

Investing in Development in Africa

How Impact Investment can contribute to meeting
the Sustainable Development Goals (SDGs) in Africa



About



Investisseurs & Partenaires is an impact investment group dedicated to African Small and Medium Enterprises. Since its creation in 2002, I&P has completed close to 60 investments in 15 African countries and operating in various sectors of activity (health, transport, microfinance...). Its partner companies create local added value and long-term employment, and generate important social, environmental and governance impact.

I&P provides capital, technical and strategic support to meet the growth needs of its portfolio companies. The team develops long term partnerships with entrepreneurs, sharing management expertise and knowledge that is useful for improving business strategy, structuring, and success. I&P gathers three impact funds, IPDEV, IPDEV2 and IPAE, which represent a total of €75 million.

Created by Patrice Hoppenot and headed by Jean-Michel Severino since 2011, the I&P team comprises about thirty collaborators in Paris and in its six African offices in Cameroon, Côte d'Ivoire, Senegal, Ghana, Burkina Faso and Madagascar.

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The Foundation for International Development Study and Research (FerdDi), was created in 2003 on the initiative of the Cerdi (University of Auvergne and CNRS). Its purpose is to promote a fuller understanding of international economic development and the factors that influence it.

It supports research activities that make use of the most modern and most directly relevant instruments of economics to study development, and seeks to strengthen the potential of the French-speaking world in this area.

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Authored by

Samuel MONTEIRO, PhD candidate and Research Officer on ESG and impact issues at I&P

Introduction

1 “Impact Investing” and the SDGs

- 1 What are the SDGs?
- 2 Why SDGs matter for business?
- 3 What does impact investing cover?
- 4 The importance of the concept of tradeoff
- 5 What does “societal impact” mean in Africa?
- 6 Who finances Africa’s development today?

2 The impact investing landscape in Africa

- 1 Impact Investment amounts in Africa
- 2 Some features of impact investing funds in Africa
- 3 Financial Instruments used by impact investors
- 4 Sectoral allocation of impact investments
- 5 The concept of additionality

3 How does impact investing contribute to meeting the SDGs in Africa?

- 1 Fighting poverty and inequalities
- 2 Agriculture, nutrition and food security
- 3 Healthcare, water and sanitation
- 4 Education
- 5 Energy access
- 6 Infrastructure and innovation
- 7 Sustainable cities
- 8 Environment and biodiversity
- 9 Other relevant SDGs

Conclusion

INTRODUCTION

Sustained economic growth since the early 2000's

The past decade has seen a turnaround in African economic growth. From 1980 to 1989 Africa's Gross Domestic Product (GDP) grew by an average 1.8% per year. Between 1990 and 2000 GDP growth increased by 2.6% per year and by 5.3% per year between 2000 and 2010¹. This economic growth is producing a growing African middle class that is now estimated at 350 million people², creating a strong demand for development in industry and infrastructure.

An encouraging yet fragile African context

In the past two years, however, growth has been more moderate. Reasons for this slowdown include a drop in many commodity prices, probably due to closing an exceptionally long cycle, as well as also macroeconomic mismanagement leading to excessively rapid public debt increases, and high inflation and exchange rate instability in an international context where borrowing conditions have tightened for most emerging economies.

The global economic environment is affecting African countries differently. In resource-rich countries, growth has slowed down as lower commodity prices have strained government budgets and affected investment, while oil importers are benefiting from lower inflation and less pressure on current accounts. Countries developing their domestic market through "real economy" initiatives have experienced better economic performance, mostly due to domestic factors, including private consumption, public infrastructure development and private investment.

Many African countries still face significant development challenges

African countries have steadily progressed toward improving living standards, but the pace has been insufficient to keep up with current challenges and those of the coming decades. Three out of every four people in Africa still live under poor human conditions, compared to one in five globally³. Progress is hampered by inequality both between countries and within countries, and between women and men. It is held back by lack of opportunities for youth and by weak structural transformation, especially in sectors dominated by marginalized groups (including the agriculture and informal sectors). Africa's Human Development Index (HDI) levels are low. While it grew from 0.40 to 0.51 between 1990 and 2014, the continent's HDI score still remained lower than world averages of 0.60 in 1990 and 0.71 in 2014.

Financing African development

African countries still have a long way to progress across the SDG agenda by 2030. With the goals in place, discussions have turned to the means of implementing them. Investment needs for the SDGs in developing countries are estimated to be in the order of USD 3.3 to 4.5 trillion every year⁴, well beyond the amounts counted as official development assistance (ODA), even at its all-time high of USD 132 billion in 2015⁵. Furthermore, ODA in Africa is expected to decrease to USD 54.9 billion in 2015 under the effect of budget tightening. More than two-thirds of the states in Sub-Saharan Africa, the majority of which are low-income countries, will receive less aid in 2017 than in 2014⁶. Domestic resource mobilization remains low, despite improvement and growth in key areas such as foreign investment, remittances and tax revenue collection. There is thus a clear focus on how to remove constraints, mitigate risks and unlock the resources needed to move from billions to the trillions required to achieve the new development agenda.

SDGs are an opportunity for the private sector and vice versa

Private sector investment holds a pivotal place in current projections and analyses. For each and every one of the goals, in fact, success hinges on private sector involvement: How can gender equality be achieved without fair and equal conditions in the workplace? How can cities and societies be made safe and secure without decent jobs that provide gainful employment? How can we respond to climate change without developing and implementing green infrastructure and technologies? How can excessive consumption and over-fishing be resolved if the private sector does not get on board? And how can there be a true global partnership without the participation of all actors?

The new global agenda moves the development discourse from a North-South perspective to one of shared, global responsibility and concern. While they primarily target governments, the SDGs are designed to rally together a wide range of organizations. Unlike their predecessor, the Millennium Development Goals (MDGs), the Sustainable Development Goals (SDGs) explicitly call on all businesses to apply their creativity and innovation to solve sustainable development challenges. The SDGs have been agreed upon by all governments, yet their success relies heavily on action and collaboration by all actors. African economies need to consider and capitalize on alternative sources of revenue and investment in order to effectively manage and respond to macro-level shocks and decreases such as the decline in ODA. Meeting such challenges requires a dynamic private sector that not only invests in Africa to create job that provide vital goods and services, but also does so throughout responsibly in order to deliver socially and environmentally sustainable growth.

The recent economic slowdown in Africa makes impact investment contribution even more necessary than ever. Only strong investment in the productive sector and sound macroeconomic policies, linked to international support will allow African economies to rebound, and effectively address unemployment, poverty and sustainable development.

Impact investors ready to heed the challenge

With their dedication to achieving both impact objectives and commercial returns, impact investors are uniquely positioned to invest in companies that further the SDGs. The purpose of impact investment is to go beyond the old "do-no-harm" agenda to a drive to "do good" for people, the planet, prosperity and peace, aligning with the 2030 Agenda. This is where business can make the most relevant contribution to achieving the SDGs: by transforming their strategies, procedures, standards and metrics to integrate sustainable development into the core of their missions and business models.

When evaluating the impact of their investments, impact investors collect and report on several metrics that can be aligned with the SDGs. The impact investing community is eager to explore how their impact strategies can contribute to this global effort, and some are already actively leveraging the SDGs as a framework for their investments. Indeed, aligning their investment strategies to the SDGs can help them to develop impact strategies and goals, communicate with stakeholders and attract new capital. The SDGs will help bring together synergistic partners to address the world's most urgent societal challenges.

In this report, we look at the opportunities the new SDGs offer for impact investors and on the other side how impact investing can contribute to achieving them. Firstly, we will recall areas targeted by the SDGs and why SDGs matter for business. It will be followed by a discussion on the definition of "impact investing" to better understand what it means. Secondly, the landscape for impact investment in Africa will be presented: How much? In which countries? With what instruments? This second part will help readers to better understand the current state of impact investment in Africa. Finally, this report will focus on the contribution of impact investment to the SDGs. For the main SDG investment areas, we will look at the current situation in Africa, the financial resources needed to achieve corresponding SDG, the potential role of the private sector and how impact investors can contribute to achieve this SDG. Examples will be given to better illustrate the contribution of impact investment to the SDGs.

¹ UNCTAD (2014). "Economic Development in Africa Report 2014: Catalysing Investment for Transformative Growth in Africa".

² African Development Bank (2011). "The Middle of the Pyramid: Dynamics of the Middle Class in Africa".

³ OECD (2016). "African Economic Outlook 2016".

⁴ UNCTAD (2014). "Economic Development in Africa Report 2014: Catalysing Investment for Transformative Growth in Africa".

⁵ OECD (2015i), "Detailed final 2014 aid figures released by OECD/DAC".

⁶ AfDB, OECD and UNDP. (2015). "Chapter 2: External financial flows and tax revenues for Africa", African Economic Outlook.

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Before considering the contribution impact investment can make to the SDGs, it is useful to recall areas targeted by the SDGs, the definition and characteristics of impact investing and the specificities of Africa.

