies and markets. The differentiation, of which focus in investment, strategies or sustainability focused ones, is important in order to represent the markets with fealty.

The strategy regarding impact and sustainability themed investments and impact investment, the ones who cause positive impact, had an investment of US\$13.04 billion and 9.66 billion in 2017.

As a side note, the other 3 main IFI strategies also produce an important shift in mindset so the author feels they should be mentioned as it will allow for a good representation of the sustainability landscape. The most relevant for the study is screening, which was invested in 2017 with 13.29 billion, refers to the acceptance or rejection of investments based on ethical screening.

Figure 15: East African Funds



Source: The African Investing for Impact Barometer 2017

As the image shows, in East Africa the number of IFI funds are plentiful and more than half (55%) of the total funds.

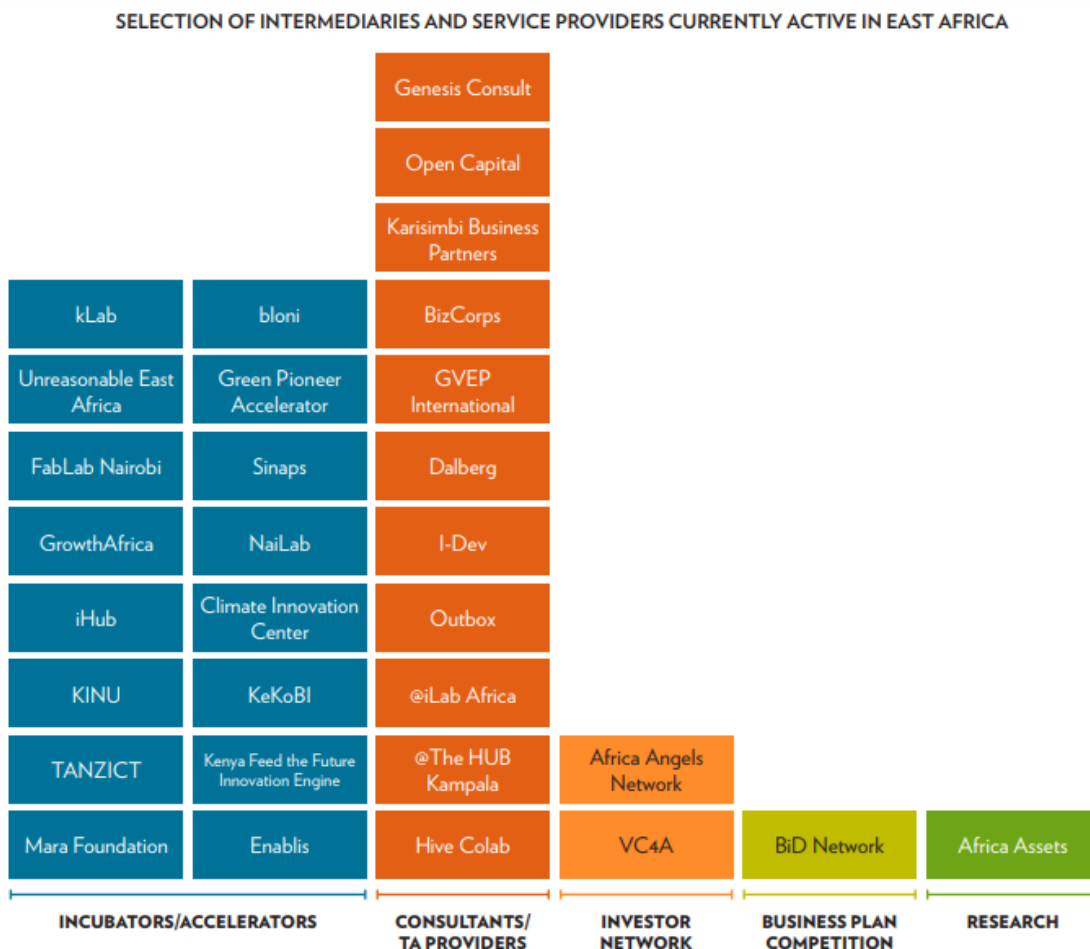
The problem however, is that despite the interest in early stage companies, there is a need for investment for the seed-stage (under \$100,000). It is particularly dire because these gaps cover sectors such as agriculture and manufacturing, which rely heavily on starting capital. Despite having a more risk-oriented take on investment, these investors still want an assurance on the success of the projects.

