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### Development in Tanzania: From Foreign Aid Dependency to Impact Investment

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**Development in Tanzania:**  
*From Foreign Aid Dependency to Impact Investment*

A Senior Thesis in Urban Studies

Katherine B. Kelter

Trinity College Class of 2018

**Spring 2018**

## **Abstract**

The foreign aid system today is broken. Developing countries should seek to experiment with new strategies to alleviate poverty. This thesis focuses specifically on the development of Tanzania as an example for East Africa. The population in East Africa is growing at an alarming rate, yet most live on less than \$1.10 a day. How can African countries prepare for such a rapid increase in population growth? How can a country with such high poverty levels take on such high growth and spread its benefits across the entire population? Traditional aid systems with a top-down approach will not solve the problems that the country faces today. This thesis will examine development in Tanzania throughout the past fifty years, and consider impact investment as one potential solution to self-sustainable growth. By combining philanthropic foresight with venture capital models, investors are able to generate significant social impact alongside financial return.

## Acknowledgments

*I dedicate this thesis to the people of Tanzania, whose warmth and hospitality I was fortunate enough to experience in 2014.*

First off, I would like to thank my advisor, Professor Garth Myers, for guiding me through my writing and research. As someone who spent almost half a century researching Tanzania, Garth has been more than an inspiration to me at Trinity College. I am forever grateful for his guidance and support throughout this process. My understanding of Urban Studies has significantly grown since I stepped onto this campus and I owe that to the Center for Urban and Global Studies.

I would also like to thank Mackenzie Reinoso for introducing me to the world of impact investment. Kenzie has been a mentor and role model to me this year. Without her, I would not have read The Blue Sweater by Jacqueline Novogratz, and, in turn, would not have found my inspiration for this thesis. That being said, I would also like to thank Jacqueline Novogratz, though I have not had the chance to meet her yet. Her work is extraordinarily influential and I hope to someday follow along her footpath.

Finally, I would like to thank my family for their support and encouragement since a young age. Without the financial and emotional support from my parents, I would not have this learning opportunity, nor would I have had the chance to experience the immense beauty Tanzania has to offer.

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## Introduction

Economists have been looking for the answer to economic growth in Third World countries for at least half a century. There are numerous challenges presented for growth in the developing world. In order to overcome issues as large as poverty in the future, original and self-reliant responses are needed. Inclusivity and experimentation are necessary to move forward. The study of development in sub-Saharan African countries stems from the immense poverty and failed economies commonly found in the region. With urbanization in sub-Saharan Africa is growing rapidly over the next few decades, urbanist James Spencer argues: “The patterns of uncoordinated development can lead to serious problems of equality and fairness in the distribution of basic infrastructure” (Spencer, 2015:9). Other urban planners and development scholars have made similar arguments. This thesis focuses on Tanzania, and argues that traditional charities with a top-down approach will not solve the issues that the country faces today.

Tanzania is one of the ten largest African countries, yet one of the poorest. According to the World Bank, from 2006 to 2016, the population grew from 40 million people to 55.6 million (World Bank Group, 2016), and continues to grow at an alarming rate. The World Bank also records that Tanzania has a GDP growth of seven percent in 2016 and projects that rate to be consistent (2016). This is the same country where the bottom 40 percent of the population lives on \$1.10 a day. How can a country with such high poverty levels take on such high growth and spread its benefits across the entire population? Does Tanzania have the tools to develop towards self-sufficiency? This paper will explore those questions throughout two chapters. The first chapter will cover a brief history of Tanzania since independence, and highlight some issues, such as foreign aid, which have led the economy into the over-dependent disaster that it remains

today. The next chapter will propose a solution to development that will lead the country towards self-reliance and growth.

Impact investment has proven to be an effective tool for sustainable growth in developing countries. Coined by Jed Emerson, impact investment is the ability to blend financially focused investment with charitable giving. Scholars believe that growth does not come from the outside, but from those on the inside of communities who live through everyday struggles and know what is needed. The solution presented in this paper is to find those entrepreneurs living within developing countries. To finance them with a long-term goal of becoming self-sustainable will eventually lead to a larger participation in the growth of the economy.

First, this paper seeks to examine in depth development in Tanzania, as an example for Africa. Chapter one will cover the historical path which has led to the state of the country's development today. World data projects that most demographic growth will be concentrated in Africa and Asia moving forward. Urban scholars, AbdouMaliq Simone and Edgar Pieterse, argue, "This suggests a staggering socio-cultural transformation that neither the world nor Africa is fully prepared for" (2017, 33). How can African countries prepare for such a rapid increase in population growth? The solution certainly includes examining Tanzania's past development strategies. In order to consider a plan for the future, it is important to investigate what has failed in the past.

This thesis points out that foreign aid has led to serious dependency issues in sub-Saharan Africa. Instead simply blaming the issues that have led to the economic state of the country today, the paper will instead acknowledge those problems and present a solution. How does one tackle the issues of extreme poverty and inequality? How does one even *measure* poverty? Multiple sources have pointed towards the financial growth and prosperity seen recently in

Tanzania through statistical evaluation. This thesis assesses whether or not those metrics for measurement are sufficient in assessing the overall wealth in the country. Although Tanzania might show GDP growth on paper, it may not actually be concrete. Simone and Pieterse argue, “African... cities can boom and still exhibit large swatches of wretchedness” (2017: 26). This paper argues that the factors taken into account when calculating Tanzania's growth in GDP have limitations.

Many scholars blame poverty on bad-governance. Many argue that the first two decades post-independence failed under President Julius Nyerere. Others say that he implemented a policy that was necessary for the country at the time. Although it may not have led to economic prosperity, it maintained peace and stability throughout a country that was deemed one of the poorest in the world. One of his most impressive accomplishments was increasing the literacy rate from 5 percent to nearly 90 percent of the adult population (Mwakikagile, 2006). In the solution presented in chapter two, social capital is one of the countries strongest assets. Increasing the literacy rate is very important for future development. In this sense, Nyerere was a role model for future leaders.

As the developing world shifts towards urbanization, one might ask the question, *what is urban?* The city has been explored in many different directions over the years. There is no exact definition, but instead multiple interpretations. Moving away from population numbers, basic infrastructure necessities, and clean water and sanitation purposes, Spencer takes a scientific comparative approach. Spencer interprets urban as, “complex and multifaceted collections of people and things bumping up against one another” (Spencer, 2015, 16). People congregate in close proximities for the chance of harnessing an opportunity. Each individual plays a role in development. Spencer asks the question, “What explains– economically– all those urban losers



in the global economy?” (2015, 19). This raises another question of how to measure economic growth. How is each person in the population accounted for? What factors go into the development of a prosperous economy? A top down approach will not always lead to self-sustainable economic growth over the long term. The emphasis should be on local knowledge, unique contextual factors, and bottom up forms of development. (Spencer, 2015, 33).

A former Wall Street banker, Jacqueline Novogratz, has immersed herself into many communities in which transformation is needed. Jacqueline Novogratz asks the question in her book, The Blue Sweater, how does one bridge the gap between the rich and the poor in an interconnected world? (Novogratz, 2009). The development enthusiast left her job in investment banking to move to Rwanda and make a change. After many years in the field, Jacqueline started a company called Acumen Fund, which targets entrepreneurs in third world countries as a way to stimulate growth. Novogratz argues how traditional philanthropy frequently fails, often due to a top-down approach. The key to growth and long-term development is through a form of philanthropic investing known as ‘patient capital’. Patient capital is another name for long-term capital that does not turn a quick profit immediately, but instead yields a more substantial profit in the long term. This thesis will examine development in Tanzania throughout the past fifty years, and consider impact investment as potentially the most sustainable approach today to poverty alleviation for the future of developing countries such as Tanzania.

## Chapter One

### Gaining Independence

Tanzania has a fascinating story post-independence. Although they have had five presidents in total, the country's founding father, Julius Nyerere, played the most important role in shaping the country. This chapter will highlight the important details of development since the euphoric and hopeful period when the country gained independence in 1961 up until the poverty stricken, aid dependent country it is today. The failure of growth in the Tanzanian economy comes from a variety of factors. Many scholars argue that in order for sub-Saharan African economies to progress, they need to break free from high aid dependency. Without doing so, Tanzania will never become a self-sufficient and prosperous, developing country.

Before Tanzania became an independent state, the mainland of the country, Tanganyika, was a part of German East Africa from the late 19th century. Tanganyika and Zanzibar were completely disconnected under separate colonial jurisdiction in the colonial era. Following World War I, the British gained the land in 1919. A group known as the Tanganyika African National Union (TANU) strived to achieve national authority under the British rule. It was not until 42 years later that Tanganyika gained independence. On December 9, 1961, Tanganyika became an independent country, and Julius Nyerere was elected president in 1962. Soon after, in December 1963, Zanzibar gained independence, but a month later, it experienced a socialist revolution. Then in April 1964, Tanganyika united with Zanzibar to form the United Republic of Tanzania. The leader behind TANU was Julius Nyerere, and he became the first president of Tanzania. Nyerere, who served as president from 1964-1985 developed a social and economic policy which aimed towards a socialist and self-sufficient state. The people of Tanganyika referred to him as *Mwalimu*, meaning 'teacher' in Swahili. As the first Tanganyikan to study at a

British university, Nyerere graduated with an M.A. in history and economics in 1952, and returned to Tanganyika to teach. Nyerere was not pleased with the British ruling Tanganyika, even with an agreement that one day they would lead them towards independence.

A Tanzanian who lived through Nyerere's rule, Godfrey Mwakikagile, wrote a book entitled Tanzania under Mwalimu Nyerere, in which he attempts to make an objective appraisal of Nyerere's successes and failures (2006). He reflects on Tanganyika before Independence, as a child, writing that, "we were not even citizens in terms of rights even in our own country since it was owned by our colonial masters, as *their* colony, and not by us" (Mwakikagile, 2006:16). Before Independence, there was a clear sense of helplessness among the people. Instead of waiting for the British to eventually lead them to freedom, Nyerere took initiative. Mwakikagile writes, "Nyerere knew that nothing was going to change until Africans themselves did something to bring about change" (2006, 22). So, Nyerere joined the Tanganyika African Association in 1953, which he then turned into TANU.

As the leading force behind and founder of TANU, Nyerere sought a free country. In an interview for *Drum* in 1959, Nyerere said, "Whites can no longer dominate in Africa. That dream is gone. Africa must be governed by Africans in the future" (2006:26). Nyerere created the *Arusha Declaration* to outline his goals for the country post-independence. Written by Nyerere himself, he emphasizes, "the development of a country is brought about by people, not by money" (2006:51). Nyerere rejected any form of discrimination and emphasized peace, equality, and racial harmony. His vision was of an egalitarian socialist society based on this idea of *ujamaa*, which translates from Swahili as 'familyhood'.