1 What are the SDGs?

Africa’s progress towards the MDGs

Between 2000 and 2015, the Millennium Development Goals (MDGs) provided an important development framework and achieved success in a number of areas such as reducing poverty and improving health and education in Africa, despite challenging initial conditions. Africa is on track in attaining almost three of the eight MDGs – MDG 2 (Achieve universal primary education), MDG 3 (Promote gender equality and empower women) and the targets related to MDG 6 (Combat HIV/AIDS, malaria and other diseases).

Yet, African countries still have a long way to go to begin to meet the development agenda. Sub-Saharan Africa reduced poverty levels from 56.5% in 1990 to 48.4% in 2010, a 14% reduction. This was well below the MDG target of 28.25%. Moreover, Sub-Saharan Africa remains the most food-deficient of all regions in the world, with 25% of its population having faced hunger and malnutrition during the 2011-2013 period, a modest 8% improvement from the level experienced during the 1990-1992 period. Since 2000, most African countries have shown accelerated progress in expanding access to basic education but improving primary education completion rates remains a challenge. One third of pupils who start grade 1 will likely not reach the last grade of primary education. With a 67% primary completion rate, Africa is still far from achieving primary completion rates for all by 2015.

The end of the MDGs era provides the opportunity to think about how to improve the process of tracking and assessing progress towards achieving the internationally agreed upon Sustainable Development Goals.

Similarly, access to safe drinking water and sanitation is improving only slowly. While a quarter of the current African population has gained access to an improved drinking water source since 2000, Africa still has the lowest access to sanitary water in the world, and only 16% of the population has access to piped drinking water. To summarize, Africa has made considerable progress towards achieving the Millennium Development Goals (MDGs) but more efforts need to be made. The end of the MDGs era provides the opportunity to think about how to improve the process of tracking and assessing progress towards achieving the internationally agreed upon Sustainable Development Goals.

The SDGs: 17 goals to transform our world

The Sustainable Development Goals (SDGs) succeeded the MDGs in September 2015, expanding the challenges that must be addressed to eliminate poverty and embracing a wide range of interconnected topics across the economic, social and environmental dimensions of sustainable development. Based on current trends, no country or major region in the world is on track to achieve the SDGs. Some countries have achieved impressive wealth and economic development, but many face growing social exclusion and inequality, and no country has transformed its economy to make it environmentally sustainable. Indeed, business-as-usual pathways are unsustainable for all regions of the world. For this reason, the SDGs are highly ambitious goals for every country and are universally applicable in developing and developed countries alike. The SDGs call for worldwide action among governments, businesses and civil societies to end poverty and create a life of dignity and opportunity for all, within the boundaries of the planet.

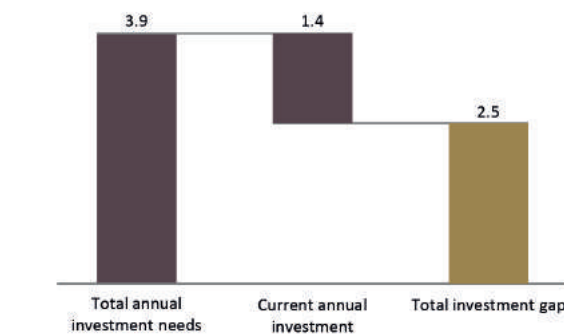
As discussed below, African countries have made significant progress towards achieving the MDGs but there is still much work to be done and the need today is greater than ever. All targets set by the SDGs are far from being reached in Sub-Saharan Africa. Further progress in all areas is needed in order to comply with the 17 goals by 2030.



Financing the SDGs

The annual SDG financing gap in developing countries is estimated at approximately USD 2.5 trillion (Figure below). Although this seems like a huge amount, it constitutes only 3% of global GDP, 14% of global annual savings, or 1.1% of the value of global capital markets⁷. The good news is that there is enough money to close this gap⁸. Today only a small fraction of the worldwide investment assets of banks, pension funds, insurers, foundations and endowments and multinational corporations is targeted at sectors and regions that advance sustainable development in developing countries. Translating these assets into SDG-compatible investments is fundamental to success.

ESTIMATED INVESTMENT GAP IN KEY SDG SECTORS, 2015-30
Trillions of USD, annual average



Source: UNCTAD, World Investment Report, 2014

Unlike their predecessors, the Millennium Development Goals, the SDGs explicitly call on all businesses to apply their creativity and innovation to solve sustainable development challenges.

SDGs are a shared opportunity

While they primarily target governments, the SDGs are designed to rally together a wide range of organizations, and shape priorities and aspirations for sustainable development efforts around a common framework. Most importantly, the SDGs recognize the key role that business can and must play in achieving them. Unlike their predecessors, the Millennium Development Goals, the SDGs explicitly call on all businesses to apply their creativity and innovation to solve sustainable development challenges. The SDGs have been agreed upon by all governments, yet their success relies heavily on action and collaboration by all actors.



Transforming our world: The 2030 agenda for sustainable development (agreed to by all 193 UN Member States)

Article 67:

“Private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation. We acknowledge the diversity of the private sector, ranging from micro enterprises to cooperatives to multinationals. We call on all businesses to apply their creativity and innovation to solving sustainable development challenges.”

② Why SDGs matter for business?

The Sustainable Development Goals (SDGs) define global sustainable development priorities and aspirations for 2030 and seek to mobilize global efforts around a common set of goals and targets. Massive amounts of private finance will be needed to achieve the SDGs. Thus, more and more pressure is being put on private sector entities to demonstrate that their use of scarce resources has an impact.

Yet, pressure to have an impact should not be seen as a constraint but rather as an opportunity. Companies can use the SDGs as an overarching framework to shape, steer, communicate and report their strategies, goals and activities, allowing them to capitalize on a range of benefits.

Identifying future business opportunities

The SDGs aim to redirect global public and private investment flows towards the challenges they target. In doing so, they define growing markets for companies that can deliver innovative solutions and transformative change, i.e., innovative energy efficient technologies, renewable energy, energy storage, green buildings and sustainable transportation, and the substitution of traditionally manufactured and processed products by Information and Communication Technologies (ICT) and other sustainable technology solutions that reduce emissions and waste.

Ban Ki-moon, United Nations Secretary-General:

“Business is a vital partner in achieving the Sustainable Development Goals. Companies can contribute through their core activities, and we ask companies everywhere to assess their impact, set ambitious goals and communicate transparently about the results.”

⁷ Sachs (2014). “Financing Sustainable Development: Implementing the SDGs through Effective Investment Strategies and partnerships”.

⁸ OECD (2014). “Development Co-operation Report 2014: Mobilizing Resources for Sustainable Development”.

Strengthening stakeholder relations and keeping the pace with policy development

The SDGs reflect stakeholder expectations as well as future policy direction at the national, regional and international levels. Companies that align their priorities with the SDGs can strengthen customer, employee and other stakeholder engagement, while those that don't will likely be exposed to growing legal risks and consumer criticism and pressure. Around the world, consumers are increasingly basing their purchasing decisions on their perception of a company's sustainability performance, and the SDGs may further strengthen this trend.

Stabilizing societies and markets

Business cannot succeed in societies that fail. Investing in the achievement of the SDGs supports pillars of business success, including the existence of rules-based markets, transparent financial systems, and non-corrupt and well-governed institutions. Successful implementation of the SDGs will help to: (i) Lift billions of people out of poverty, thereby growing consumer markets around the world; (ii) Strengthen education, thereby fostering more skilled and engaged employees; (iii) Make progress on gender equality and women's empowerment.

Using a common language and shared purpose

The success of the SDGs rests to a large extent on an effective monitoring, review and follow-up process. To this aim, a global indicator framework comprising 230 indicators to monitor the SDGs' 169 targets has been identified⁹. Reflecting Agenda 2030's guiding principle of "leaving no one behind", indicators are set to be disaggregated by gender, age, income, geography, occupation and other aspects of social identity. This global indicator framework defines a common framework of action and language that can help impact investors communicate more consistently and effectively with stakeholders about their impact and performance. The SDGs will help bring together synergistic partners to address the world's most urgent societal challenges.

⁹ The list of proposed Sustainable Development Goal indicators can be found in the "Report of the Inter-Agency and Expert Group on Sustainable Development Goal Indicators", Annex 3, available at <http://unstats.un.org/unsd/statcom/47th-session/documents/2016-2-SDGs-Rev1-E.pdf>

3 What does impact investing cover?

A spectrum of investment practices

Although it has existed for decades, the term "impact investment" has only been commonly used recently. A growing number of actors are now communicating around this term but its definition still remains imprecise. Initially perceived as a way of funding the social and solidarity economy, i.e., companies based on a principle of solidarity and societal utility, the concept has grown as practices have diversified.

Considered as a form of investment that seeks to combine financial return with societal impact, impact investment sits at the junction between the concepts of SRI, social investment, venture philanthropy and even social entrepreneurship. This profusion of terms attests to the difficulty in identifying the distinctive features of this growing sector of the economy.

Capital deployed can be categorized according to a spectrum of investment approaches based on the particular social, environmental and financial objectives of the investors. Capital that seeks to create social and/or environmental value alone is generally classified as philanthropy, whereas investments that aim to create measureable social and/or environmental value along with financial returns are considered impact investment (Figure below).