The reality is that all East African nations have a common necessity for investment in order to create environmental and social structures, with low human development indicators. The recent growth (2008-2018) has augmented the purchasing power parity of the population by 6-7% and is providing more opportunities for business (IMF World Economic Outlook, 2018).

Africa's and East Africa's growth has created several opportunities for impact investors and hybrid companies alike. First with the growing middle class, organizations now have bigger flexibility, in selling goods and services, to adjust to the mounting disposable income. Second, cities are surging in the horizon, result of investments and rapid urbanization, which in its turn demand services (such as sanitation and affordable housing). Third, such a disposable income, communication and urbanization accumulate growing pressure for not only the provision of basic services but also for a development of strategies and products that will adapt to their needs. This could result in a bigger driving force not only for hybrid companies and investors but also for the impact caused.

The growing number of support systems for these sorts of machinations supports this claim.

Figure 16: Examples of Intermediaries and Service Providers



Sources: Open Capital (2015)

As these examples demonstrate, the network of support institutions is constituted (and has confirmed results) largely by incubators and accelerators. Given that their focuses are business in a seed or early-stage, this allows to address the previous mentioned gap with enterprises with this maturity. Such provides a more stable growth and structure balance in the SME layers of the economies. Unfortunately, the demand incubators satisfy mostly applies to information and energy, despite moderate interest in less intensive capital organizations in agriculture, manufactory and other sectors.

Another opportunity and gap to fill is the one of data research, having new bottom-of-the-pyramid strategies (see next chapter) might be a landscape with many creative and worthwhile ideas but it is always evolving. Details on consumption and habits are frequently lacking information that

might prove essential at some point in the operating life of a organization, even a smaller one. Additionally, lack of concrete and detailed information makes projections on business opportunities and investments opaquer in the eyes of the investor. With less transparency, more risk. With more risk, less demand.

Before moving on onto the interviews, figure 17 can be found in the annexes that resumes the main takeaways from these last pages.

In order to explore possible insights and the more personal perspective of people working in this area, the thesis will now go into the information collected through the interviews.

3.3. Primary Data Analysis

Given that the area of the subject is fairly new and that the secondary data found was not satisfactory to the research questions, the thesis chose to collect primary data to further explore the topic.

The data was collected through interviews as the intention was to allow exploration on motivations, predictions and personal opinions of the interviewee (Richardson, 1965). While the interviews were conducted in a semi-structured way, a script was initially used to start the interviews. As common in semi-structured interviews, there was an interest in exploring the questions further and in some cases the interviewer sought clarification (Skodol Wilson, 1992). The participants were not in the same country, so given the distance between the interviewer (the author of this thesis) and the interviewees, the interviews were made through calls that were recorded. The length of the interviews was between 25 and 50 minutes and the interviews were gathered between the 18th of November and 6th of March.

Regarding the sample the study used a purposive sampling technique since most of the interviewees were chosen due to their role in their organizations and their insight knowledge. Their names are not real in order to protect their identities. Only the roles are real in order to identify the different roles of each interviewee. Every participant works for or in a related way to impact investment or hybrid companies in East Africa.

In terms of collecting and exposing the data, this thesis employed a thematic analysis (Braun and Clarke, 2006; Marshall & Rossman, 1999). Data was analysed as follows: (1) the first step was organizing the data, to collect, record and transcribe the interviews; (2) the second step was reading the documents and underlying the most relevant content, which were then divided in three sub-themes; (3) the third step was understanding the narrative that fit the underlying thematic that would allow for a better understanding of the topics; and finally (4) utilizing examples and quotes in order to expose the narrative in a cohesive and understandable way.