The policy of *ujamaa* revolved around agriculture, under a process called villagization. The policy also emphasized the nationalization of banks and industries with both individual and national self-reliance as the end goal (Boddy-Evans, 2017). In his policy, President Nyerere signified a need to construct a national identity. Despite later failures, under Nyerere's leadership Tanzania displayed more political stability than most African countries. The period after independence "was one of extraordinary peace and tranquility in spite of poverty... also noted for its euphoria and optimism" (Mwakikagile, 2006, 37). From 1961-65, Tanzania's economy growth restricted spending to allow for more focus on education. Their goal was to spend enough on education so that the growth can come from the people. The Tanzanian people sought to shift away from dependence on the outside forces and focus inward on training indigenous manpower. What would later be developed in 1967, the *Arusha Declaration*, states:

It is the responsibility of the state to intervene actively in the economic life of the nation so as to ensure the well-being of all citizens, and so as to prevent the exploitation of one person by another or one group by another, and so as to prevent the accumulation of wealth to an extent which is inconsistent with the existence of a classless society. (Mwakikagile, 2006:39).

One way Nyerere emphasized his egalitarian vision was through the schooling system. He made sure each citizen received free education. In 1998, just a year before he died, Nyerere spoke for the *New Internationalist* about his policies. He says, "We took over a country with 85 percent of its adult population illiterate. The British ruled us for 43 years. When they left, there were 2 trained engineers and 12 doctors" (Mwakikagile, 2006:66). A strong goal of his was to have his people educated so that they can be an integral part of the nation. By the time he voluntarily left his presidency, Nyerere did in fact achieve this goal. He continued, "When I stepped down, there was 91 percent literacy and every child of school age was in school. We trained thousands of

engineers and doctors and teachers” (2006:66). Tanzania became one of the countries with the greatest advancement in literacy. Tanzania became a stable and peaceful country.

*Ujamaa* turned out to be an economic failure in the end; even Nyerere admitted as much. In a tribute to Mwalimu, one of his close acquaintances, Professor Ali Mazrui, published an article entitled, “Nyerere and I”, in which he wrote:

Nyerere’s policies of *Ujamaa* amounted to a case of Heroic Failure. They were heroic because Tanzania was one of the few African countries, which attempted to find its own route to development instead of borrowing the ideologies of the West. But it was a failure because the economic experiment did not deliver the goods of development (2006, 158).

This experiment was to collectivize villages and create collective farming, which steered away from the prior privatized agriculture industry. Alistair Boddy-Evans wrote an article for ThoughtCo, in which he highlights that the process began with only 800 or so collective settlements and grew to over 2,500 of these ‘villages’ by the 70s.(Boddy-Evans, 2017). This process of villagisation was not always welcomed by the villagers, and often had to be forced, sometimes even at gunpoint. Boddy-Evans argues,

The idea for collective agriculture was sound -- it was possible to provide equipment, facilities, and material for a rural population if they were brought together in 'nucleated' settlements, each of around 250 families. It made the distribution of fertilizer and seed easier, and it was possible to provide a good level of education to the population. Villagization also overcame the problems of 'tribalization' which beset other newly independent African countries... But it was rejected by a significant fraction of the population. When the main foundation of *ujamaa*, villagization, failed -- productivity was supposed to be increased through collectivization, instead, it fell to less than 50% of what was achieved on independent farms -- towards the end of Nyerere's rule, Tanzania had become one of Africa's poorest countries, dependent on international aid (2017).

*Ujamaa* did not work the way Nyerere planned. His failures have been studied and studied by many scholars (Bates, Scott, Myers, and many more). A few positives did come out of the system. Social policy under Nyerere united all Tanzanians across ethnic lines, created a very

high literacy rate, and steered citizens away from violence. The negatives, however, are the loss of infrastructure, a decline in industries and banking, and a strong dependence on aid, which begins the country's economic issue. Nyerere's presidency took a turn for the worse after creating the *Arusha Declaration*, in which he lays out his commitment to socialism and Pan-Africanism.

### **The *Arusha Declaration***

During the period of 1967-70, most of the *Arusha Declaration* was implemented. Along with *ujamaa*, Nyerere called for banks and large industries to be nationalized. Nyerere attempted "growth maximisation and the redistribution of income through public sector enlargement and an ambitious programme of free health care, education and other social services" (Cornia et al., 1992:94). It was not until the period of 1970-1976, 1973 in particular, where Nyerere's vision of 'villagisation' became compulsory.

The four prerequisites in the *Arusha Declaration* are people, land, good policies, and good leadership (2006:55). Before his leadership he argues, "Our emphasis on money and industries has made us concentrate on urban development" (2006: 50). The problem is that there is no money, and it does not make sense to get money from raising taxes in one of the poorest countries in the world. In this villagization experiment, the people would come together by force in villages in the hopes of becoming economically self-sufficient, rather than remain dependent on foreign aid and investment. Through this villagization, Nyerere attempted to ensure that the work each individual put in would equate a just financial return.

The villagization vision was his attempt to get rid of colonialisms underdevelopment of African potential and to create a greater distribution of wealth among the country as a whole. At

first this worked. Godfrey Mwakikagile points out that people volunteered to build roads, bridges, schools, clinics, and other various projects to develop the nation. He writes, “I remember how life was under Nyerere. All of us were involved in development projects one way or another, sometimes working without being paid” (2006:32). The collectivism added a sense of peace, stability, and equality among the people that was not seen in any other African country.

Nyerere also highlights in the *Arusha Declaration* his alignment with China, who helped finance and build the TAZARA Railway from Dar es Salaam to Zambia (1970-1975). The TAZARA was a very significant railway constructed by the Chinese, which was materially and symbolically liberating for the country. As a link between Zambia and Tanzania's capital at the time, Dar es Salaam, the railway marked an important route to the sea for trade and for general transportation. Jamie Monson wrote a book entitled, Africa's freedom railway: How a Chinese Development Project Changed Lives and Livelihoods in Tanzania. Monson wrote, “The confrontation came to represent a clash between a socialist vision of development, in which the state would play a prominent role in controlling development projects and subsequent economic activity, and a capitalist vision of free-flowing commerce” (2009; 2). Not only was this railway symbolically significant for Tanzania but also to show China's drive to be a world power. Under Nyerere's lead and *ujamaa*, the TAZARA failed due to a lack of attention. However, the goals in the *Arusha Declaration* did not work out exactly as Nyerere planned. Did Julius Nyerere fail? Were his policies positive for the country during this period post-independence?

Godfrey Mwakikagile experienced this force and saw one of the few who saw the upside. As a child, Mwakikagile attended school with Nyerere's son, Andrew, and together they were assigned to a nearby farm where they were required to work to foster egalitarian values. He writes, “[it was] a strong reminder that we were no better than ordinary peasants and workers

simply because we had acquired some education and were destined to become part of the nation's elite" (2006:123). Nyerere's son even participated just like the rest of the students. Some argue that the villagisation project, although showed to be a failure towards the end, was also one of Nyerere's biggest achievements. By his integration strategies, Nyerere created, "a cohesive political entity [which was] unique on a continent rife with ethnic tensions and torn by conflict caused and fueled by ethno-regional rivalries in the struggle for power" (2006:124). The villagisation project did create a sense of equality and humility among the people, but Nyerere's biggest mistake was his attempt to turn a private, profit-seeking agricultural way of life into a communal one.

Most other scholars see *ujamaa* as a failure. James C. Scott wrote a famous book entitled Seeing Like a State, in which he critiques *ujamaa* very well. Scott devotes a chapter to "Compulsory Villagization in Tanzania", also known as the largest forced resettlement scheme in Africa at the time (1998: 223). Scott particularly highlights the complete failure of the *ujamaa* system in the lower Shire Valley due to the standardization of both the agricultural environment and the cultivators themselves (1998:228). The standardization shows a top-down governance that paid no attention to the fact that each individual has his or her own agricultural strategy. He wrote,

For ideological reasons, the designers of the new society had paid virtually no attention to the local knowledge and practices of cultivators and pastoralists. They had also forgotten the most important fact about social engineering: its efficiency depends on the response and cooperation of real human subjects. If people find the new arrangement, however efficient in principle, to be hostile to their dignity, their plans, and their tastes, they can *make* it an inefficient arrangement. (1998:225).

Scott explains the economic and ecological failure of *ujamaa* villages. He wrote, "It was the kind of environmental and social taxidermy that doomed it almost from the start" (1998:226).



Julius Nyerere outlines in his *Arusha Declaration* that development comes from hard work. Mwakikagile argues, “People did not work hard in *ujamaa* villages as much as they did on their own farms because they did not feel that the farms belonged to them but to the community” (2006:62). Nyerere failed to notice that people work hard with incentives. A communal villagisation project where everyone gets the same return no matter how hard they work does not give the workers an incentive. Mwakikigale writes, “[the government] imposed severe restrictions on income and private ownership of property in order to achieve social equality, thus robbing the people of the incentive to work, good intentions notwithstanding” (2006:67). This socialist view of the agriculture sector was a main factor of the country’s severe economic problems. A study for the committee on African development strategies reported, “in 1980, farmers received 36 percent less for their food and export crops in real terms... than in 1970” (Berg, et. al., 1986:250). The poor went even further into poverty and the dependence on aid became strong.

George B. N. Ayittey writes in *Africa in Chaos* about the socialist nature of *ujamaa* as detrimental to development. Ayittey wrote that Nyerere, “claimed his socialist ideology was based on African cultural traditions... however, (Nyerere) misunderstood his own African heritage” (1998:116-7). Ayittey attributes this misunderstanding to the African view of profit. Nyerere, having received an exposure to socialism at his time studying in Scotland, believed in communal ownership of the means of production. *Ujamaa* required kinship and family to participate in economic activity and to be held “jointly responsible for welfare and security” (1998:117). However, Ayittey makes abundantly clear that in Africa, the extended family is the basic economic and social unit. Africans do not “regard all men as his brethren. Otherwise, there would be no tribal wars or tribalism” (1998:117). Creating a system of small-scale communalists

was a mistake. Ayittey writes, “Like many African leaders, Nyerere displayed a woeful lack of understanding of his own black African heritage and culture” (1997:117). He, along with many other scholars, argue that Nyerere’s policy of *ujamaa* has led to the nation’s economic plight.

Garth Myers, who has spent over half of a century researching Tanzania, wrote, “At best *ujamaa* was wishful thinking, and at worst a co-optation of socialism as a strategy through which the bureaucratic party elite controlled the economy for their own benefits” (1994). He argues that the country was a “marginal example of third-world socialism”, which attempted to redistribute and balance development but failed to do so (1994). In his book entitled, Disposable Cities, Myers highlights the social programs that eventually led to extreme external debt. He writes, “A city that had at least rhetorically launched itself toward *ujamaa* [socialism/family-ness] became a city of *ubinafsishaji* [privitization/selfishness]...” (2005:52).