Source: Author's Illustration

Current definition lacks clarity

The term “Impact Investment” was coined in 2007 in an initiative led by the Rockefeller Foundation – to give a name to various social investment methodologies that had been developing and in use, in some instances, for decades. In an initial effort to help coordinate and standardize the sector, the Rockefeller Foundation established the Global Impact Investing Network (GIIN) in 2009, which has devoted a great deal of energy to establishing and gaining acceptance of a definition.

“Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.” GIIN.

The intent of the fund manager is a key determinant

In 2011, the GIIN further developed their definition of impact investing to include the following three criteria: the intentionality of investors to generate social and environmental impacts, the coexistence of the company’s financial profitability and impacts, and the concept of social impact and the need to measure this.

■ **Intentionality:** Impact investors aim to address a social and/or environmental challenge. For example, investing in the health care sector is not enough in itself to merit classification as an impact investor. An impact investor must also demonstrate intent to create positive impact as part of their core strategy.

■ **Investment with return expectations:** Impact investments have financial return expectations and differ from grants in this regard. Depending on the investor, different levels of financial returns – from capital preservation to market-rate returns – are acceptable, as long as financial sustainability of the institution is achieved.

■ **Impact measurement:** Apart from standard financial reporting, investors commit to measuring and reporting social and environmental impact objectives. This contributes to accountability of investment strategies.

If taken broadly, however, these three factors are insufficient to establish a clear standard definition of impact investment. In fact, a profitable business also has social impacts: it generates well-being among its customers and can improve their standard of living. It directly creates jobs and indirectly contributes to creating jobs among its suppliers, and as it is profitable, there is good coexistence of the two objectives. This example demonstrates the need to complete this definition by clarifying the concept of societal impact and underlying the importance of the “intentionality”, particularly through the notion of “tradeoff”.

4 The importance of the concept of tradeoff

“Impact first” vs “Finance first”

Impact investment can be divided into two distinct approaches. The first approach is often described as “impact first”: having the maximum impact subject to achieving a certain profitability to ensure sustainability. The second approach is often described as “finance first”: aiming to retain an economic logic of maximization while optimizing the impacts created. In reality, the boundaries between the two can be blurred, depending on the level of profitability and the nature of the impact that the investor chooses.

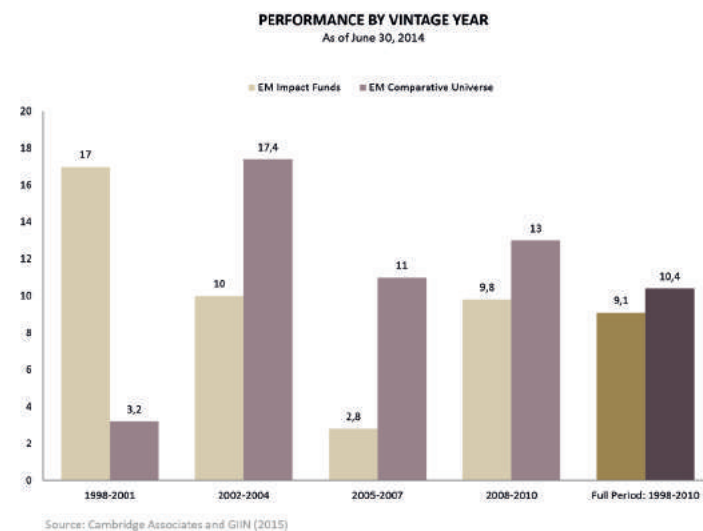
A need to prioritize profit and impact

Unlike a traditional investor, the impact investor sets an impact objective in addition to a financial objective. To achieve this impact objective, the company must mobilize resources that will thus no longer be available for profit maximization. Because these resources are, in essence, limited, it becomes necessary to prioritize profit and impact. Prioritizing a specific impact by investing in it thus involves, at least in the short term, foregoing part of one’s profitability.

The intentionality of the impact investor is thus characterized by his willingness to accept profits below market levels in order to prioritize the extra-financial impacts that are specifically not taken into account by traditional investors. This renouncing of profitability to the benefit of social utility, without abandoning the logic of economic efficiency in the company’s management, is characteristic of an impact investor.

Impact Investing Benchmark Performance Analysis

Like the impact investing industry, the impact investing benchmark dataset is young and dynamic. A survey led by Cambridge Associates and the GIIN¹⁰ showed that the pooled net internal rate of return (IRR) for the impact investing benchmark is 9.1% for emerging markets funds versus 10.4% in the comparative universe across all vintage years (Figure below). Relative performance differs significantly by vintage year, with impact investing funds launched from 1998 to 2001 performing in line with or better than funds in the comparative universe, while impact investing funds launched more recently (2002–2010) have lagged. This is consistent with the idea that impact investment involves, at least in the short term, foregoing a share of one's profitability.



Noteworthy, as explained in their methodology section, “the benchmark only includes data from private equity and venture capital funds that target risk-adjusted market rate returns and social impact objectives. Specifically, this means private equity and venture capital funds with a target net IRR of 15% or higher, and mezzanine funds with a target net IRR of 10% or higher” (Cambridge Associates and GIIN, 2015). Yet, different levels of financial returns – from capital preservation to market-rate – are acceptable for impact investors. It is likely that a larger pool, that includes all impact investors even if they are targeting below-market-rate returns, will show a higher difference in terms of IRR between impact investors and the comparative universe, strengthening the idea of the existence of a tradeoff between impact and profit. Further research is thus needed to completely set an impact investing benchmark and better understand this concept of tradeoff.

5 What does “societal impact” mean in Africa?

Impact investors aim to finance ventures that will result in a positive social and/or environmental impact in addition to positive financial returns. But how do we define “societal impact”?

Impact can be defined as long term changes that affect all stakeholders and which are directly attributable to a project's activity. Impacts are thus multidimensional in nature and are created by all companies, whether they are considered impact investors or not. The addition of the adjective “societal” stems from the desire to distinguish a certain kind of impact by highlighting its utility to society.

However, discerning the societal utility of a project is difficult given that there is no consensus around a definition of this concept. Gadrey¹¹, define it according to several dimensions, particularly the process of delivering a product or a service more effectively for the community or of fighting exclusion and inequality. Other authors, such as Euillet¹², defines societal utility as the “characteristic of any service responding to needs that are not covered or are insufficiently covered by the state or the market”.

From this perspective, impacts can be different across countries, depending on local market failures. In Africa, financial markets and commercial banks fail to assist companies to move forward. One could argue that given the fact that any investment in Africa fills an important need, any investment could be qualified as having an impact. Of course, merely having an impact does not make one an “impact investor” since the definition also requires intentionality on the part of the fund. Yet, it is important to keep in mind that having an impact in Africa can be very different from what one might think. From a developed country's perspective, impact investments are often seen as financing social business only. From a developing country's perspective, however, given the many failure markets, financing Small and Medium Enterprises (SMEs) for example can already be seen as impact investment, regardless of the sector of intervention.

In order to judge the societal value of a company, and thus of an investor, it is necessary to compare their impact performance in the light of other actors in a similar sector. Although not impossible, distinguishing the role of the impact investor in relation to the traditional financial investor is complex given the lack of any performance standards that would enable company's impact to be compared with what is “normally” expected of a company. The ambiguous vague meaning of “societal”, along with the lack of an impact standard, highlights the need for the concept of tradeoff.

From a developing country's perspective, however, given the many failure markets, financing Small and Medium Enterprises (SMEs) for example can already be seen as impact investment, regardless of the sector of intervention.

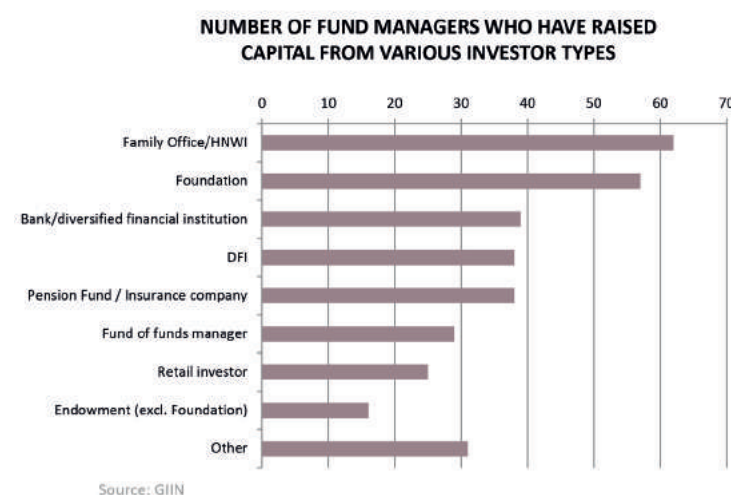
¹⁰ Cambridge Associates and GIIN (2015). “Introducing the Impact Investing Benchmark”.

¹¹ Gradey J. (2004). “L'utilité sociale des organisations de l'économie sociale et solidaire”, report for DIES and MIRE.

¹² Euillet A. (2002). “L'utilité sociale, une notion dérivée de celle d'intérêt général”.

6 Who finances Africa's development today?

Fund managers raise capital from a wide variety of investor types. Roughly 40% of fund managers have reported raising at least some capital from family offices and foundations, and around 25% have reported raising some capital from banks, Development Finance Institutions (DFIs), and pension funds/insurance companies (Figure below)¹³.