In order to protect the identity of the participants, all the names used are alias.

| Alias | Role | Country | Sector of Company | Date of the interview |
|--------------|---|----------------|--------------------------------|------------------------------|
| Linda | Director of Research & Impact | Kenya | Research & Impact | 5/3/2019 |
| Todd | Sustainability Director & Founder | Kenya | Sustainability & R&D | 27/2/2019 |
| John | Business Development Manager | Uganda | Business Development | 6/3/2019 |
| Cameron | Associate Vice-President | Kenya | Business Consulting & Research | 6/3/2019 |
| Marine | Security Expert | Portugal | N/A | 2/11/2018 |
| Bernard | Lecturer and Researcher in Strategic Management – Focus on Emerging Markets | United Kingdom | N/A | 18/11/2018 |

4. Main Findings and Discussion

The topic of collection of data throughout the interviews was the context in which impact investors and hybrid companies operate. The thesis intention is on how the actions of any agent in the industry should be a consequence of their surroundings and the characteristics of their surroundings.

Hence this chapter will be divided in three sub-chapters. The first will encapsulate what the strengths of doing impact work in East Africa and the mindset that is currently needed in order to penetrate the BOP in an efficient way. Secondly, the thesis will reiterate the challenges that were voiced as the most prominent. Thirdly, to share the previsions for the future given by the interviewers.

4.1. Mindsets

Given that the intention of the creation of the BOP theory is characterized by trying to reach and obtain the value of the poorer layers of certain countries (Hart, 2002), one of the most important underlying issues was about how to reach the communities that impact-focused organizations choose to interact and do business with.

Our findings reveal that such can be approached in several ways. First in regards for possible employable populations and for communities' companies can energise economically through providing jobs, as it gives the community capital which will be used to purchase goods and services.

“Communities work in a different way, it is common for one worker to provide for large numbers of people” - Marine

The idea remarked in the above quote can be blamed to the constant problem that has plagued East Africa has been the high levels of unemployment of its native population. Despite such companies keep utilizing manpower from other countries.

One of the interviews with expert in field stated that:

“It’s important for populations and communities to be part of the companies. Meaning, instead of sending mostly workforce from abroad, to employ for the native populations in a balanced way. This is important in order to build trust and value.” – Marine

Another mindset is about the understanding of the conditions these communities are subjected to. Despite being a global trend for there to be a rural exodus from populations in order to have a better life in urban contexts one should be reminded that most times is due to the lack of choice. Certain industries are already taking advantage of the creation of capabilities in order to garner value.

As a solution, the Bernard synthesised this thought:

“This is a common problem in developing countries, where population runs to the cities for a better pay and conditions. Companies should be influenced from the solar energy industry and how they do things in the rural areas. The communities are then able to have power, irrigation skims and create small businesses due the availability of power.” - Bernard

The way a company interacts with the communities and their environment must also be adapted. This was mentioned by Bernard, as a lecturer in Strategic Management he observes many cases that many managers do not understand fully the cultures of the regions they are in and it hurts them in the medium-long term. Marine agreed with the thought, remarking:

“One thing that I can highlight is the uniqueness of the communities, you can never generalize these markets. You have many subcultures and tribes, each with their own unique attributes.” - Marine

Cameron also mentioned that given that for companies alienating themselves and be tone-deaf to their circles of business is counter-productive, they should be watchful on regards to the value they can create by just paying attention to the details of anthropological and cultural needs.

“When you come to do business, you need to identify the differences and the value attached to their uniqueness.” - Cameron

One successful example of this is Cookswell, which offers an alternative argument for the extreme shift to electrical products. Through a focus on reforestation and on making their products (coal ovens) growingly more energy efficient and less polluting, they believe that culturally a sudden aggressive shift would be unsuccessful. Hence they work around it.

“East Africans love barbecues outside so they would not be so inclined to buy electric ones, even due to the taste. So my role as a hybrid company is not to force them to buy my products but instead to use to the cards I am given to make a positive impact. It is about imagination and the creation of outside the box side projects. Not only are you causing an impact but you earn clients and positive reputation” – Todd

These feelings were also encapsulated by another interviewee and provided an additional advantage to this line of thought.