Michael Barratt Brown, author of Africa’s Choices, agrees that *ujamaa* was a tragic failure (1995). He argued that the top-heavy bureaucracy used the profits from export crop earnings “supposedly for rural development programmes but frequently for increasing the number and remuneration of those who managed them” (1995:40). This system resulted in very low prices paid to the producers discouraged production. Barratt Brown wrote,

The effect was neither to step up agricultural production nor to reduce the role of foreign capital. Output of both food and cash crops declined, so that by 1975 food aid was required and shortage of agricultural materials were reducing industrial output (1995:40).

The lack of economic profit from this system led to the dependency on structural adjustment programmes from the IMF and the World Bank. Myers argues, “Its social programs inevitably encumbered the country with huge external debts that its very ethos objected to repaying” (2005:48). Along with the reduction in prices of Tanzania’s agricultural exports, global

petroleum prices also skyrocketed. The problem stemmed from providing exports at prices they did not set, and receiving imports they could not afford. This left the country in a very vulnerable and desperate state, bringing about major structural adjustment.

### **Structural Weaknesses in the Economy at Independence**

*“With world prices for Africa’s primary products at all-time low levels in the 1980s many African governments came to depend very heavily on external aid” (Barratt Brown, 1995:340).*

Tanzania, like other African countries, experienced structural issues in the 1980s-90s, which led to many parts becoming uninhabitable. AbdouMaliq Simone and Edgar Pieterse entitle one chapter in their book, New Urban Worlds: Inhabiting Dissonant Times, *Re-description*. They offer an alternative view of those uninhabitable spaces, which portrays each individual as an equal human being with an equal social capacity to succeed given unfair physical resources.

Many African and Asian urban regions remain engulfed by an underclass thus becomes an almost unspoken proof of the normality of spatial inequality that either will not be overcome or, alternatively, requires an almost unfathomable deployment of effort and resources to undo. This view also suggests that a definitive and unyielding image of urban efficacy and human thriving exists and should be the object of aspiration by those living in supposedly uninhabitable spaces (2017: 61).

The authors argue that judgments are more often based off the way things look, due to a conglomeration of specific data sets and complicated calculations. Instead, Simone and Pieterse suggest taking a closer look at individual value and potential, despite geography. This particular mentality was not explored in Tanzania. Instead, the 1980s-90 became a time of failed recovery strategies in Tanzania, funded by the IMF and World Bank.

UNICEF published a study entitled, Africa’s Recovery in the 1990s, which has a chapter on Tanzanian adjustment policies post-independence. The authors point out that after

independence in 1961, the Tanzanian economy struggled from four main structural weaknesses (1992: 93). The first structural weakness in the economy comes from an abundance of land, but low quality soil. The country struggled from rapid agricultural advance due the relatively poor soil conditions, skewed transport systems and poor access to capital. The realization of poor soil conditions be traced back to pre-independence Tanganyika, when the British implemented a Groundnut Scheme that resulted in a complete failure, 1946-52. During this time, the British government attempted to create vast plantations across Tanganyika to grow a surplus of peanuts for both economies. They did not understand that the terrain and rainfall in the region was unsuitable for growing groundnuts. The scheme was a total failure in both implementation and performance.

The second structural weakness comes from the dependence on only a few particular commodities for foreign trade. These commodities were subject to large fluctuations in prices and foreign exchange earnings however, which makes the income from foreign trade exports unstable. This again shows the country's heavy dependence on factors it cannot control. The third weakness stems from a lack of attention towards the very large growing rural population. The limited commercial financial services did not reach the needs of the majority, but instead the small enclave sectors usually linked to governance in the inner cities. The final weakness highlighted by UNICEF is "a shortage of indigenous technical, managerial and administrative cadres and modern sector entrepreneurs... The country was therefore faced with the difficult choice between the rapid Africanisation of the civil service, with inevitable losses in efficiency, or continued reliance on expatriate manpower" (1992: 94). To address the fourth, the country's economic policy was mainly concerned with investment in human capital and physical infrastructure.

As a result, Tanzania suffered severe economic problems in the 1970s and 1980s. Agriculture remained the mainstay of the economy in the 1980s, specifically 40 percent of GDP (Cornia, et. al., 1992:146). Western countries stopped giving aid to Tanzania due to Nyerere's policies. Mwakikagile writes, "As capitalist nations, they did not want to finance socialist projects to help Tanzania achieve its goal of building a socialist society" (Mwakikagile, 2006:62). In the long run, this cut off from foreign aid is actually positive, although countries like Sweden, Norway, Finland and Denmark continued to give major aid to the country.

Western countries, however, control the world market and set the prices for commodities from developing countries such as Tanzania. Tanzanians, "are at the mercy of the powerful industrialized nations of the West who dominate the world economy" (2006: 63). In the 1970's, Tanzania's economy took a turn for the worse, mostly due to the sharp increase in oil prices as well as the drop in prices for export commodities. The increase in oil was a major shock for Tanzania, since they do not have the resources to produce it themselves. Mwakikagile points out how the decision, "drain[ed] much-needed foreign exchange which went towards purchasing oil at an exorbitant price" (2006, 63). In the mid-1980s, the country financed itself by borrowing from the International Monetary Fund (Horace & Stein, 1992). Tanzania implemented various response programs mandated by the IMF, which each failed and left the country dependent on aid. Myers argues, "That idealized delinking came crashing down in the second half of the 1980s as Tanzania signed on to a program of structural adjustment" (2005:21).

### ***'Recovery' Programs***

The three response programs implemented by the government to respond to the economic and social downfall were the National Economic Survival Programme (NESP), the Structural Adjustment Programme (SAP), and two separate Economic Recovery Programmes (ERP). From 1981-2, the Tanzanian government, still under Nyerere's rule, took out a loan of \$180 million from the IMF for "rehabilitation of export sector; the elimination of food shortages through village-centered irrigation schemes and the cultivation of drought resistant crops; increased productivity among workers and peasants through appropriate incentive schemes; and the imposition of strict controls on public spending" (Cornia et al., 1992: 99). However, Nyerere refused to borrow under the IMF's terms, so the loan failed to materialize. The first sign of high aid dependency is shown in this strategy. UNICEF writes, "NESP was also designed to halt the decline in consumption by boosting the availability of food and other basic consumer goods" (Cornia et al. 1992:99). NESP only lasted for one year, and was largely ineffective. The second recovery response, the Structural Adjustment Programme, lasted four years and was introduced on its own in 1982.

The Structural Adjustment Programme (SAP) aimed to lower the budget deficit by raising indirect taxes. The government aimed to shrink recurrent government expenditure and also protect social and economic services (Cornia et al, 1992:100). To distribute access to basic items amongst a broader population, the rationing of essential commodities was extended in Dar-es-Salaam and major townships. (Cornia et al. 1992:100). UNICEF argues,

The success of SAP depended on the mobilization from external sources for the three-year period of \$900 million, of which \$690 million were required from the IMF and the World Bank in the form of balance of payments assistance. The rest was to be provided by bilateral donors, mainly by shifting resources from project aid to support for

imports... Public expenditure, particularly recurrent expenditures, increased well above planned levels. The performance was even poorer in the financing of the fiscal deficit, with bank borrowing exceeding the target by 32 percent, largely because of shortfalls in external funding (Cornia et al.1992:101-2).

The SAP shows that the country could not produce enough money for themselves. GDP growth stagnated to only 1 percent during this period. In 1985, Julius Nyerere stepped down from presidency and admitted that he left the country in bad shape. He said, “There are certain things I would not do if I were to start again. One of them is the abolition of local government and the other is the disbanding of cooperatives. We were impatient and ignorant” (Nyerere, 1984: 828). The second president, Ali Hassan Mwingi (1985-95), aimed to reverse the socialist policies of Julius Nyerere. Mwingi believed in freeing the economy.

Under Mwingi came the third and most successful of Tanzania’s adjustment endeavors. The Economic Recovery Programme (ERP) was implemented in 1986, and aimed to revive and strengthen earlier adjustment initiatives. The minimum import requirement for ERP was over \$1.2 billion per year, while the net export earnings for Tanzania was less than \$300 million. With such a large difference in imports and exports, UNICEF writes, “The implementation of ERP thus depended on external support” (Cornia et al.1992:101). By this point, in the mid 1980’s, Tanzania was falling deeper and deeper into a high aid dependency cycle. Michael Maren wrote a book entitled, The Road to Hell: The Ravaging Effects of Foreign Aid and International Charity, in which he writes, “These so-called development agencies [the IMF and the World Bank] kept right on financing the destruction of the country... creating a need for more and more aid... A cycle that eventually would consume itself” (1997:274). Due to the evident failure of these recovery strategies, the UNICEF study highlights the need for alternative policies.

The aid programs seemed to work at first, as growth rose to about 4 percent between 1986 and 1988 (Cornia et al.1992:103). However, how much of the GDP really accounts for development? UNICEF argues,

The surge in output was largely caused by recovery in agricultural production... However, bottlenecks in storage, transportation and credit persisted under ERP and prevented most farmers from fully realizing the benefits of the good harvests... Moreover, as only 35-45 percent of the road network was in satisfactory condition, trade opportunities were restricted (Cornia et. al., 1992:103).

This raises a question of how dependent the world should be on data and statistics shown by the IMF and World Bank. The problem with each of the recovery responses was, “the financing of the budget deficit became increasingly dependent on external funds” (Cornia et al.,1992:106). At the same time, the interest payments on public debt were so high that, by 1987-8, 72 percent of the combined education and health care budgets were absorbed (Cornia et al., 1992:108). As a result, the educational attainment, which Julius Nyerere took pride in during his presidency, reversed in the 1980s. The country solicited funds from abroad, which climbed from 9 percent in 1981-82, up to 81 percent of external aid in the total education budget in 1986-7 (Cornia et al., 1992:111).

The authors claim, “1981-9 was a period of harsh economic adjustments characterized by considerable neglect of the social sector” (Cornia et al., 1992:112). The Tanzanian economy developed clear issues with previous recovery strategies in the late twentieth century. Due to the economic problems, the infrastructure, such as important transportation roads and railways, had virtually collapsed. From then on, the country began to see a decline in economic activity with the difficulty in exports and major increase in the price of oil. Cornia et. al. argue, “A more self-reliant, structural adjustment programme is the only feasible alternative. Such a programme would focus on halting current trends towards inequality in income distribution and consumption



and on revising the exclusion of ever increasing portions of the population from formal sector activities” (1992: 114). Many scholars agree that dependence on foreign aid inhibits development. The more people that are given a chance to participate in the formal economy, the higher percent of people able to become self-reliant. This will create greater incentives for agricultural labor and therefore stimulate consumption.