Development Finance Institutions (DFIs) are the main impact investors in Africa¹⁴

DFIs have long played a critical role in Africa's economic development. DFIs have been instrumental in catalyzing the impact investing sector in Africa, not only through direct investments made into enterprises, but also by investing in funds, and providing technical assistance and/or the funding for such assistance. DFIs will typically invest in individual enterprises via impact investment funds. The size of DFI portfolios makes them key players in the impact investment sector in Africa. In West Africa DFI capital accounts for at least 60% of capital allocated to impact investments, and in East Africa DFIs account for 50% of capital invested in impact funds¹⁵.

DFIs have also played a key role in crowding in capital from other investors either by providing catalytic capital or through partnerships. For instance in 2012, the African Development Bank (AfDB) committed a USD 100 million equity investment to Credit Suisse's Agvance Africa Fund as a first investor in order to attract further investment into agricultural production in Africa.

Corporate impact investing

What do a food company, a clothing manufacturer and an electricity company have in common? All these companies: Danone, Adidas and Schneider Electric, respectively, have started to explore impact investing. Corporate impact investing has yet to realize its full potential but it is expected to grow steadily in the coming years. Companies are increasingly becoming aware that there is a viable space in business for social, financial and possibly strategic impact.

Take the example of Schneider Electric, a French multinational electricity distribution and management company whose corporate engagement is strategically complemented by the activities of the Schneider Electric Foundation, which provides capacity building to ensure the investment readiness of social enterprises. These social enterprises are fighting energy poverty in Sub-Saharan Africa and Europe, geographic areas where Schneider Electric is also active.

Another example is Danone, a French multinational food and beverage corporation. Given its convictions on bringing progress to the world's neediest people, Danone founded danone.communities aiming to fund and develop local businesses with a sustainable economic model, oriented towards the social goals of reducing poverty and malnutrition. Today, danone.communities supports 10 social businesses in 7 countries, reaching around 1 million beneficiaries. In Africa, danone.communities supports La Laiterie du Berger in Senegal, which collected nearly 650,000 liters of milk in 2010, through 600 livestock farmers that now are sure to sell their daily milk at fixed price. Similarly, Danone created the Danone Fund for Nature to help rural farming communities restore their ecosystems in order to sustainably improve their incomes and livelihoods. Rebranded as Livelihoods, ten other companies have since joined this fund: Schneider Electric, Crédit Agricole S.A., Michelin, Hermès, SAP, CDC Climat, Voyageurs du Monde, La Poste, Firmenich, Veolia and Mars Incorporated.

The catalytic effect of impact investment

Impact investment helps to catalyze public and private funds around development issues. As discussed above, impact investors raise capital from a wide variety of investor types. Besides, co-investment is often used by impact investors, hence the need to find other financial partners such as local banks, private companies or foundations for example. Blended finance can also be a strategic use of development finance and philanthropic funds to mobilize private capital flows into Africa allowing for the combining of capital investment with grants as part of technical assistance programs.

¹³ GIIN (2016). "Annual Impact Investor Survey".

¹⁴ DFIs activities are excluded in the remainder of this report. Indeed, the definition of impact investing used in this study is based on investor intent to create positive impact. In the case of DFIs, there is continued evolution in how they are thinking about their portfolios. Some consider everything they do to be impact investing while others have begun to segment their activities. However, most do not publicly indicate which of their investments they consider impact investments. For this reason, all data in this report exclude DFIs activities for ease of interpretation.

¹⁵ GIIN and Open Capital Advisors (2015). "The Landscape for impact investing in East Africa".

GIIN and Dalberg Global Development Advisors (2015). "The Landscape for impact investing in West Africa".

2 *The impact investing landscape in Africa*

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- 2 • Some features of impact investing funds in Africa
- 3 • Financial Instruments used by impact investors
- 4 • Sectoral allocation of impact investments
- 5 • The concept of additionality

1 Impact Investment amounts in Africa

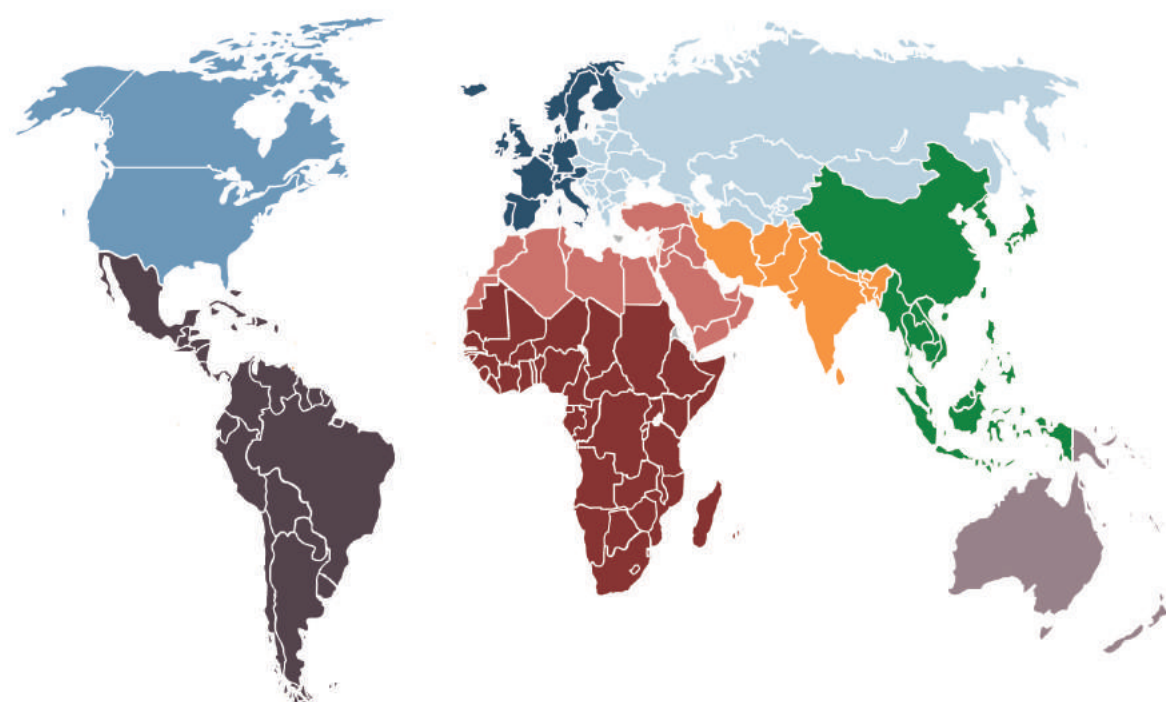
State of the world market

On the basis of the last annual survey conducted among 156 impact investors by GIIN and JP Morgan (2016), impact investment represented USD 77 billion of assets under management (AUM) in 2015 worldwide, of which around 50% was in emerging countries. A total of 7,551 investments have apparently been made in 2015 alone, involving an amount of USD 15 billion, a figure that is likely to increase by 16% by the end of 2016.

Sub-Saharan Africa receives the second largest amount in impact investments and is primed to see an increase in the future

According to the same survey, the highest number of respondents reported having an allocation in Sub-Saharan Africa. This region absorbed 19% of total assets under management in 2015, compared to 15% in 2014 (Map p.16), and this growth is not about to stop. Sub-Saharan Africa also emerged as the region where the highest number of respondents (54%) planned to increase allocations in the future, followed closely by East and South East Asia (50%) and Latin America and the Caribbean (22%).

Impact Investments in the world



North America

Share of Total AUM : 28%
Planned to increase allocation : 22%

Latin America

Share of Total AUM : 10%
Planned to increase allocation : 36%

Western Europe

Share of Total AUM : 11%
Planned to increase allocation : 27%

Eastern Europe and Central Asia

Share of Total AUM : 9%
Planned to increase allocation : 6%

Oceania

Share of Total AUM : 4%
Planned to increase allocation : 10%

Sub-Saharan Africa

Share of Total AUM : 19%
Planned to increase allocation : 54%

MENA

Share of Total AUM : 2%
Planned to increase allocation : 38%

South Asia

Share of Total AUM : 5%
Planned to increase allocation : 50%

East and South East Asia

Share of Total AUM : 8%
Planned to increase allocation : 45%

Huge disparities among African countries

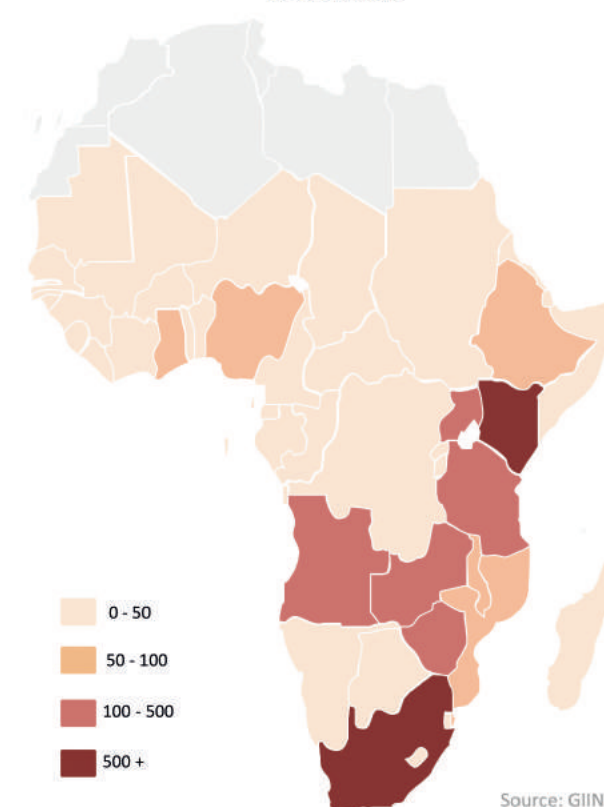
Detailed information on impact investing in Africa has been sparse, until recently. In 2015 and 2016, three studies published by the GIIN, in partnership with Open Capital Advisors and Dalberg Global Development Advisors, aimed to close this gap by focusing on East¹⁶, West¹⁷ and Southern Africa¹⁸.