“We are always looking to have new projects and new actions all the time, but I also feel that one advantage of this business model is that there is not space for frugality. Every single investment we make is carefully deliberated, we look, for example in regards to machinery, to the lifetime, to how much it would cost to repair, to the extent we would use it, etc.” - Linda

During the interviews, every person mentioned at least once the notion of “creativity” and “imagination”. These can be asserted in a number of ways, from the diverse array of inventory products they sell (Cookswell with their unique brand of seeds and EFK with their complementary tools, for example) but also in all aspects of the business.

The first aspect is how any type of company interact with their environment. No company is alone in whatever industry they are in, they have competition, partnerships with other companies and institutions, and a whole set of relationships that allow for the healthy function of any business interaction. Regarding this interaction with institutions:

“It is essential for the close of interaction with all types of institutions and how much nationals relate to these institutions and their practices. Namely political institutions, financial institutions, social institutions, across a section of institutions. Multinationals need these institutions to relate with them (to have an effective market strategy)” – Marine

“Given the lack of foundations it is needed to have a different mentality towards the business. For example, my company creates electricity. While we are trying to reach a point of spreading electricity to everyone, it is not something that can be done. Hence a good solution for this would be to partner with a company with an internet company and create an internet café to provide communities with an additional asset, for example” – John

The second aspect, directly related to the characteristics of the BOP, are the methods of payment. Given the lack of economic power in this layer of the population, it would be unrealistic to ask costumers to afford to make the same payments as the one’s from more healthy economic regions. As such in order to garner value, it is essential to meet the possibilities of the populations, hence creativity in how to get the product/service to the biggest number of people is a must.

“You have more startups with more gadgets that are now available to many people, and they have developed models of payment. Previously, the problem was that you had these gadgets but people did not have the means to afford them. if you organize the payments very well to the greatest number of people you unsure the needed cashflows, even if it takes longer. It normally takes two years to establish for it to work efficiently, and you can always add interest at the end. The ones who are not patient cannot afford a model at the bottom of the pyramid.” - Bernard

Companies and employees are expected to face both operations and logistics from the point of view of a rational-actor. It is expected that from a rational point- of -view to expect certain things from the markets (i.e.: bigger toy sales during the holidays). However certain interviewees had experiences that left them surprised by the way procedural logic might not apply in these markets. Once again, the key seems to be to not be stuck in western procedures, face the context as it shows itself and have the creativity to understand and create new solutions.

“There isn't a procedural logic way of doing things. For example, you would expect people who purchase our main goods to do it before raining season but the reality is that they don't. What happens is that once they harvest their cropping and have money they go and buy the seeds. So in this sense an ounce of imagination is needed. What we started doing is that they pay us after they collect the harvest and then we deliver it late.” – Linda

This notion of being creative addresses a characteristic that seems present at the moment and conveys the view of a market filled with value. The characteristic is that there is space for experimentation in these markets:

“Not a lot of direct competition. Either trying something new and it works or simply scrapping it. These are flexible and innovating markets with lots of space for creation and for opportunity.” - Cameron

As much as the mindset is important for these businesses to succeed one must also be mindful of the challenges that currently plague the region. Which leads to the next sub-chapter.

4.2. Challenges

Given both the regions and the early nature of this type of industry it would be unrealistic for the progress of impact focused companies to not have challenges and be unhindered. In this sub-chapter there would be mention of two different types of challenges. The first will focus on the challenges of penetrating the BOP and doing business in East Africa. The second will focus on the difficulties of hybrid companies.

In regard to East Africa, all of the interviewees pointed to the corruption and the weakness of institutions to be the biggest cause of problems in their operations (as it will be shown in the next quotes).