### **Who to Blame?**

Professor Cranford Pratt, the first principal of the University College, Dar es Salaam (1961-65), personally knew Nyerere. In his book about Tanzanian economic issues, Towards Socialism in Tanzania, Professor Pratt argues,

Western judgements of Nyerere’s domestic legacy have reflected political values that in contrast to his, attach little importance to communities, are largely un-concentrated with equality and are overwhelmingly preoccupied with economic growth... As a result, those concerned with the welfare of the peoples of the poorest states, are increasingly identifying as centrally important, the creation of democratic controls and a robust public ethic that really do work and the pursuit of development strategies that will equitably share throughout the whole society the materials they bring... It was not the World Bank, the IMF, the aid agencies of the industrialized states or mainstream western economists who had, a decade ago, identified these central development challenges to the world's poorest countries. It was Julius Nyerere. (Mwakikagile, 2006: 65).

Professor Cranford Pratt argues a very valid point. Western forms of measurement for economic development do not also apply to developing countries. Tanzania’s per capita income decreased from \$280 in 1988 to \$140 in 1998, while following every structural adjustment programme mandated by the World Bank and the IMF. So what went wrong? Is Julius Nyerere in fact the right person to blame? Instead, the blame should be more seriously pointed towards the foreign aid system, at organizations like the IMF and the World Bank. Does aid create more harm than good? Is foreign aid harming the economy in Tanzania?

Dambisa Moyo, a Zambian-born international economist, wrote a book entitled, Dead Aid, in which she expresses her extremist view on how foreign aid has harmed most African countries. She writes, “The lives of billions rest on getting the right financing solutions to the problems of developing nations. After more than five decades of the wrong diagnosis, it is now time to turn the corner and take the harder but indisputably better road. It is the clarion call for change” (2009). Moyo is just one of many who believe that change must come from alternative policies, starting with getting rid of dependence on foreign aid.

Humphrey Orjiako wrote a book entitled, Killing Sub-Saharan Africa with Aid, in which he describes the damage that reliance on foreign aid in the form of government handouts can do to a country, such as Tanzania. He writes, “a negative trend of external shocks on African economies commenced in the 1970s... the situation escalated as African economies began to rely more and more heavily on foreign savings... these temporarily boosted incomes and domestic consumption but did little to grow the productive capital” (Orjiako, 2001:xi). Many scholars along with Orjiako agree that foreign aid has severely damaged the economy. Orjiako argues, “Aid cannot stimulate growth in the absence of human skills, administrative capacity, economic infrastructure and institutions, friendly investment environment and political stability – all characteristics of Sub-Saharan African economies” (2001; xix). Orjiako points out that during a time when structural adjustment and other forms of aid dominated the region’s economic policies, the annual growth rate of Tanzania got progressively worse; “it is failure” (2001; 31). Orjiako, along with Dambisa Moyo, believes that sub-Saharan African economies need to rid themselves of aid, and move towards mostly private investment in order to lead towards self-sufficiency.

Moyo presents an extreme case against Western aid programs in Africa. What differentiates Moyo from many other scholars in the West who write on this subject is that she is an African economist who writes about her own real world experience. Most economists in the West who write about Africa are not African, and most African economists based in Africa get far less attention than Moyo, aside from George Ayittey, at American University. Moyo argues that sub-Saharan countries, “have received more than U.S. \$300 billion in development assistance since 1970... African countries are poor precisely *because* of all that aid” (2009: ix). In order for poverty levels to fall, there needs to be more inclusivity among the population. She writes, “Certainly when viewed in close-up, aid appears to have worked. But viewed in its entirety it is obvious that the overall situation has not improved, and is indeed worse in the long run” (2009:44). Moyo does not argue against all types of foreign aid in her book. She instead categorizes aid into three types; humanitarian or emergency aid, charity-based aid; and systematic aid. Moyo focuses on the latter of the three, which refers to aid payments made directly to governments, either transferred through other governments or through institutions such as the World Bank (2009:7). This is the type of foreign aid that accounts for most of the billions transferred each year directly to poor countries’ governments, and have stunted Africa’s development.

Moyo contrasts sub-Saharan African countries with European countries in the 1950s, where the Marshall Plan led to Western European growth. The Marshall Plan, also known as the European Recovery Plan (ERP), was an example of a foreign aid program that worked. America gave Western Europe over \$13 billion (\$140 billion in US dollars in 2017) in economic assistance to rebuild Western European economies. Moyo writes, “The idea that the Marshall Plan is hailed as a success has remained, to a large extent, unquestioned. The plan was clearly

successful in bringing Western Europe back onto a strong economic footing... if aid worked in Europe, if it gave to Europe what Europe needed, why couldn't it do the same everywhere else?" (2009, 13). Africa was at a discouraging time. Due to the success of the Marshall Plan, richer countries saw the continent as a prime target for aid. However, Moyo writes that it is irrational to look at European and African development under a similar light.

AbdouMaliq Simone and Edgar Pieterse concur. The authors offer statistics to highlight the contrasting elements of both instances, and explain,

It is a historical absurdity to expect African... countries simply to replicate the "knowledge" and institutions of the global North to 'solve' pernicious problems... The same structural dynamics that made it possible for Europe to garner the resources, knowledge and technology to make public health advancements are still at play in the contemporary world, fueling a political ideology that renders universal access to basic services, welfare and a universal basic income as lunacy (2017: 54).

The African continent is its own beast entirely. The aid given in the Marshall Plan should not have been a guideline for recovery policies in sub-Saharan Africa. Moyo writes, "In the year of the first oil spike (between 1973 and 1974), the volume of poverty-related aid flows increased threefold; it more than doubled at the time of the second oil jump between 1979 and 1980" (2009:16). Aid costs money and unless it is in the form of grants, it has to be paid back with interest. Moyo points out that in the 1980s, Tanzania had to default on their obligations (2009: 18). Tanzania's third president, Benjamin Mkapa, served from 1995-2005 and was not the one who defaulted, but stated at the Jubilee Debt Campaign Conference in Feb 2005, "it was a 'scandal that we are forced to choose between basic health and education for our people and repaying historical debt'" (2009:26). The foreign aid structure was simply not working. High aid dependency leads to an endless cycle of helplessness. She writes, "The donors have also made a lot of mistakes. Many times they have assumed they are the ones who know what countries in

Africa need” (2009: 149). Instead, Tanzania needs a bottom-up approach to development. The country must strive towards unity and self-reliance, as Nyerere emphasized throughout his presidency.

Todd J. Moss, in African Development: Making Sense of the Issues and Actors, wrote a guide for studying African development at a basic level. His approach is more measured and balanced than Moyo’s. He argues how in Tanzania, “early euphoria, however, was soon followed by instability, frustration, and disappointment” (2007:1). He argues that development is more than money. Specifically, “development is ultimately not about bricks and budget systems but about social change... all the money in the world will not create a functional education system” (2007:3-11). Moss also criticizes the strategy of dumping foreign aid into sub-Saharan African governments and claims that the only way to lead those economies towards growth is through self-sufficiency in the state.

Other economists agree that aid does not lead to development in Third World countries. Economist William Easterly, in his book, The Elusive Quest for Growth, argues against the Harrod-Domar Model. This economic model relies on the capital factor as the crucial prerequisite for economic growth, and highlights the importance of saving and investment in developing economies. Easterly explains, “the difference between the required investment and the country’s own savings is called the financing gap. Private financing is assumed to be unavailable to fill the gap, so donors fill the financial gap with foreign aid to attain target growth” (2001: 29). This model promised growth through aid and investment. This model has clearly failed in Tanzania, as aid and investment have certainly not led the country towards growth, despite the recent increase in GDP. The gradual growth in GDP causes one to reconsider economic statistics and conclusions.

## Real Growth vs. Data

An African economist, Morten Jerven challenges statistical data. In his book, Africa: Why Economists Get it Wrong, Jerven argues, “Since the arrival of global datasets on economic growth, poverty, politics and other variables, there has been surprisingly little questioning of the quality of underlying observations” (2015: 16). Jerven points out that these numbers are not necessarily facts, but instead merely observations. Jerven states,

Rather than explaining why, for example, the economy of Tanzania grew each year by 1 percent from 1960 to 1990 while the economy of Japan grew at 4 percent, they instead look at variables that can explain the difference in the GDP per capita between, say, \$1,000 in Tanzania and \$20,000 in Japan in the year 2000. . They propose that the cause of the \$19,000 difference is that Tanzania was exposed to colonial rule and inherited ‘bad’ institutions, whereas Japan was not exposed to the ‘wrong’ type of colonial rule and therefore economic prosperity has been assured by its ‘good institutions’ (2015:3).

However, as shown above from the detailed policy under Nyerere, some good came out of his post-colonial institutions. As stated before, Nyerere stepped into rule with an 85 percent illiteracy rate. When he stepped down, “there was 91 percent literacy and every child of school age was in school” (Mwakikagile, 2006: 66). This brings into question whether development comes from economic growth alone, or if in fact simply one factor of many. Jerven argues how economic analysis has overemphasized the decline in the African growth record. He refers to this as ‘cookbook econometrics’, or “those who just follow a recipe when they do so-called empirical work, running tests with downloaded data sets” (2015: 4). These datasets seen in Tanzania might not completely portray the image correctly.

The extent to which events, people and information are connected to each other is further interpreted by Simone and Pieterse concept of the “real city vs. data city” (2017: 78). The authors argue, “histories of data are being so constantly moved around in different formats of

assessment and use...Parameters track how particular things act... the impact of these parameters on one another can be subject to measurement and the production of quantitative values” (2017: 78-9). They emphasize, however, that all of the characteristics that go into these measurements are not accurate when they are incorporated into data calculations. The authors suggest, “it is more productive to read cities as much more unstable and vulnerable” (2017: 81). Their skepticism of data is proved through growth that has been recorded in Tanzania and is projected to continue.

At the turn of the century, many people had a very bleak picture of the African continent, yet the early twenty first century data shows signs of optimism. In 2014, research shows that Tanzania is the fast growing economy in East Africa, at a constant seven percent. What does that mean for the country? Post-independence, many African countries, including Tanzania, experienced widespread growth. Jerven argues, however, that there is not a complete dataset in African countries. The data typically starts from 1960, the start of independence in Tanzania, as time one. The incomplete picture creates room for misinterpretation.