Altogether, these studies found a total of USD 7.3 billion of impact investment capital across the three regions over the past decade. Yet all countries have received disparate amounts of investment and some countries have emerged as key receptors.

In total, USD 5.6 billion has been disbursed throughout the Southern Africa region, compared to USD 1.4 billion in East Africa and only USD 221 million in West Africa. Despite West Africa's high GDP growth, impact investments in Western African countries are small compared to those made in East Africa, and even smaller compared to those made in Southern Africa. More details are given below to better understand which countries have received considerable attention.

In total, USD 5.6 billion has been disbursed throughout the Southern Africa region, compared to USD 1.4 billion in East Africa and only USD 221 million in West Africa.

Total direct impact investment By USD millions



Source: GIIN

¹⁶ GIIN and Open Capital Advisors (2015). "The Landscape for impact investing in East Africa".

¹⁷ GIIN and Dalberg Global Development Advisors (2015). "The Landscape for impact investing in West Africa".

¹⁸ GIIN and Open Capital Advisors (2016). "The Landscape for impact investing in Southern Africa".

Southern Africa, the largest market for impact investment

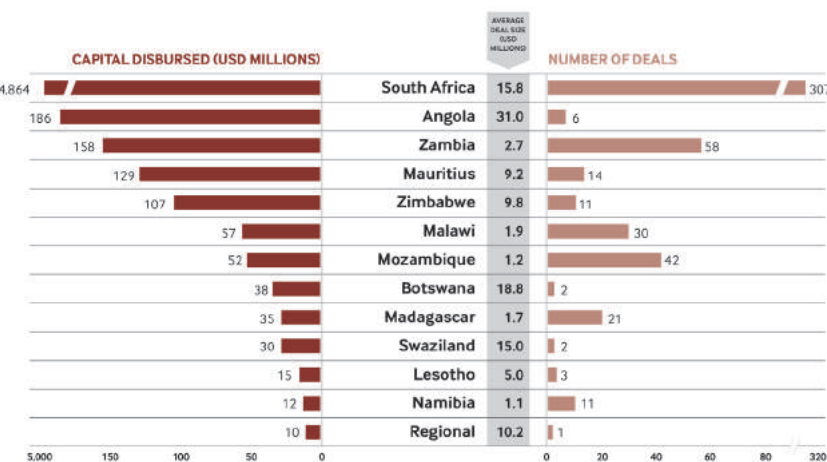
Across the region, total GDP (PPP) currently stands at approximately USD 1.2 trillion, with South Africa accounting for 60% and Angola a further 15%. The International Monetary Fund (IMF) projects that the region will continue to experience roughly 5% annual growth through 2020, with the region's total GDP (PPP) growing to over USD 1.5 trillion.

The relative high development of Southern Africa, especially South Africa, compare to the rest of the continent mainly explain why it is the largest market for impact investment. In total, the 81 impact investors surveyed by the GIIN and Open Capital Advisors (2016) have closed more than 500 deals and disbursed USD 5.6 billion throughout the Southern Africa region.

South Africa is the center of Southern African impact investing. Three-fifths of impact deals in the region have been in South Africa, representing USD 4.9 billion of the total USD 5.6 billion impact capital disbursed in the region (Figure below). South Africa is thus a significant outlier. Notably, 47% of this amount was disbursed in just the three largest deals in South Africa. With its significantly larger deal size (USD 15.8 million on average), South Africa absorbs 85% of capital disbursed, despite representing 'only' 60% of deals transacted.

Zambia and Mozambique come next, having each received approximately 10% of deals. However, with their significantly smaller deal sizes (respectively USD 2.7 million and USD 1.2 million), these countries have absorbed less than 4% of capital. Though not the largest economy, Mozambique is expected to experience the strongest GDP growth, with year-on-year rates of over 9% and should thus continue to attract more and more impact investments.

TOTAL IMPACT INVESTMENTS BY COUNTRY

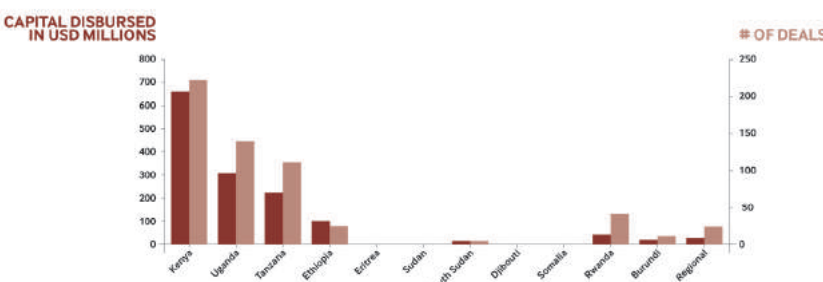


Source: Open Capital Research

Impact investment has gained strong momentum throughout East Africa

In total, the 135 impact investors surveyed by the GIIN and Open Capital Advisors have closed more than 550 deals and disbursed USD 1.4 billion in East Africa. Indeed, with a combined 300 million citizens, the region presents a large opportunity for impact investments that are able to successfully expand and reach a large part of the global population. East Africa has seen strong growth in recent years, averaging a combined 7% GDP (PPP) growth annually for the last seven years. Across the region, total GDP currently stands at approximately USD 500 billion in PPP terms.

TOTAL IMPACT INVESTMENTS BY COUNTRY



Source: Open Capital Research

Kenya plays a prominent role in East Africa's impact investment landscape. Almost half of all known impact capital disbursed in East Africa has been placed in Kenya. This represents more than USD 650 million of a total USD 1.4 billion disbursed (Figure above).

Kenya has over doubled the amount of impact capital deployed in Uganda, which receives the next highest amount of impact capital. The number of impact deals completed is not quite as skewed, suggesting that Kenya has a slightly larger average deal size than other countries in the region. Notably, the survey led by the GIIN was unable to find any evidence of impact investments in Eritrea, Sudan, Djibouti or Somalia, and only minimal activity in Burundi and South Sudan.

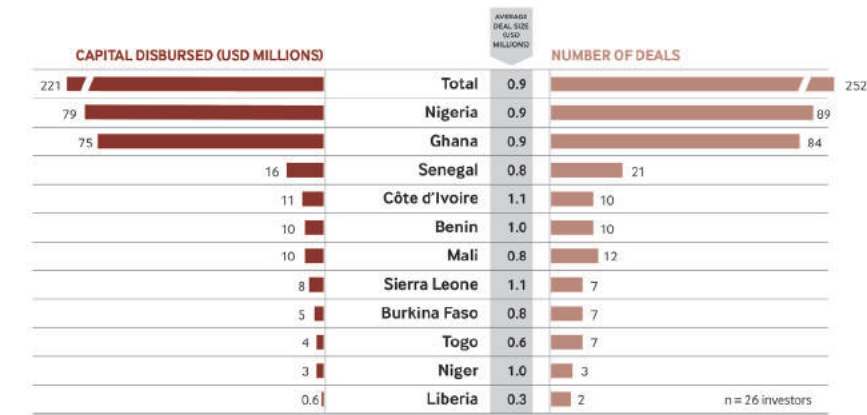
Despite the fact that Ethiopia represents the largest market in both GDP and population, with a GDP of USD 121 billion (PPP) and 90 million citizens (more than 30% of East Africa's total population), impact investments are currently at a very low level. There is good reason to bet that impact investment in Ethiopia will grow significantly in the future.

Impact investment in West Africa is relatively small

West Africa is one of the fastest growing regional economies, having experienced GDP growth of 6% in 2014. Yet, the 32 impact investors surveyed by the GIIN and Dalberg have closed around 250 deals and disbursed only USD 221 million in West Africa. Indeed, West Africa is not an easy region in which to do business, as large gaps in energy provision and infrastructure hamper mobility and productivity and human capital limitations make it difficult to hire qualified local staff. However, performance on key indicators related to ease of doing business has been improving over the last several years (World Bank, Doing Business 2015).