Despite there being a clear evolution, the funds and grants attributed to the development of certain industries and of the surroundings (such as communities and environment) are poorly spent. Indirectly, these affects any industry that attempts to establish itself in the region. The structural problems are diverse and have far reaching consequences. One of the interviews stated that:

“Well in several countries we can see a kind of institutional and structural failings. In no way can they rely entirely on their own institutions and government. There needs to be a closer inspection of where the money for development and cooperation ends up. It is important to have intermediaries that regulate this case.” – Marine

Another reinforced this idea by explaining that:

“Without a doubt the biggest problem is corruption. Regulation is all skewed and whatever efforts there are to, for example, conserve sustainability focused woods are just bypassed by slipping a bit of cash.” – Todd

Given this lack of enforcement from institutions, whatever personal ideology a manager might believe, in, one should be wary of an intensely liberal market. Especially when companies are not powerful, either in economic terms or in influence, and might be preyed upon by companies that have capabilities to create a revolving door with political institutions. Regulations and corporate honesty are founding stones in building any type of business environment.

“Institutions are weak, traffic of influence of big companies and other institutions is incredibly common. An agent in an institution commonly needs to have the deal sweetened in order to make a deal successful. This hurts companies that have no means of competing in that level.”- John

Concerning the market strategy, we found out that there is not a defined market strategy to follow – the reason why is because market conditions present themselves in a sub-optimal level, with corruption and weakness from institutions. Causing any sort of strategy to be skewed and constantly change.

“Within what is called market strategy, companies/multinationals situated in markets in which institutions are not yet strong or are underway pro-market reforms you find the pure market strategy does not work. You have to mix it with less orthodox market strategies.” - Bernard

In regards to the creation of institutions and foundations, the interviewees have suggested a few ways that prevent garnering value. The first one tackles the problem of lack of education in the country.

“I mean this is an historical situation, international help for these countries has happened for a long time. Europeans go there, implement structures, leave and then the structures implode. Rinse and repeat. We should educate them instead in order for them to create their own structures.” – Marine

The second focus more on which types of institutions an impact-focused company should approach further. While it will not fix the problem directly but it allows for a certain circumvent on the question.

“When you talk about institutions, you talk about informal and formal ones. I do believe the biggest barrier is that investors do not understand the informal ones. Informal institutions are by definition hard to understand, you need a lot of time and interaction and local manpower to help you. But once they learn to align with them, they can be successful.” –Bernard

Another important remark is how the way other investors invest their capital and how the landscape could mutate with simple differences.

“ There is a need for less risk averse investors. It seems that once someone invests in your company everyone follows. Everyone wants to catch the next unicorn and think that whenever someone is willing to invest in a company, they have found the big next thing.. ”
– Linda

“Capital is concentrated. There is a need to diversify, to invest in several small projects” –
Cameron

While caution is certainly expected, not only because of the region they are investing in and the uncertainty of the market but also due to the difficulty of turning a profit in short-medium term, as most respondents remarked. However, diversification and decentralization of capital with smaller investments would provide a suitable alternative. However, presently having a healthy turnover seems to be one of the biggest challenges for smaller companies. One of the participants remarked:

“Right now, we are still not turning a profit without grants. We expect to be profitable in around 1- 2 years and we have been operating for a few years. ” - Linda

While it might not be a general case, at least another interviewee, Cameron, mentioned the role of grant money in the business she was advising. Given this new data it would be expected for the prevision of the industry to be dim, which leads to the next sub-chapter.

4.3. Main takeaway

Despite what the data collected might portray all of the interviewees realized the difficult situation and the struggles they are enduring or endured. However all showed a positive mindset for the future, what their work represented for the future of the industry in building the foundations in discovering what behaviours to explore and in how to shape the industry.

“One thing we joke about is how the problems we are now facing or faced before are probably not going to happen to companies in the future. We are one of the companies that are trying to build up institutional foundations and get recognition. I feel there is still a lot of resistance not only in the concept of for-profit social enterprises but also in the environment in which we are.” – Todd

What the findings showed was that all participants had self-awareness regarding the business they were in but also saw much more than difficulties. They remarked with pride the impact they create, how boards of directors in certain companies were beyond excited with the prospect of creating new value, about how they were invigorated over the creation of new practices and strategies to penetrate the BOP.