This dependence on foreign aid was a major factor in the decline of the Tanzanian economy. Economists P. Demetriades and S. Andrianova write in an article for the University of Leicester, “*Finance and Growth: What We Know and What We Need To Know*”, that finance is just one of many factors that can lead to development. In developing African countries such as Tanzania, the majority of the population live in rural villages with equal capacity to succeed. The issue is that they do not have the tools to begin. The main aim of development was mistakenly identified solely with finance. The issue presented is that growth in developing countries does not always stem from financial markets. Demetriades and Andrianova argue that there is a

positive correlation between measures of financial development and economic growth, but they challenge the validity of the justification. The authors explain,

Conceptually, financial development is, at best, a facilitator of economic growth, rather than its ultimate true cause. Its true cause has sought to be in the real sector: the creation of new ideas, the discovery of natural resources or of alternative ways of using existing resources, product innovation, technological progress, etc. Finance is, of course, essential in ensuring that new ideas are translated into new products and services, natural resources are exploited, and that new products and technologies materialise. (2003: 5).

In order for an economy to grow and succeed, the country must be willing to exploit new opportunities and take chances on *all* people, not just the ones with access to capital.

Julius Nyerere counted all people as equal, no matter if the people were a part of the elite group or the poorest people in the country. He saw the poorest people as citizens with the right to be an integral part of the nation. In his *Arusha Declaration*, he states, “that the government eradicates all types of exploitation, intimidation, discrimination, bribery and corruption” (2006: 40). Treating everyone as equal was a crucial aspect of Nyerere’s policy. Collier and Gunning (1999a: 79) argue that “one limitation of the growth regression literature is that to date it has focused on explaining long-term average African slow growth”. The GDP does not account for the period in time where Nyerere allowed each individual to go to school. Authors, such as Mwakikagile would not have been able to receive a degree and write books if it were not for Nyerere. The country developed into a peaceful, stable place under Nyerere’s policies.

Similar to Nyerere, Easterly believes incentives lead to hard work, which is one of the the key aspects to economic growth. Easterly argues,

People respond to incentives... There is no reason to think that aid given just because the recipient is poor changes the incentives to invest in the future. Aid will not cause its recipients to increase their investment; they will use aid to buy more consumption goods (2001: 38)



Easterly found no relationship between aid and investment. Easterly argues that this model for economic growth should not be used in developing countries. Instead, he argues, “Aid should have been conditional on matching increases in a country’s savings rate... Having aid increase with country saving is the opposite of the current system, where a country with lower saving has a higher financing gap and so gets more aid” (2001: 38-9). Easterly, Moyo, and many other economists and scholars believe that Tanzania, along with every other developing country, needs to rid themselves of high aid dependency in order to move forward.

### **Western Engagement: A Time for Change**

The global aid system today is broken. A captivating documentary, *Poverty, Inc.* by Michael Matheson Miller, confronts the global aid issue. He points a finger to the people in positions of authority that restrict the freedom of the poor without knowing. Many charity organizations emphasize returns rather than on opportunity for change. No country has ever developed on aid.

The failure of traditional charity comes from a false image and misinterpretations. All over the media, there exists a stigma that Africans are helpless and dependent. Herman Chinery-Hesse, also known as the Bill Gates of Africa, argues, “Africans are not stupid, they are just disconnected” (*Poverty, Inc., 2014*). The lack of connection to trade, innovation, and business is what causes the third world countries to struggle. In order to rise out of poverty, people need to start on their own. This is where the concept of impact investing becomes so important. Antony Bugg-Levine coined the phrase “impact investment” to describe a system in between traditional forms of investment and charity. Bugg-Levine and his co-author, Jed Emerson believe that charity is not sufficient to solve the issue of poverty; there is another, more meaningful way to lend aid to developing countries that creates social as well as financial return.

## Chapter Two

### Experimentation

*“The only viable approach to a societal transformation is one that comes from below, from citizens and popular aspirations” (Simone & Pieterse, 2017:58).*

While the first chapter stresses the financial failure of the Tanzanian economy, this next chapter will present one potential solution for future development. The inspiration for this thesis comes from Jacqueline Novogratz. In her book, Novogratz tells a story of her journey to tackle global poverty by ‘bridging the gap between rich and poor in an interconnected world’ (2009).

I’ve learned that many of the answers to poverty lie in the space between the market and charity and that what is needed most of all is moral leadership willing to build solutions from the perspectives of the poor people themselves rather than imposing grand theories and plans upon them (2009:273).

Conditions in Tanzania will not improve if the system does not change. Simone and Pieterse argue that growth and urbanization in the case of Africa is “largely still in the making and thus potentially open to new forms of development and progress” (2017:3). Africa is in need of a new model for economic and social growth; one that promises to reduce poverty and that does not rely on aid. Dambisa Moyo argues, “The lives of billions rest on getting the right financing solutions to the problems of developing nations. After more than five decades of the wrong diagnosis, it is now time to turn the corner and take the harder but indisputably better road. It is the clarion call for change” (2009). This chapter presents a modern tool for growth known as impact investing, which targets self-sustainable development and social impact.

Antony Bugg-Levine coined the phrase “impact investing” in 2007 and has since then changed the way people view the relationship between charity, government and business. Moving away from a “bifurcated world”, Bugg-Levine argues that one can solve social

challenges and make money at the same time. In order for change to occur, people from all sectors need to understand the importance of working together to try new systems.

Simone and Pieterse are two scholars who emphasize the power of experimentation, failure and persistence (2017). Their experiments “show the promise of innovation that starts with the problem we need to solve rather than the existing standards we need to accommodate” (2017:240). Traditional charity and government structure in Tanzania has proven to fail financially. The co-authors of Impact Investing, Jed Emerson and Antony Bugg-Levine, also believe in experimentation as the way forward. In order to move forward in developing countries such as Tanzania, one must not rely solely upon the damaged existing systems. Emerson and Bugg-Levine proclaim, “We must break the existing molds that define our present reality and challenge the mind-sets that determine what is right” (2011:261). It is time to change the failed systems and move outside the safety of what is known.

The theory of experimentation is most important in developing countries, like Tanzania, which expects rapid growth in the years to come. Simone and Pieterse argue, “Almost all demographic growth will be concentrated in Africa and Asia for the remainder of the twenty-first century... At present, 15 percent of the world population is African; by 2050 it will be 25 percent, and by 2100 above forty percent” (2017:33). Along with population increase, the authors point out that there will likely be a demographic transition from rural to urban.

With such a large percentage of urbanization expected to occur in sub-Saharan Africa in the years to come, it is important to harness possible opportunity. An increase in population means an increase in human interaction. Novogratz writes, “humans thrive in relationship to each other... communities in which each individual feels a sense of belonging and accountability are key to our individual and societal success” (2009:138). With human interaction comes an

increase in the levels of entrepreneurship. Without access to funding, the average entrepreneur may not have the opportunity to harness their full potential. Without investment in the entrepreneurial class, the chance to create economic growth is will remain low. There is an untapped market that needs attention (Emerson, Bugg-Levine, 2011:158-9). Emerson and Bugg-Levine write,

Entrepreneurial start-ups are rapidly taking advantage of the opportunity to serve impact investors in ways the mainstream firms cannot... these new enterprises are tiny, but many are thriving... they can apply single-minded focus on serving new clients and move nimbly to capture new opportunities in a dynamic marketplace. And frankly, they are simply cooler, attracting attention and intrigue as the ‘next big thing’ (2011:221).

Courage, determination and patience are required to change the face of entrepreneurship and innovation in emerging countries (Bannick, 2015:31). Countless businesses have been created through impact investment that have made a serious social impact. One example is an internet startup, Kiva.org, which allows for anyone in the world to donate to small businesses in the form of a microloan. Emerson and Bugg-Levine marvel over the fact that the internet startup tapped into “a previously unknown enthusiasm for peer-to-peer microloans” (2011:221). Without experimentation of a new idea, Kiva would not have been able to lend over \$1 billion to over 2.6 million borrowers since 2005. With the growth of impact investment will come more companies such as Kiva that have the opportunity to touch many lives that have previously been left out of the financial system.

Around the same time that Bugg-Levine and Emerson’s book was published in 2011, an article was written for *The Economist* entitled, “Africa Rising”, about signs of hope. The recent hope stemmed from a commodity expansion in the early 2000s. The rise in commodities, combined with land fertility and manufacturing and service economy, stimulates a large potential for Africa to follow in the footsteps of Asia. Although most Africans live on less than two dollars

a day, the author shows hope in the fast-growing middle class. The author writes, “Population trends could enhance these promising developments... as the proportion of working-age people to dependents rises, growth should get a boost... Having a lot of young adults is good for any country if its economy is thriving” (2011). Simone and Pieterse also see opportunity in the younger generation. Throughout their studies, they notice the determination and openness of the younger generation along with the hunger for transformation.

Over the coming decades the urban world will become primarily African and Asian... A world where youth will not stand still, and where urbanization is increasingly a process of toing and froing, of incessant sutures and disjunctions, of borders erased and reinscribed... Youth will be increasingly unwilling to be ‘frozen in place’ (Simone and Pieterse, 2017:177).

Through impact investment, people all over the world can use their motivation for change to invest in the prosperity of entrepreneurs in Third World countries. Impact investing is a way to get people together to work simultaneously to create social and financial change.

In order for impact investment to succeed, the industry needs support from many different forces. Emerson coined the term “blended value” to describe a social, financial, and environmental value created by all organizations’ activities to go along with impact investment. Emerson argues that there is no textbook way to create blended value, but it is necessary to consider a balance between social, financial, and environmental impact when investing in the future (2011:79). The authors argue, “Great change is possible when people unused to working together collaborate to combine existing ideas into new possibilities” (2011:251). Simone and Pieterse also refer to the necessity of interconnected social relations to progress forward.

Once one accepts... that urban residents are the primary builders of the city, then our conceptual vocabulary has to shift away from simply accounting for structural drivers of urban inequality to providing an understanding of how things get done amid overlapping and dense social relations (2017:39).

Simone and Pieterse offer another concept of *Resonance*, which they describe as “the affective process of people and things associating with each other, of having something to do with each other, of acting as components in the enactment of operations larger than themselves and their own particular functions and histories” (2017:16). Resonance is another term that validates the impact of investing for a social purpose. They continue, “When things resonate with each other there is a connection that proceeds... from a process of things extending themselves to each other... it points to mechanisms of gathering up what already exists and ‘collaborating’ with it in new ways that might open up access to needed resources and concepts” (2017:17). Through impact investment, a hedge fund manager in California is able to extend capital to an entrepreneur in Tanzania, who may have never had the chance to create a successful business otherwise.