Within West Africa, impact investments are highly concentrated in Nigeria and Ghana, which together account for more than 50% of capital deployed in the region (Figure below). Nigeria, accounting for 80% of the region’s GDP, has received the largest amount of impact capital (29%) as investors seek to service a large and growing addressable market. Ghana has received nearly the same share of impact investment (25%) despite only accounting for 5% of West Africa’s GDP, reflecting its business-friendly policies and political stability.

TOTAL IMPACT INVESTMENTS BY COUNTRY, JAN. 2005 - JUL. 2015



Source: Dalberg analysis; non-DFI portfolio data

The next highest recipients in the region, Cote d’Ivoire and Senegal, only account for a combined 7% of impact capital deployed. These francophone countries have been left behind by impact investors, despite the large size and greater sophistication of these countries’ economies relative to the rest of the region and, in the case of Senegal, its positioning as a convenient air and sea entry point to Francophone West Africa.

2 Some features of impact investing funds in Africa

Impact funds are relatively young

Over three quarters of impact funds in Africa have a vintage year of 2000 or later. More precisely, 18% were launched between 2000 and 2004; 34% were launched between 2005 and 2009; and 19% have been launched within the last five years. Through these figures, we can easily see that the impact investing industry has grown in prominence over the last decade, and impact investors across the globe have developed substantial and particular interest in Sub-Saharan Africa.

A small local presence

Most organizations are headquartered in developed markets, with 38% based in North America and 44% based in Europe. Meanwhile, only 18% of organizations are headquartered in Africa, especially in Nigeria, South Africa and Ghana. Impact capital flows from developed markets to emerging markets.

Despite being mostly headquartered in developed markets, more than half of impact investors have at least one local office in Africa. This local presence facilitates a better understanding of the African context and allows investors to take into account its particular features. For the other half who do not have any local presence, it is probably making the social performance monitoring more difficult. Of those who have a local office, impact investors cluster in a limited number of countries (Figure p. 22), especially Kenya (20% of total local offices are based in Kenya), South Africa (14%), Nigeria (12%) and Ghana (9%).

Impact measurement is difficult to carry out

Impact measurement is central to the practice and, indeed is part of the definition of impact investment. While clearly perceived as important for impact investors, it is difficult to carry out.

According to a study led by UNDP¹⁹, 99% of the 146 investors reported measuring the impact of their investment and on the whole indicated that they valued impact performance tracking. Noteworthy, 67% of investors who measure impact reported that their investment teams were responsible for conducting this measurement. However attributing impact to their investment as well as keeping measurement costs low emerged as key difficulties in impact measurement practice.

¹⁹ UNDP (2015). *Impact Investment in Africa – Trends, Constraints and Opportunities*.



Moreover, a more transparent approach is still needed. Almost half of impact investors' websites do not release any impact data. It is thus difficult to verify whether these actors can really be considered as impact investors. Encouraging impact investors to publicly release some of their social impacts could help to develop the impact investment industry by creating social impact benchmarks.

Patient capital is required to invest in Africa

The asset holding period is longer in Africa where it was 5.1 years on average over the period 2007-2012, compared to 4.5 years in the US and 4.1 years in Europe²⁰. These figures reflect the state of the entire private equity sector. If we were able to focus only on impact investment, asset holding periods would be even longer. The Anglo-Saxon model of private equity carried by a strong secondary market is less appropriate for Africa where some funds have adopted a longer term strategy. In the African model, funds retain assets because patience is required to allow a company with great potential to expand regionally, especially given the diversity of languages, cultures and legal systems on the continent. Premature sale of a business that has not achieved its full potential is an obvious fear, some funds then set exit targets of 15 to 20 years.

3 Instruments used by impact investors

West Africa

60% percent of impact capital deployed is in the form of debt, with equity making up 23% and quasi-equity 13% (Figure below). This partly reflects the investors' focus on microfinance, as microfinance institutions have regular incomes—through repayments on their own loans—that are able to service debt repayments. Average deal sizes in debt tend to be much smaller at USD 0.7 million as opposed to an average of approximately USD 2.5 million for both equity and quasi-equity. This can be explained by the prevalence of shorter-term lending facilities provided by foundations commonly found in the MFI and agriculture sectors. The larger average deal sizes in equity and quasi-equity reflect the operations of fund managers requiring larger stakes in the companies they invest in to secure a degree of enterprise control.

Impact investors have begun to adopt more creative investment instruments. They increasingly consider quasi-equity structures such as convertible debt or revenue-participating debt. Reflecting impact investors' focus on smaller deals and earlier stage investments, these structures help balance risk with limited cash flows common for early-stage companies.

TOTAL IMPACT INVESTMENTS BY INSTRUMENT, JAN. 2005 - JUL. 2015



NOTES: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.
Source: Dalberg analysis; non-DFI portfolio data

Southern Africa

While impact investors seem equally comfortable investing via both debt and equity, the average deal sizes for equity investments are far higher than for debt investments, primarily due to three large equity investments in South Africa worth a combined USD 2.3 billion (Figure p. 24). Excluding these three large deals, the average equity transaction is USD 7.1 million.

²⁰ EY (2015). "Private Equity Roundup in Africa".

4 Sectoral allocation of impact investments

Impact investment tends to target sectors that have difficulty attracting other forms of private investment, such as financial inclusion, renewable energy and rural development.

The 17 Sustainable Development Goals (SDGs) address global challenges in many of these sectors, from food security (SDG 2) to health (SDG 3), education (SDG 4) and sustainable energy (SDG 7). It can thus be interesting to look at the sectoral allocation of impact investments to get a more comprehensive picture.

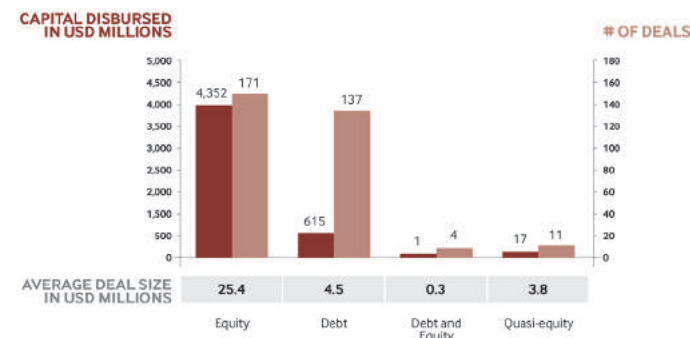
Microfinance is a key sector for impact investors

Impact investments are largely focused on the microfinance sector, which represents 32% of assets managed. Indeed, the large investment sizes possible when placing capital into Microfinance Institutions (MFIs) drive a large amount of capital to financial services. The distribution of investments by sector also reflects investor interest areas. Investments into Microfinance Institutions (MFIs) reflect the recognition of the large gaps in financial inclusion in the region. As discussed later, MFIs can be a significant catalyst in the implementation of the 2030 Agenda. For example, many MFIs allow borrowers to have access to basic services (SDG 1.4) and also increase access of small-scale enterprises to financial services (SDG 9.3).

Agriculture has received a large number of deals but a limited amount of capital

Many impact investors have investee companies in the agriculture sector, enabling them to reach a large number of smallholders' farmers. This contributes to reducing poverty in rural areas (SDG 1) and fostering food production in order to end hunger (SDG 2). Despite the larger number of deals in agriculture, average deal size tends to be limited when placing capital into small producers. Most investees in agriculture are small enterprises, as large gaps in agricultural supply chains and low productivity make it difficult for farmers and agribusinesses to scale up. For this reason, agriculture represents only 8% of total assets under management in Sub-Saharan Africa, despite being a key sector for impact investors. Housing projects (SDG 11), by contrast, require larger average deal sizes than other sectors because of their typically high construction costs.

TOTAL IMPACT INVESTMENTS BY INSTRUMENT TYPE

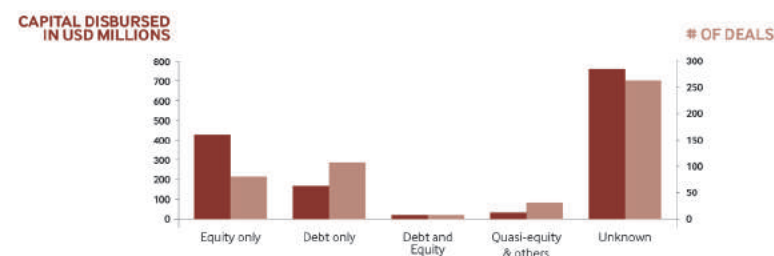


Source: Open Capital Research

East Africa

Deals with disclosed instruments favor traditional debt and equity, as shown in Figure below. However, for a large proportion of deals, the instrument used is unknown, preventing a definitive understanding of the breakdown by instrument.