“The key is to understand the context, in terms of what is going on, of the reforms of the institutions, when are they entering the market, what kind impact this kind of investment makes. They need to ask themselves: What kind of impact can we make? How can we turn this into a win-win situation? Only making money is no longer a reliable bet.” - Bernard

Throughout the findings it is possible to find an alignment between these deliberations and successful BOP models, while failed one's drift away from those ponderings. For example, the need for scalability and the maximization of profit in the shortest time span does not coincide with both the theory and the findings. As remarked, great part of the economies of East Africa are informal and SME's. Investment, then, should be wide and diverse and should have differentiated cost-structures.

In order to succinct the ideas described in this chapter, the thesis has gathered the main conclusions of each sub-chapter in figure 18.

Figure 18. Findings from Interviews

| Theme | Main Findings |
|---------------------------------------|---|
| Needed Mindsets | Understand communities are part of the business conducted. Directly and indirectly. Both in terms of employment and of the context. Culture and anthropological views are essential for their understanding. |
| | Be creative in your undertakings/projects. Might it be in the way while relating to costumers, understanding its differences or in creating side-projects that complement the business / impact values. |
| | Disassociation from western procedural logic. Might it be in terms of payments which should be more spaced; Operational procedures, which sometimes differ from the rational-actor thinking; or close interaction with markets and institutions, which are expected to take an unorthodox stance. |
| | The landscape is currently flexible and is ripe for experimentation. It is recommended to decentralize capital through several smaller and more spread investments with experimental nature. |
| Challenges of the region and Industry | Corruption and weak institutions create problems, more prominently regarding “revolving doors” and regulations. |
| | Communities lack basic services, which can be seen as businesses opportunities, and education. This causes several unpredictable consequences and causes hinderance to possible employment. |
| | Micro-management of corporate strategy and categorization and interaction with informal institutions. |
| | Might be difficult to have a positive turnover in the early times of the company. Investors have a tendency to be risk-averted and to concentrate capital. |
| Previsions | Overall belief in the growth and improvement (including in financial survivability) of the impact-oriented industries given that the foundations are being created in the present. |
| | Hope for the progression of the mentalities in how to reach the BOP layer and disassociation with bias |

Both of the latter chapters provide insight into the industry and provide avenue to answer the research questions. As such a last figure relates the previous findings and exposes further answers to the problematics proposed.

Fig.19 – Secondary and Primary Findings jointed contributions

| Contribution for Research Question/ Findings | Secondary Findings | | Primary Findings |
|---|--|---|--|
| <i>Is this a wanted future? / At what stage is currently the development of this future?</i> | Continuous growth and early stage investments | + | Impact- focused industry is in its early stages and will continue to grow and build foundations for easier future success. |
| <i>What shift is needed for this future to happen?</i> | Growth of investment in primary needs such as education, healthcare, etc. | + | Businesses need to cater to the primary needs of the BOP |
| <i>What shift is needed for this future to happen? / At what stage is currently the development of this future?</i> | Statistical evidence that the overwhelming majority of expectations were met or surpassed, both financially and impact-wise | + | Investors are too cautious with investments. |
| <i>What shift is needed for this future to happen? / At what stage is currently the development of this future?</i> | Deals increasing in capital. However outside of agriculture and financial services deals are less numerous in regards to capital disbursed | + | Concentration of capital instead spreading it to smaller enterprises |
| <i>What shift is needed for this future to happen?</i> | Growing capabilities and opportunities, allowing for new projects | + | Need to adjust to the BOP through creativity in procedures and in thinking. |
| <i>Is this a wanted future? / What shift is needed for this future to happen?</i> | Number of support institutions is increasing | + | More creativity in interactions / dynamics with institutions |

5. Conclusions

This thesis focuses on understanding how impact-focused enterprises, namely impact investment and hybrid companies, are the future to penetrate the BOP layer and how to do it more efficiently.

To achieve this goal, six interviews of experts that work in or with East Africa were conducted alongside the analysis of reports of impact investment. The setting was chosen due to the relevant stability of the area, the amount of investment it has been observable in the area and the conditions that allow for an increased growth of both profits for companies and for the poorer communities of the region. The work done in the impact-focused area might provide lessons to organizations that might want to pursue investments in the area or that are newcomers to this type of industry.