Novogratz writes about her experience with helping a farmer in Tanzania break free from a vicious cycle of malaria and improve not only his life but also the community around him. His name, Novogratz recalls, was Eliarehemu. He lived near the Usa River in Tanzania “on a stamp-size patch of dirt that had a single stalk of maize growing outside his front door” (2009:255). At the time Novogratz met him, he was earning \$6 a month from his farm, but malaria often got in the way of his productivity. He says, “Sometimes it is so hard to move when you have malaria. You just stay inside and shake and try to sleep of the terrible ache in your head” (2009:255). This is a very common issue all over sub-Saharan Africa. The lack of simple bed nets is immense. Simone and Pieterse believe in “gathering up what already exists and ‘collaborating’ with it in new ways that might open up access to needed resources and concepts” (2017:17). Human interaction is rich and opportunistic. The authors would describe such a situation as “a matter of resonance, of distinct objects, actors and practices getting a ‘feel’ for each other, of inciting,

luring and synchronizing in rhythms capable of generating ‘big effects’ through the resonation of ‘small things’” (2017:18). The ‘small thing’ in this particular example is simple technology that changed this man’s life. This is similar to the famous words uttered by Robert Kennedy, “even tiny ripples can become a powerful current that sweeps aside the established order when they are multiplied and brought together” (Emerson, Bugg-Levine, 2011:4).

Modern day philanthropists hand out free bed nets to solve the issue of malaria. Emerson and Bugg-Levine provide an example in Zanzibar, where a NGO provided free bed nets for women on the island. This solution would be great in the short term for those who receive the hand-outs, but the others are completely left out and have no way to also receive bed nets. By dumping free nets on the island, the local market for bed nets is destroyed, creating a cycle of dependence. Instead, a much more efficient and sustainable way for the people on the island to receive bed nets on the island is to make them. With the support from impact investors, entrepreneurs are able to create a self-sustainable business to improve the lives of many. An impact investment fund started a company called A to Z Bed Nets in Tanzania to offer the sale of bed nets in the market. Emerson and Bugg-Levine write, “Impact investors can provide a powerful lifeline to the millions of poor people alive today who cannot wait for government services to reach them” (2011:91). Unlike Moyo, who has an extreme opinion against foreign aid, Emerson and Bugg-Levine believe that government aid allows opportunity for value-added services and “should spur innovation rather than lead to resentment or competition” (2011:93). Novogratz created an organization in 2001, Acumen Fund, which seeks for entrepreneurs in the world’s poorest communities to bring sustainable solutions to the large issues of poverty.

With support, Eliarehemu was able to get a bed net. In the first year with a bed net, Eliarehemu said he was feeling much healthier. Each year after that, Novogratz visited him and

saw, “with health came more work and income” (2009:256). Three years later, Eliarehemu remained free of malaria and was responsible for large stalks of maize. He not only had enough to feed himself but enough to generate more to sell to his community. Small impacts such as this can have a much larger effect on individuals as well as their community. Garth Myers, in his paper entitled “African Ideas of the Urban”, makes an important point which serves in support of impact investment; “Growth adds to growth” (Hannigan & Richards, 2017:449). In order to see further economic development in rapidly growing African cities, one must start with small growth. The small improvement in Eliarehemu’s life turned into a greater impact on himself and others in his community. With just one bed net, he was able to break out of the malaria cycle and put more focus into his farming. Although a minor example, this story shows that ‘big effects’ can and will come out of ‘small things’.

Myers, along with many urban scholars, point to the fact that African cities need to be examined with a new lens, different from the Northern theoretical one. Impact investing is a way to find those individuals who seek growth and to give them an opportunity to contribute towards larger development. People similar to Eliarehemu need to have the imagination and trust in the fact that their actions can affect their own lives as well as their own societies. This is why, Novogratz says, “it is so critical to identify and invest in those rare entrepreneurs who see true human capacity in all people and are working on ways to unleash it” (2009:275). The problem that exists throughout developing countries is that a majority of the population lives in a seemingly endless cycle of poverty, or “debt in their efforts to earn a livelihood that will take them beyond the immediate future” (Simone and Pieterse, 2017:71). Without help, those that cannot afford to break out of their cycle will not. Impact investment is one potential way out.



Unlike the modern aid system, impact investment will leave businesses as self-sustainable. There exists a potential to serve populations and grow economies previously excluded from market access. Individually, impact investment projects show promise to improve the lives of billions of low-income people in developing countries. Collectively, the growth of impact investment will lead to the emergence of a completely new industry and have the ability to progress developing countries such as Tanzania.

### **Impact Investment**

*“The fight against extreme poverty has become part of a wider objective in the fight against financial exclusion” (La Torre, 2006:18)*

There is a strong need to serve small and medium sized enterprises (SMEs) with access to finance, especially in developing regions. According to an article written for the *Economist*, around two-thirds of SMEs in developing countries do not have sufficient access to capital, compared to one-sixth in first world (2016). This is a major gap in the global economy known as a ‘credit gap’, which impact investors are beginning to fill. Impact investment not only provides loans for previously unbanked citizens, but also designs business models for entrepreneurs formerly cut out of the economy (Emerson & Bugg-Levine, 2011:55).

The Global Impact Investment Network (GIIN) defines impact investments as “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return” (Bouri, et. al, 2018). By reforming the way in which people interpret business and philanthropy, impact investment strives for global behavioral change. Emerson and Bugg-Levine’s book was the first to chart the path of this new industry. The book serves two purposes, one being an introduction to the concept of impact investment, and the second to identify challenges to overcome in order for the strategy to reach

its full potential (2011). In an interview for *Forbes*, Bugg-Levine remarks, “we recognize that for-profit investment can be both a morally legitimate and economically effective way to address social and environmental challenges” (Kanani, 2012). Coming from a world where he assumed social work and profit were two separate concepts, Bugg-Levine tells his story of how he got involved with impact investment. With the support of the Rockefeller Foundation, in 2007 Bugg-Levine spread the enthusiasm around the industry with “people around the world who share an excitement about the positive role that investment can play in addressing social and environmental challenges” (Kanani, 2012). Since then, the industry has grown significantly.

Bugg-Levine’s co-author, Emerson argues the necessity for a term he coined known as ‘blended value’. Blended value is “an emerging conceptual framework in which non-profit organizations, businesses, and investments are evaluated based on their ability to generate a blend of financial, social, and environmental value” (2011). Blended value maximizes the total potential of companies, communities and capital, instead of continuing to live in a divided world. The co-authors state, “Impact investing is what we do; Blended Value is what we create” (2012). The concept originated from many discussions about non-profits turning more business-like or businesses taking on more environmental/social interest. Instead of one framework, Emerson argues that focus should be on how to maximize total value in each case and create performance alongside capital. He and Bugg-Levine highlight,

Talented young people increasingly hunger for employment opportunities that allow them to address social and environmental benefit, a hunger no longer satiated by participating in the annual corporate charity run or... classic non-profit approach that ignores the positive potential for business. (2011)

Investing in new ideas and ventures in Third World countries gives entrepreneurs the freedom and opportunity to help themselves rise out of poverty through ways which are sustainable for their future and, furthermore, the economy as a whole. Emerson’s experiences prove “we can

address social and environmental problems while investing in ventures that generate profitable returns, allowing subsidy to play its rightful role together with private investment” (2011).

Impact investment, the authors argue, inspires top talent, especially the younger generation of employees “who hunger for opportunities to use their professional skills to create social good” (2011:230). Similar to Simone and Pieterse’s thoughts on the constantly high levels of motivation from the younger generation, Emerson and Bugg-Levine prove the drive seen by the younger generation.

In 2007, Christina Leijonhufvud started a Social Finance sector at J.P. Morgan, which was the first large bank to do so. The day she began the program, thousands of employees applied to be a part of this new movement. Leijonhufvud became very intrigued with impact investment models. She saw a huge potential for the “significant positive impact on the lives of poor people, and at a greater scale than donation alone can support” (2011:246). After starting the group, there was a massive expression of attention and eagerness from employees of J.P. Morgan. She writes in an interview, “Our business is unique in targeting both social impact and financial return” (Emerson & Bugg-Levine, 2011:247). J.P. Morgan, one of the first banks to become involved, publically defines impact investments as “investments intended to create positive social impact beyond financial return” (Emerson & Bugg-Levine, 2011). The founders of the Social Finance group targets job creation, energy efficiency, the facilitation of asset accumulation, and the utilization of low-income population as suppliers. J.P. Morgan’s global research team published a report in 2010 saying, “With increasing numbers of investors rejecting the notion that they face a binary choice between investing for maximum risk-adjusted returns or donating for social purpose, the impact investment market is now at a significant turning point as it enters the mainstream” (O’Donohoe, et. al., 2010).

After J.P. Morgan launched their Social Finance sector in 2007 to provide financial services for the growing impact investment market, many other banks such as Morgan Stanley, Deutsche Bank, UBS, and Citi began initiatives to support the impact investment market. In 2016-7, the GIIN produced an investor survey report that captures data from 209 impact investors varying across multiple industries. The report provides only a snapshot of global investing activity. In their data, the authors capture evidence of nearly \$114 billion in impact investment assets (Mudaliar, et. al., 2017). The CEO of GIIN, Amit Bouri, writes, “Investors continue to be overwhelmingly satisfied with the performance of their investments - both in terms of financial return and the impact they generate” (2017). Compared to 2015-6, data indicates a growth of 17 percent in amount of capital invested and 20 percent in terms of number of investments. The industry has grown significantly since the beginning and shows potential for future development.

### **The Beginning of an Industry**

The start of the impact investment timeline begins prior to 2000 with Sarona Asset Management, Prudential Social Investment program, and Calvert Foundation Community Investment. In the early 2000s, investment vehicles targeting microfinance institutions became increasingly popular. Microfinancing is a more well-known investment practice which Emerson and Bugg-Levine define as a system that “lend(s) small amounts of money (typically less than a thousand dollars and sometimes as little as fifty dollars) to poor borrowers who often lack any assets to pledge as security for the loan” (2011:40). Microfinance is a powerful tool that contributes to the fight against extreme poverty; however, it is not the silver bullet. Emerson and Bugg-Levine proclaim, “It took more than thirty years of experimentation and failure before the modern microfinance business model took off” (2011:89). One of the main leaders in the

microfinance industry, Muhammad Yunus, founded Grameen Bank in 1976. Yunus won the Nobel Peace Prize in 2006 for his microfinance strategies as an effective way to addressing poverty (2011:42). Grameen did more than just build its own microcredit bank; it also helped to create the business model for all others in the industry.