TOTAL IMPACT INVESTMENTS BY INSTRUMENT



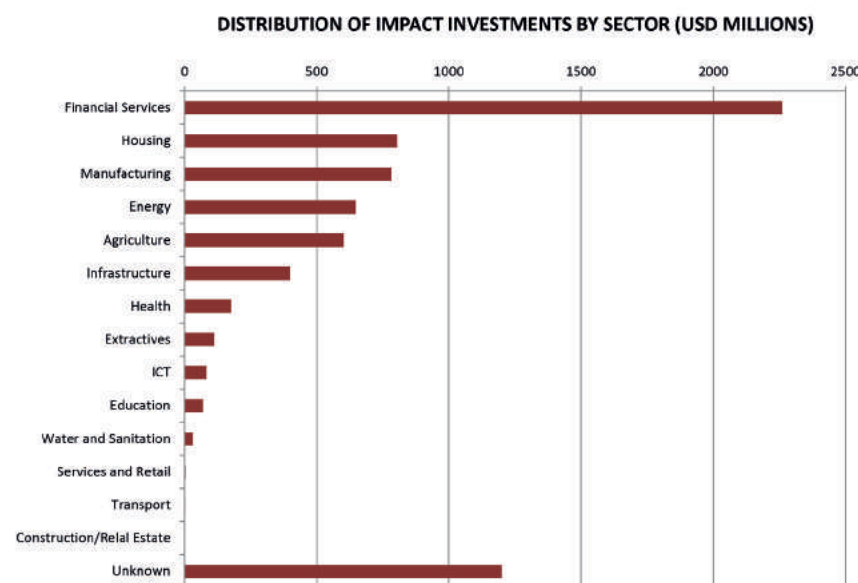
Source: Open Capital Research

Health and Education lag far behind other sectors

Despite their prominence as sectors of interest, health (SDG 3) and education (SDG 4) have seen relatively few deals. The disconnect between interest in these sectors and the impact capital invested implies that investors see limited viable, investible opportunities and have difficulty placing capital in these sectors.

Regional differences

Impact investors in East, West and Southern Africa have all focused their investments in financial services. However, differences appear between these regions. Impact investors have placed a large amount of capital in agriculture in West and East Africa, reflecting the fact that agriculture remains the largest sector in terms of GDP and employment. In Southern Africa, unlike the rest of Sub-Saharan Africa, agriculture is a small contributor to GDP, driven largely by well-developed services markets in South Africa and a strong extractives industry in Angola. Thus, impact investors in Southern Africa have mainly invested in manufacturing (SDG 9) and housing (SDG 11). Agriculture ranks only sixth in impact investment.



5 The concept of additionality

Additionality is one of the main principles driving the workings of the impact investment industry. This principle can be defined as the net positive difference that is expected to result from an impact investment. "It is the extent to which activities (and associated results) are larger in scale, at a higher quality, take place quicker, take place at a different location, or take place at all as a result of a donor intervention"²¹. In other words, to establish whether impact investor support is additional, they have to consider the difference between the counterfactual (what would happen anyway), and the position if and when the investment is implemented.

Bridging financial gaps is at the heart of impact investment. Their purpose is to go where no one has dared to go, where Development Finance Institutions (DFIs) and other corporate actors can hardly invest. Impact investors have to invest in companies that cannot access equivalent support from other actors. Their support either triggers businesses that would otherwise not happen at all, that it makes them better (e.g., by enhancing social impacts) or helps make them happen significantly sooner.

As discussed throughout this report, financial gaps are large in Africa and many African countries still face significant development challenges, while ODA in Africa is expected to decline. To address these challenges, African economies need to consider and capitalize on alternative sources of revenue and investment, hence the need to highlight the importance of the concept of "additionality". The aim of impact investors is to complement the activities of DFIs and philanthropic organizations, to invest where these actors are unable to invest. Yet, only 14% of impact capital disbursed has been made in African Least Developed Countries (LDCs). Western African countries, especially francophone countries have been left behind by impact investors. Similarly, impact investments are largely focused on the microfinance sector, while many other sectors have huge financing needs. It is thus important for impact investors to develop their activities in the neediest countries and sectors to make a more meaningful contribution in terms of additionality.

Bridging financial gaps is at the heart of impact investment. Their purpose is to go where no one has dared to go, where Development Finance Institutions (DFIs) and other corporate actors can hardly invest.

²¹ Scottish Enterprise (2008). "Additionality & Economic Impact Assessment Guidance Note: A Summary Guide to Assessing the Additional Benefit, or Additionality, of an Economic Development Project or Programme", p.22.

3 How does impact investing contribute to meeting the SDGs in Africa?

3 How does impact investing contribute to meeting the SDGs in Africa?

- 1 Fighting poverty and inequalities
- 2 Agriculture, nutrition and food security
- 3 Healthcare, water and sanitation
- 4 Education
- 5 Energy access and low-carbon energy infrastructure
- 6 Infrastructure and innovation
- 7 Sustainable cities
- 8 Environment and biodiversity
- 9 Other relevant SDGs

The 17 SDGs cannot be approached separately in this report because of a lack of data in some areas and a need to summarize the available information. Due to synergies between SDGs, we have grouped the goals into 8 main “SDG investment areas” where the private sector can play a key role: (1) Fighting Poverty and Inequalities; (2) Agriculture, Nutrition and Food security; (3) Healthcare, Water and Sanitation; (4) Education; (5) Energy Access; (6) Infrastructure and Innovation; (7) Sustainable cities; and (8) the Environment. Some other relevant SDGs will also be briefly discussed to give a wider conception of the potential effects of impact investments. In all of these areas, examples of impact investors and investee companies will be given to better illustrate the contribution of impact investment to meeting the SDGs.

1 Fighting poverty and inequalities

SDG 1: “End poverty in all its form everywhere”

Several studies have tried to calculate the equivalent income-transfers needed to bridge the poverty gap worldwide. Greenhill et al. (2015)²², for example, estimate a financial need of USD 148 billion per year to ensure that the income of every person living in extreme poverty is increased to USD 1.25 PPP per day in low-income countries. Needs are particularly high in Sub-Saharan Africa where three out of every four people in Africa still live under poor human conditions, compared to one in five globally²³.

²² Greenhill R., Hoy C., Carter P., and Manuel M. (2015) “Financing the future: How international public finance should fund a global social compact to eradicate poverty”. London: Overseas Development Institute.

²³ OECD, 2016. “African Economic Outlook 2016”.

By investing in high growth potential companies, impact investors generate sustainable earnings or savings for people with low incomes in Africa. Thousands of jobs have been created, usually paid higher than the minimum local wage. But poverty is also alleviated by the impact of investee corporations on their clients. As discussed below, many partner companies meet local unsatisfied demands for goods and services. They also build local networks, generating business opportunities for small-scale suppliers and distributors.

“Ending poverty in all its forms” is not limited to income poverty. As stated in SDG 1.4, it is also necessary to ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, “including microfinance”. Microfinance is not only a factor for financial inclusion, but is also a significant catalyst in the implementation of the 2030 Agenda. By allowing the most disadvantaged to develop income-generating projects and accompanying them through training programs and advice, microfinance aims at alleviating poverty (SDG 1). By fostering access to services in the fields of health, food security, education, energy and housing, the sector confirms its role as a catalyst in global and inclusive development. According to MIX Market, the 219 microfinance institutions (MFIs) in Sub-Saharan Africa reached 5.3 million clients and produced a loan portfolio of USD 8.2 billion with a growth of 16.4%. In Sub-Saharan Africa, almost 60% of borrowers come from rural areas and 75% of borrowers are women. Africa represents less than 10% of the global loan portfolio, estimated at USD 87.1 billion, with Latin America holding almost half of it.

That is why microfinance is a key sector of interest for impact investors since several impact investors have focused solely on microfinance institutions (MFIs), such as Accion, ADA LMDF, Advans, Blue Orchard, Developing World Market, Equator Capital Partners, Gawa Capital, Grameen Crédit Agricole Foundation, Goodwell, Incofin Investment Management, LeapFrog Investments, Microcred, Symbiotics or Triodos Investment Management to name just a few. For example, PAMIGA (Participatory Microfinance Group for Africa) is an initiative of CIDR and leaders in African microfinance. Its mission is to contribute to unlocking the economic potential in rural Africa, by promoting the growth of existing financial intermediaries that serve rural areas. Since its creation in 2005, PAMIGA has developed a group of 14 locally owned African microfinance institutions (MFIs), reaching more than one million clients, with a savings portfolio equal to 55 million euros, and a loan portfolio of 85 million euros.

SDG 8: “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”

✚ Context and Development Issues

Despite the creation of 37 million new and stable wage-paying jobs over the past decade, some 63% of the total labor force in Africa engages in some form of self-employment or vulnerable employment, such as subsistence farming or urban street hawking. If the trends of the past decade continue, Africa will create 54 million new, stable wage-paying jobs over the next ten year. However, this will not be enough to absorb the 122 million new entrants into the labor force expected over the same period²⁴. By 2050, according to the African Development Bank, 450 million young African will enter the job market. This is unprecedented in the history of mankind.

It is not an exaggeration to say that a great part of the political stability and most of the social challenges of the continent will not be solved unless access to formal jobs is provided to African youth. According to the ILO, decent work “involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men”.

✚ Synergies with investment needs in other sectors

Providing decent and formal jobs has a strong influence on health, education and housing, as well as access to energy and water. Most impact investors have put in place an ESG (Environment, Social and Governance) strategy to help improve working conditions and living standards in their investee companies, and to maximize the impact of their business on key development factors. Because the 17 SDGs cannot be approached separately, impact investors also work toward SDG 8 by financing sectors such as health (SDG 3) or education (SDG4). Higher educated people will gain access to higher quality – and thus better paying – jobs, often with better non-wage benefits such as healthcare coverage, paid leave, etc.