To answer the first research question – *Is this a wanted future?* – the findings conclude that there has been a severe growth in interest for impact-focused enterprises. Additionally, multinationals, the previous protagonists of the BOP, are in a harder position to benefit and create benefits from the interactions with these layers than the alternative models proposed. It is possible to conclude that disruptive changes in ethos are logically of no interest to multinationals, even if in the long-term it might have meant bigger returns and an established footing. To answer in a short manner: even if the future proposed is not agreed in consensus the wanted one, there are a lot of characteristics (i.e.: interaction with cultures, satisfaction of primary needs of communities, impact-oriented goals) that are warranted – as it can be found in figure 17. The finding seems to suggest that the question of consensus in “wanting this future” relates to the second question – *At what stage is currently the development of this future?*.

Regarding the second question, the thesis concluded that the consensus was that the development of this future is still in very early stages. The confidence in the industry is still shaky, the foundational, institutional and legal frameworks are still being developed, there is admittance of critical behaviours and understanding that still evade most investors and executives, capital is concentrated in a few hybrid organizations and the challenges of turning a positive profit (without grants) are still in question. However, the findings also found that there is positivity from the six interviewees for the future of the industry, that most of these questions will soon have an answer.

In the third question – *what shift is needed for this future to happen?*- the thesis attempted to gather lessons from the present in order to build the future. While a more careful answer and resume of the findings can be found in figure 18, they are based on the key word's dissociation, creativity and knowledge.

For the first key word, dissociation is needed from the western values of bias regarding the BOP communities (i.e. their cultures, needs, mindsets and interactions), of doing business (i.e: paying methods, product and services offering, etc), and of values (i.e. scaling, profit-maximization, understanding of social and environmental benefits. In the second

In the second one, creativity is needed for finding the less orthodox paths to do business in the BOP. Meaning that this layer has many conditions for their behaviour; it is not recommended to follow procedural logic and expect a perceivable rational-actor thinking. The recommended way is to analyse and interact the people whose business is conducted with, employ local people that have the behavioural and communitarian “insider” knowledge and be flexible in actions.

The last key word is “knowledge”, and while the previous paragraph slightly covered this aspect, it is important to underline it. Investors and executives that operate in East Africa should have an open-mind and an understanding that they are an “outsider”. It will be difficult to interiorize and gain the confidence of costumers and institutions of the region. For it, analysis of the area needs to encompass several disciplines outside of the ones used in traditional business.

While the thesis was not able to confirm whether these impact-focused enterprises will be the future due their existence still being in a very early stage, there were contributions provided. In practical terms, the suggestions that the thesis offers for managers and investors are spread throughout the work and the answering of the research questions. In theoretical terms, the thesis responds to research calls on this growing BOP market and what help direct investors and managers (London, 2009; Kolk et al 2014; Munir et al, 2010). As such the thesis contributes to the theory in three ways. First, by connecting the BOP theory for businesses and impact-focused enterprises allowed for further findings on the discussion into if multinationals have in fact the

capabilities to extract and create value at the BOP, might it be economically, environmentally and socially. What the findings showed was that there is a strong link between the goals and mindsets of the BOP theory and the ones displayed by impact-focused enterprises, while at the same time advertent against some of multinationals actions and ethos. Second, exploring the perspective of third parties and an addition on information over impact-focused enterprises and the aspects of the previously mentioned dynamic. Third, additional empirical insights were provided on an emerging economy's BOP layer when investigating contemporaneous dynamics between the Eastern African BOP and agents of companies. It extends more data in order to expose the particular characteristics of this BOP.

5.1. Limitations and Future Research

In terms of limitations, the main one was already mentioned, these types of industry are still trying to find their footing and legitimization. Future research should, very plainly, be done when the industry develops further. A second limitation is that the sample interviewed, despite being experts in the field, was to a degree limited by their number; a wider sample is recommended. This widening is also recommended in terms of the ramifications of “impact-focused enterprises”; the thesis was not intent on exploring every difference within the realms of impact business, however we believe that there could be lessons to be explored from it.