Grameen Bank took 17 years to break even after beginning, but “also paved the way for other players to replicate their model much more quickly and easily... subsequent replicators achieved the same success over a much shorter time” (Koh, et. Al., 2012:8). The revolution of microfinance turned a charitable activity into a highly profitable business (A Place in Society, 2011). An article written for *The New Yorker* in 2006 claims that “more than fifty percent of the Grameen Bank’s borrowers who have been in the program for more than five years have risen out of poverty... [Soon] there will be ‘poverty museums’”, Yunus said (Bruck, 2006). All it took for the industry to take off was one pioneer willing to experiment. Emerson, Bugg-Levine, Simone and Pieterse would all agree that the only way to know if development can come from impact investing in this increasingly urban world is through experimentation.

The Acumen Fund report of 2012, “From Blueprint to Scale”, explore the question of whether or not impact investors can take this movement on a similar path as the microfinance revolution. The authors compare the microfinance industry to the growing impact investing industry.

As microfinance is now seen as a commercially attractive sector with billions of dollars of invested capital, it is easy to forget that the microfinance business model was promising but unprofitable for many years, long before it burst into the public consciousness (2012:8).

The industry pioneers went through thousands of cycles of trial and error before it was able to become attractive to investors. In late 2009, the launch of the Global Impact Investing Network (GIIN) marked an important milestone for impact investing. Also launched in 2009, the Impact Reporting and Investment Standards (“IRIS”) attempts to provide a standard taxonomy for measuring impact. The Global Impact Investment Rating System (“GIIRS”) uses the IRIS as a backbone for collecting data and rating impact investments (J.P. Morgan, 2011).

Impact investing can serve many different purposes. This paper focuses on impact investment for development. Fortier Capital produced a report entitled, “Early State Investing for Financial Returns and Social Impact in Emerging Markets” (2015). This report, written by Matt Bannick, Paula Goldman, and Michael Kubzansky, introduces the extraordinary opportunity to improve the lives of hundreds of millions of people in developing countries such as Tanzania. The authors write about how they have seen risk capital transform billions of lives through venture capital, and other forms such as philanthropic funding. The authors argue that there is no “right type of risk capital” in the growing industry. Impact investment combines different forms of investment and aid to focus on social impact as well as financial return. The heart of early stage risk capital “is about taking a small bet on an untested idea – and increasing that bet as we see increasing evidence of its transaction” (Bannick et. al., 2015:4). From positive experimentation comes positive innovation.

In the report, the authors split frontier capital into three segments; “Replicate and Adapt”, “Frontier”, and “Frontier Plus” (2015). This thesis focuses on the “Frontier Plus” segment because it deals with the most amount of risk and has the highest levels of capital scarcity. The authors define Frontier Plus as an “unproven business model that may be asset intensive, serve

only lower-income groups, and/or operate in countries with less-developed capital markets” (2015:5). The focus is on this segment because Tanzania is a majority low-income population with a very underdeveloped market, and this segment yields the highest risk and lacks capital. The authors believe that “expanding opportunity for lower-income segments is both an urgent need and a strong, untapped business opportunity” (2015:9). Emerson and Bugg-Levine also write about the urgent need for the expansion of opportunities. Donations to governments and nonprofits alone has not been able to spur economic growth and alieve the immense poverty in developing countries. In fact, as Dambisa Moyo explains, “aid has made the poor poorer, and growth slower” (2009:xix). Continuous failure sparked a recognition in the need for impact investment for development (Bugg-Levine, Emerson, 2011:21). Bannick et. al. argue that this third segment requires investors to be creative since there are no proven business models which exist already. Although the riskiest, these investments offer “tremendous impact potential” (2015:5).

Due to the many challenges of starting a new industry in a growing market, many scholars agree that investors also need to be able to push the boundaries and experiment. Bannick et. al. recommends, “experimenting with a variety of innovations for a more appropriate form of risk capital” (2015:7). Investors are not the only players in impact investing, however. The major contributors include venture capital firms, impact investors, high net worth individuals, development finance institutions, governments, as well as entrepreneurs themselves (2015). Individual participants must be willing and able to take risks and preform differently in early stage innovation and challenging markets in order to see meaningful returns.

*The Economist* published an article entitled “A Place in Society”, in which the authors discuss the excitement in the potential of creating growth out of a new industry. This article

touches on investor enthusiasm. The authors conclude, “More people want to do well by doing good” (2009). As a result, there has been an interest shown by many ‘social investment banks’, as well as many social-enterprise clubs in leading business schools. The authors agree that government spending and philanthropy is simply not enough for emerging markets. Many scholars are aware of the need for private capital and skills to supply the basics of life and get small businesses going. Impact investment further proves the theory of resonance and growth to stimulate economic development. As British Investor Sir Ronald Cohen told *The Economist*, “This reminds me of private equity in the early 1980s, just before it started to grow” (2009). Emerson and Bugg-Levine reassure readers that there have been many signs of success stories already seen through impact investment. In fact, “impact investing for development has brought capital to cash-starved businesses in poor countries and innovations to global capital markets” (2011:22). However, the new and growing industry does face many challenges that need attention.

### **Challenges of Impact Investment**

*“We faced skeptical investors trained to believe that doing good and doing well simultaneously is not possible” (Emerson & Bugg-Levine, 2011: 107).*

Given the newness of the industry, there are many challenges faced by impact investors. This is particularly so in emerging economies, such as Tanzania, which are considered ‘high risk’. Simone and Pieterse argue, “the absence of fully transparent and accountable public accounts, the haphazard regulatory environment, the potential for corruption and rent seeking... makes finance capital even more expensive” (2017: 42). The risk can be seen as a challenge, but also an opportunity. The GIIN Annual Impact Investor Survey also highlight the added benefit from this type of below-market-rate capital. Four out of five respondents agreed on, “its ability to



lead to different kinds of impact, act as a bridge between philanthropy and market-rate capital, and help reduce the risk of investments for other investors” (2017). The Frontier Capital report authors believe that “expanding opportunity for lower-income segments is both an urgent need and a strong, untapped business opportunity” (2015:9). Investors willing to take the risk in emerging economies is an important piece of developing the industry. The authors continue, “Discrete, time-bound commitment to loan guarantees from philanthropic and aid sources could significantly accelerate the field” (2015:30). The report was written to spark interest from potential new leaders who are willing to accept the risk in order to grasp great opportunity.

Overall, the GIIN presents six principal challenges to impact investing: insufficient investment-ready opportunities; insufficient human capital; international decision makers; difficulty accessing bank financing; limited currency financing; and few exit examples (GIIN, 2015). Throughout those challenges, the top ranked challenge provided by an investor survey is the lack of appropriate capital across the risk-return spectrum (GIIN, 2017; 10). There is an insufficient amount of capital due to the newness of the industry. Many small businesses or entrepreneurs have unreliable records and non-existent credit histories. The banks feel safer lending to more established clients. In an article published for *The Economist*, the author highlights the “missing middle”, or the gap for newer, more specialist lenders (2016). Lenders that are more traditional let risk outweigh potential benefit, which leads to the lack of sufficient capital. Impact investors tend to be more understanding of entrepreneurs. The article references GroFin, a private development finance institution that specializes in impact investment. One of the companies managers in Uganda, Arigye Munyangabo, says, “Every business has records... but sometimes they are in the customer’s head” (2016). Specialist lenders, such as GroFin, are relatively small and new, which highlights the need for alternative ways to seek financing.

The Acumen Fund also highlights the same challenges faced by impact investors in developing economies. Their report concludes, “Modest margins, long times to scale and high risk add up to a tough proposition for investors” (Acumen, 2012:6). As a result, impact investment funds need to find additional sourcing of capital. One of the issues with accessing bank financing alongside investor capital is the competition with donor funding as well as government intervention. Although Tanzania is one of the most politically stable countries in East Africa, corruption still exists. Dambisa Moyo argues, “Not only is aid easy to steal, as it is usually provided directly to African governments, but it also makes control over government worth fighting for” (2009:x). Impact investors have a hard time overcoming this issue when pursuing projects in Sub-Saharan African countries.

Another main issue is the measurement of the actual impact created by the investment. Instruments for measuring social impact are necessary, but difficult to create. Emerson and Bugg-Levine argue that impact investments have “proven complicated to measure and manage... determining how much profit is enough is increasingly contentious” (2011:22). The authors highlight the importance of impact indicators in order to separate the impact investors from the ‘impact imposters’ (2011:91). Leijonhufvud also notes the need for third-party systems of social impact investment in order to make the market more efficient. The trouble is in effectively portraying to consumers, investors, and policy makers that there is a difference between good business and good marketing. In order for the industry to be able to grow, Leijonhufvud says, “They will need third-party companies willing to take on the hard work of interpreting the standards without changing so much that they make impact investing costly” (Emerson & Bugg-Levine, 2011:176). The Global Impact Investing Rating System is the lowest cost way for customers, investors, and businesses to assess the social impact produced by an investment. The

authors argue that GIIRS rating is a good start, but not a complete measurement of social impact of an investment.

A final challenge faced by impact investors is in providing technical assistance alongside investment capital. As Emerson and Bugg-Levine explain, “technical assistance can entail helping an entrepreneur prepare a more viable business plan or providing accounting services or strategic consulting advice for investees” (2011). In venture capital firms, this kind of support is structured into the cost of the investment. However, impact investment is a mix between venture capital and philanthropy. For impact investing in emerging markets, investment funds cannot afford to offer and deliver these services as part of their investment practice. This challenge highlights the need for an intermediary. A report written for Monitor Group entitled, “Promise and Progress: Market-Based Solutions to Poverty in Africa”, also notes, “Training and quipping various participants in the channel is essential for these products and to create value added services... but it is expensive” (Kubznsky, et al., 2011:70). One important complement to investment capital is to receive financing from philanthropic or governmental subsidies for technical support. Without a mix of funding, it would be difficult for impact investments to work in poor countries (Emerson & Bugg-Levine, 2011). Acumen Fund argues that “philanthropic capital” is necessary to “bridge-the-gap” (Koh, et. Al. 2012). The gap they refer to is called the ‘pioneer gap’, which is the need for support and funding for the pioneer firm in the early stages. Filling the gap is what Acumen Fund strives to do through the use of blended capital.

Tanzania, compared to the majority of other sub-Saharan African countries, serves as a strong platform for impact investment. As the GIIN reports, Tanzania “is one of the easier countries to conduct business in in East Africa, ranking second in the region in World Bank’s

Ease of Doing Business rankings” (2015). Dambisa Moyo continues, “the occurrence of democratic elections and decline of perceived corruption... point to a vastly improved investment climate” (2009:3). Though many challenges are left to overcome, opportunity to conquer poverty exists where sustainable models are built.