In terms of theory, more research is needed in terms of understanding the characteristics of the sub-cultures that exist in the BOP and in what particular way are they being affected. The gathering of more disciplines (especially anthropology and sociology) into this analysis is essential, these communities are not homogeneous and have different dynamics within themselves and the outside. Only through furthering this examination will impact-focused enterprises be able to create and provide benefits in a more efficient way. Additionally, the context in which these sub-groups exist should be studied in order to present a chart regarding their needs. Even the thesis, which focuses on East Africa, has only scratched the surface in what can be found if a specific focus is given to these markets. It is recommended that further light can be shed onto each BOP layer, not only for business purposes but for any hope of an efficient measure to tackle their concerns.

Figure 17- Differences of effects of Agents in Africa

| | | | | | | |
|------------------------------------|--|--|--|---|--|---|
| Agents in African Context | Energy | Ecosystem | Social/Communities | Government/Institutions/Competitors | Growth/Size/Spread | Objective |
| Hybrid companies/Impact Investment | Sustainable/ green fuel, interconnected closely with avoiding negative consequences of their activities. | Depending on the mission, either goal-oriented to the preservation and expansion of the ecosystem or benign cohabitation. Conscious of the consequences of over-expansive interference | Creating value, self-sustenance alongside communities while being having a healthy (sustainable) turnover. Seldomly intrusive in their practices. Respect and consciousness of practices and cultural context. | Close interaction and partnership. Focus in legitimizing business model through partnerships and not following traditional competition models. | Generally Small and Medium organizations. Dependant on the Objective. Long-term growth | Social/Environmental goals with financial sustainability and independence |
| BOP Theory | Mindful of the needs of the BOP layer and how value can be extracted without putting in cause its financial sustainability | Resonated as an essential part and source of creation of value for the BOP. Mindful of loss of its value through its over-exploration and destruction. | Creating of value alongside the population in the bottom of the pyramid. Impact sourcing. Formalizing informal businesses. Educating and providing cheap, efficient means of payment. Reactivating economic power | Close ties and interaction. Possible substitution in certain institutional responsibilities | Small and Medium organizations. Characteristically with no short term significant growth | Capturing the value of the BOP layer |
| Transnational | Cost-effective. Exploratory and influential industry | Cost-effective unless directly impacts business | Cost-effective unless directly impacts business | Close ties and interaction. Competition and influential relationships | Tall industries and companies. Maximum short-term profit and growth. | Financial gains and goals |
| Current Eastern African context | Abundance of over-exploration of resources and desecration of communities due to fossil industries. Rise in green energies and vanguard in their development in order to be affordable | Primary source of survival goods (food, fuel, etc) for most communities. Depleted and explored in non-sustainable ways due to un/intentional practices and needs which causes cicical consequences of poverty. | A few primary where most industries are present, there is comparable a bigger quality of life and where formal businesses are situated. Current emergence of secondary cities. Remaining of country plenished with communities characterized by informal businesses, lack of infrastructure and basic living conditions. | Weak and influentable institutions and government, common occurrence of "revolving door", creation of regulations and procedures advised by private third parties. Market competition | Majority of informal businesses. A minority of formal businesses populated by tall industries and companies. | N/A |

6. Appendix

Interview Protocol

Can you describe the offerings of your business?

What are the strengths of your company? What are the weakness?

How do you compare the strengths of your company / organization to the more traditional companies?

In the company's vision, what is a business model? How would you characterize (and categorize) your business model?

What was the appeal of choosing your business model?

How do you see a business opportunity?

How do you perceive your profits? What do you feel are the goals for their earning?

What is the understanding of value in your company?

Do you generate value beyond profits? If so, what are they? Can you give examples?

Do you have profits beyond expectation? If so, where do you allocate them?

What do you find is most important in assuring success in the business(es) you invest in?

What were the steps that made you believe you achieved relative success?

What are your future steps? What would you say is the competitive advantage of your company?

How would you say your company interacts with your market environment? And in what concerns stakeholders?

How would you characterize the landscape of doing business in East Africa?

In your vision, what are the strengths of conducting a business in East Africa?

What about the weakness?

What are the strengths managers can expect of doing business in East Africa?

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