### **Tanzania as a Platform for East Africa**

*“Operating in a new sector or geography inevitably requires investing without the comfort of rich industry research, benchmarking data, and competitor analysis... [this] broadly defines the current state of the impact investing industry” (Bugg-Levine & Emerson, 2011:236).*

According to the GIIN, Tanzania has the third largest number of impact investments in East Africa, behind Kenya and Uganda. Impact investing is becoming increasingly popular in Tanzania, with 129 impact capital vehicles managed by 92 non-development financial institutions (2015). The impact investing community in Tanzania is spread out between Dar es Salaam, Arusha and Moshi. The GIIN report claims, “Because it is dispersed across multiple cities, more businesses have access to a local impact investor” (2015). As of now, impact investing remains a small portion of total investment activity, “it fills an important gap in the market for the early-stage businesses of interest to most non-DFI impact investors” (GIIN, 2015). The report states that more than \$2.5 billion USD in capital *could* be deployed in Tanzania as of 2015. The need for more impact investing is immense, since most Tanzanian banks are risk averse and unwilling to invest in start-up or early-stage enterprises. When willing to lend, Tanzanian banks

Require extremely high collateral ratios, frequently more than 100% of the loan... Tanzanian bank rates have fluctuated between 15% and 16%... often three times higher than the average bank interest rate in the United States... stringent collateral requirements

and high interest rates limit the practical availability of bank financing for enterprises (GIIN, 2015).

For a Tanzanian entrepreneur to start a business, financing is crucial. Entrepreneurs have a hard time sourcing capital aside from friends and family, which are also very unrealistic in most cases. Tanzanians also have a difficult time acquiring land ownership. The GIIN points out that “Without land as security, many entrepreneurs, particularly those in agriculture, find it impossible to access bank financing” (2015). Due to this, most businesses operate informally, which makes it difficult for impact investors to put their trust confidence into these growing businesses. Informal businesses lack transparency and make them much less likely to be a target for impact investments. In order for impact investment to grow, governments need to make it easier to start a business and acquire land.

Another major challenge in Tanzania specifically is the language barrier between investors and citizens. Tanzanians, to a much greater extent compared to other sub-Saharan African countries, strongly care about fluency in their native language, Kiswahili. The authors of the GIIN report write, “Without Kiswahili, impact investors limit the number of strong relationships they can form from their ability to source new deals” (2015). Tanzanians rarely use English, which can complicate efforts to form relationships. As Emerson and Bugg-Levine touch on, “Early interactions between these groups have been fraught with miscommunication and mutual suspicion... Imagine what happens when Wall Street investment bankers sit down with radical activists living in the slums” (2011:91). Language remains very important for connection in an impact investment. As the industry develops, the importance of ‘middle men’ will become evident. It is crucial to have intermediaries in, ready to train entrepreneurs and serve between them and the investors. Emerson and Bugg Levine also agree, “We need to support efforts to

encourage the launch of social enterprises and nurture their early growth even before they are investable” (2011:76). The innovation in intermediaries will lead to a more productive collaboration.

### **Acumen Fund**

One example of a leader in the industry is Jaqueline Novogratz’s Acumen Fund, which has made a huge social and financial impact through their investments. Novogratz left the Rockefeller Foundation to start the Acumen Fund in 2001. The Acumen Fund has invested ‘patient capital’ throughout many sectors in the country, with their main focus on East Africa and South Asia. Patient Capital is another name for long-term capital. In other words, investors who invest with Acumen have no expectations of turning a quick profit. Instead, the tradeoff is a greater social impact. Acumen’s mission with patient capital is to “provide startups with the flexibility and security to grow their business and reach as many poor customers as possible” (Acumen.org). Novogratz, having spent a few years on Wall Street after graduation, strives to bridge markets and philanthropy through a non-profit venture capital system. She writes, “markets alone cannot solve the problems of poverty; nor are charity and aid enough... there are no easy answers” (Acumen.org). As of 2017, Acumen had \$28.5M invested in East Africa, spread across 26 countries. As a result, 110 million lives were impacted through job creation and household support, as well as 114 emerging leaders trained (Acumen, 2017). As long as more growth begins, like Simone and Pieterse’s idea of resonance and Myers’s theory that with growth, more growth will follow. Data shows that more than 70% of the population in East Africa is under the age of 30, “readily embracing leadership, technology and innovation to create homegrown solutions and increase employment” (Acumen, 2017). With Acumen’s patient

capital investment in early-stage companies and continued long-term support, the fund creates self-sustainable companies that will lead to an inclusive economy.

Acumen Fund has four stages to their investment approach to ensure future self-sustainability. The stages include seed and early stage investments, follow-on capital, access to expertise, and post-investment support. Most of their investments in East Africa are targeted towards life necessities such as energy and food security. With energy, Acumen invests in clean energy solutions, such as “high-quality household solar products, energy generation and mini-grid systems, and technological innovations such as pay-as-you-go platforms and smart metering” (Acumen, 2017). Emerson and Bugg-Levine make a point that people overlook:

In an age of technological marvels, it is sometimes too easy for citizens of rich countries to forget how many people still live without access to basic utilities like clean water, electricity, and gas or oil for heating and cooking. In many countries... residents live without on-grid electricity and piped water (2011:102).

These investments are critical to helping the low-income population out of poverty. The other sector that Acumen Fund targets is agriculture. The fund invests in “companies focused on integrating smallholder farmers into global supply chains” in order to increase sustainable production and sell more crops (Acumen, 2017). With each investment, Acumen looks for highly motivated entrepreneurs committed to improving the lives of Africans living in poverty.

One example of a target investment company for Acumen Fund is Biolite, which aims to improve the inhalation of indoor air pollution produced by cooking on smoky indoor fires. According to the World Health Organization, 4.3 million die each year from inhaling indoor air pollution, which adds up to more deaths than malaria, tuberculosis and AIDS combined (2012).

A large majority of people living in poverty rely on inefficient cookstoves and energy sources.

#### Biolite cookstove

Creates a highly efficient fire that not only drastically reduces carbon emissions but also generates electricity, providing users in the poorest, most unconnected parts of the world with modern luxuries like the ability to charge their cell phones (Acumen.org).

At a low-cost, these efficient stoves are available to the low-income population. Acumen invested in this innovation in 2015, and since then has generated 2W of electricity, saved families up to \$200 annually, and created 94 percent less smoke and 91 percent less carbon monoxide than regular cookstoves. This is just one of many companies that used a small innovation to change the lives of many all over East Africa.

Another example company, named Devergy, focuses on providing affordable and reliable high-intensity clean energy services to the world's poor. Based out of Tanzania, the company aims to supply a greater percentage of the population with access to electricity. Tanzania has the lowest electrification rates in East Africa, with energy access to only 7 percent of the country's 39 million rural residents (Acumen.org). Acumen Fund invests in thousands of companies like these two across many more areas of investment in Third World countries all over the globe.

Other leading firms/pioneers aside from Novogratz and Yunus include Willy Foote, founder of Root Capital, and Klaus Tischhauser, founder of ResponsAbility, to name a few. Emerson and Bugg-Levine write,

These people share the character traits most typically celebrated in discussion of iconic social entrepreneurs. They are passionate. They are risk takers. They abandoned established career paths to step out into the new territory between for-profit investment and charity. They are determined when it comes to confronting a skeptical world and bending the existing systems to create a space for their work. And they are also very, very rare (2011:146).



## Conclusion

*“The process must start with respect for Bottom of the Pyramid consumers as individuals”*

*(Prahalad, 2010: xv).*

Dr. C. K. Prahalad is the co-author in a book entitled, The Fortune at the Bottom of the Pyramid, in which he argues the potential untapped in developing countries. The population living at the bottom of the pyramid (BOP), he suggests, total more than 4 billion people living on less than \$2 a day. In the revised and updated 5<sup>th</sup> edition of his book, Dr. Prahalad interviewed the pioneers of the industry. In an interview, Jacqueline Novogratz agrees, “choice is where dignity starts... the world will change only when we view truly low-income individuals as full participants in their local economies and communities” (2010:169). This is the basis for impact investment. In her own book, Novogratz writes that the answer is in treating the poor as customers.

At the end of the day, finding the answers to a fractured world must begin with encouraging and honoring the discipline and ambition, hard work and generosity of so many billions who want the same things as we all do (Novogratz, 2009:277).

Rather than imposing systems and policies upon the people living in developing countries, what is needed is a solution that develops from the perspectives of the citizens themselves.

In Tanzania, many top-down strategies have proven to fail. Socialism did not work. Structural adjustment programmes did not work. The country is continuing to grow, yet poverty is not getting any better. In line with Simone and Peitense’s, Novogratz agrees, “Innovation requires experimentation; no one has the answers for solving poverty yet” (2009:261). There is no right answer to poverty alleviation. Impact investment believes in and encourages entrepreneurs who see a solution to just one problem from the perspective of someone who has experienced it. It is crucial to, “identify and invest in those rare entrepreneurs who see true

human capacity in all people and are working in ways to unleash it” (Novogratz, 2009:275).

Impact investment is the one of the only viable solutions that shows signs of hope.

It is difficult to resist the temptation to follow pre-existing paths. The opportunity exists in experimentations of the unknown. Emerson and Bugg-Levine were inspired by the potential for impact investing in the future due to the amount of capital the world has to offer. The authors argue, “With an estimated \$80 trillion moving through global capital markets, unlocking only 1 percent for impact investing will create a capital pool four times larger than all current annual official donor flows and almost three times greater than the total of U.S. annual charitable giving” (2011:222). That \$800 billion which could completely transform the world’s poverty levels. As word spreads, there is a potential for a piece of that capital to move towards impact investment. In the words of Simone and Pieterse,

If – and it is a big if – cities and urban regions are able to come up with the huge amounts of financing necessary in order to make the required infrastructural adjustments to accommodate growing populations and to adapt to environmental exigencies, most actors in the urban development business will have to work with a lot of uncertainty (2017:17).

Once impact investing becomes more mainstream and once the world starts to realize the great potential as a tool for development, more investors will start to ask questions such as, “If they can do it, why can’t we?”, and, “If I can make a positive impact and a financial return, why wouldn’t I?” (GIIN, 2018).

The GIIN Roadmap for the Future of Impact Investing highlights the number of news articles containing the phrase “Impact Investing” globally. Coined in 2007, the phrase has appeared in almost 9,000 news articles as of 2017 and is still rising (Bouri, et. Al, 2018). As mentioned earlier, microfinance as an industry took over thirty years of experimentation before

becoming successful. If these trends continue to rise, impact investment has the potential to be the next big player in the microfinance revolution, and eventually change the face of philanthropy as it exists today. As presented in this thesis and as presented in Novogratz's research, traditional charity cannot alleviate poverty on its own (2009: 211). Instead, the solution lies in human dignity. Novogratz argues, "We can end poverty if we start by looking at all human beings as part of a single global community that recognizes that everyone deserves a chance to build a life worth living" (2009:212). The solution lies in the powerful including the powerless in basic opportunities.

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