✚ Opportunities for public and private financing

Decent and formal jobs can be created by all sorts of businesses, particularly large corporations. However, there are few large corporations in Africa and many of those that can have an impact on the labor market in the coming years are non-African in origin. Hence, a particular focus needs to be made on African-owned Small and Medium Enterprises (SMEs) that are a pillar of job creation in Africa. SME jobs offer higher wages than in the informal sector (50 to 60% higher according to data from Ghana and Tanzania²⁵), are more secure and provide access to training and social security.

63% of the total labor force in Africa engages in some form of self-employment or vulnerable employment, such as subsistence farming or urban street hawking.

²⁴ McKinsey Global Institute (2012). “Africa at work: job creation and inclusive growth”.

²⁵ ANDE (2012). “Small and Growing Businesses: Investing in the missing middle for poverty alleviation”.

SMEs are usually created and run by African managers and foster greater ownership of local growth. They tend to obtain their supplies locally, more than multinationals which rely on international networks for supplies. SMEs can even play a key role in creating and structuring new local sectors. African SMEs have the potential to drive much-needed job creation and economic growth, but they have little access to the capital they need to grow. They are typically too large to be served by microfinance institutions, yet too small and too recently established to be served by commercial banks. While governments may focus on improving the business environment for this category of SMEs, they can also dedicate resources from their sovereign funds, and join forces with DFIs, as well as private corporations, banks, foundations and individuals. Corporations and banks can also find a strategic or economic interest in strengthening their neighboring network of small corporations that are or can become their clients or suppliers.

Impact investors and job creation

Several impact investors are financing this “missing middle” in Sub-Saharan Africa, such as Enablis, GroFin, Investisseurs & Partenaires (I&P), Business Partners, Acumen, SOVEC and Triling Global Impact fund to mention just a few. They are generalist equity funds or financial corporations that provide debt financing to start-ups, as well as to small and very small corporations. The high level of risk of their investments allows some of them to reach close-to-the market IRRs, but in many cases, the financial return for this category of investments is lower than for traditional investments, because of the cost of doing business in this area. In any case, this category of impact investors is very dynamic and deeply meets the demands of society.

SDG 5: “Achieve gender equality and empower all women and girls”

The Sub-Saharan Africa region is one of the poorest performers in terms of gender equality. The gender gap in employment continues to be large: 40% of women are jobless compared to 28% of men²⁷. Inequality in education and occupational segregation entail important disparities in terms of wages. Men’s wages for unskilled labor may be around 2.8 times higher than women wages. Finally, African women are also at a disadvantage in regard to access to bank loans in that formal financial institutions consider women high-risk applicants as they often do not have financial or material security.

In this context, gender lens investing is becoming one of the highest priorities for many impact investors. The bulk of investment needs for achieving gender equality can be included in gender-sensitive sector investments, including education, health, and access to basic infrastructure services. By its sectoral focus, impact investment can highly contribute to promoting gender equality. Microfinance Institutions (MFIs) for example are able to reach a large number of women and to help them gain access to financial services. In Africa, 75% of MFIs borrowers were women according to Microfinance Barometer 2016.

Furthermore, many impact investors have a focus on women empowerment, either as entrepreneurs, employees, clients or subcontractors. By looking at the share of female employees, they are promoting gender equality in employment. By directing capital to enterprises providing goods and services that benefit women and girls, impact investors contribute to promoting gender equality. By financing investees led by women, they are increasing women’s economic participation. Achieving gender equality is not only a matter of money (financing gender-sensitive sectors) but depends mainly on the willingness of each stakeholder to promote women’s participation. Looking at a portfolio through a gender lens may not require moving money from one asset to another. It may mean simply asking new questions, seeing patterns and valuing women all along the value chain.

For example, Women’s World Banking (WWB) is an impact investor devoted to giving more low-income women access to the financial tools and resources they need to build security and prosperity. For more than 35 years, WWB has worked with financial institutions to show them the benefit of investing in women as customers, and as leaders. WWB has worked with its network of 10 African MFIs to create new credit, savings, and insurance products specifically designed for the unique needs of women.

²⁶ IPAE, Annual ESG and Impact Report, 2016. Available at <http://www.ietp.com/en/content/ip-publishes-ipaes-annual-esg-impact-report>.

CASE STUDY

Investisseurs & Partenaires (I&P)



Investisseurs & Partenaires (I&P) is a family of impact funds fully-dedicated to the African continent. With EUR 75 million under management, I&P has invested in almost 60 small and medium-size companies across 15 countries. I&P brings long-term financing (ranging from EUR 30K to EUR 1.5M) as well as strategic, managerial and technical support to its investees. As an impact investor, I&P strives to maximize the economic, social and environmental impacts of its partners and to actively contribute to African development. It aims to support African entrepreneurs, able to build ethical, profitable

and sustainable businesses with high local added value. I&P is developing a network of locally rooted African investment firms, which can finance smaller firms and start-ups even in very poor countries, such as Niger, for instance. Three African funds have already been created and ten have been targeted. I&P also operates through a pan-african SME fund and is raising funds in order to create a new impact fund dedicated to small African infrastructure (energy, water, sanitation, health, education and transportation).

Investisseurs & Partenaires (I&P) have created or maintained 2,150 jobs in its partner companies since 2012, i.e., 14 jobs created or maintained for every EUR 100,000 invested. On average, the minimum wage is 55% higher than the decent wage in their investee companies²⁶. As part of the decent work agenda, 80% of their partner companies offer health insurance to their employees. Training is also at the heart of I&P’s investee companies since 80% did at least one training in 2015.

²⁷ ILO (2014). “Global Employment trends 2014”.

For its parts, Alitheia Identity Managers has announced a partnership with Capria Ventures, a global impact investment firm that works with local fund managers to accelerate the flow of capital in emerging markets. Female entrepreneurs, women-led and gender-diverse management teams are particularly set to benefit. A key philosophy of the fund is that high performing female entrepreneurs are not present where typical fund managers seek investments, resulting in significant lost opportunities for such entrepreneurs to scale their business and lost opportunities for fund managers to back formidable high-growth businesses.

Similarly, The Makeda Fund was jointly established by SEAF and NOI Consulting to support the development of women-owned and women-managed SMEs in Africa. The Makeda Fund invests in SMEs in West Africa (with a particular focus on Nigeria) that are owned or led by women or that exemplify significant impact on women stakeholder communities.

SDG 10: “Reduce inequality within and among countries”

In 2015, 50% of impact investments were in developing countries (GIIN and JP Morgan, 2016). Sub-Saharan Africa absorbed 19% of total assets under management in 2015 and emerged as the region where the highest number of respondents (54%) planned to increase allocations in the future, followed closely by East and South East Asia (50%). By investing in countries left behind by traditional investors, impact investors strongly contribute to reducing inequality among countries. For example, the International Finance Corporation (IFC) operates a pioneering small-business funds program, SME Ventures, in post-conflict and other fragile economies (Sierra Leone, Liberia, Democratic Republic of Congo and Central Africa Republic).

This contribution needs to be qualified by the fact that impact investments are concentrated in a limited number of African countries, especially South Africa. Only 14% of impact capital disbursed has been made in African Least Developed Countries (LDCs), and once again investments were mainly concentrated in a small set of countries (Uganda, Tanzania and Angola). Studies led by the GIIN were unable to find any evidence of impact investments in Eritrea, Djibouti, Sudan or Somalia, and only minimal activity in Burundi, South Sudan, Rwanda and most Western African countries. It is thus important for impact investors to develop their activities in the neediest countries to make a more meaningful contribution to inequality reduction across African countries.

Impact investors contribute to reducing inequalities by investing in the poorest countries as well as by investing in the poorest areas within a country, and by investing everywhere for the benefit of the poorest populations (BoP). By targeting Small and Medium Enterprises (SMEs), rural region and small farmers, women and young people, many impact investors significantly contribute to reducing inequality within countries. Not all investee companies are focused on the bottom of the pyramid but many of them reach particularly poor people, hire disadvantaged people or work with remote providers.

For example, SIDI, International Solidarity for Development and Investment, is a social business created in 1983 by the French NGO CCFD-Terre Solidaire. SIDI strives to contribute to the building of a more inclusive economy and promotes the financial inclusion of vulnerable populations by strengthening a network of local actors of economic development, such as Microfinance Institutions (MFIs) which tailor their services for populations excluded from traditional banking, especially in rural areas, and Producers’ Organizations (POs) that are working to secure and increase the small-scale farmers’ revenues.



2 Agriculture, nutrition and food security

Investing in agriculture is one of the most effective strategies for economic growth and poverty reduction in rural areas. The SDGs emphasize the need to ensure food security and improved nutrition, as well as guarantee incomes for small-scale farmers through sustainable agricultural practices. Some necessary investments are in eliminating hunger; improving nutrition; meeting the special needs of smallholder farmers or artisanal fishermen; maintaining and restoring productive soils; rural infrastructure; increasing the productivity and sustainability of commercial agriculture; reducing greenhouse gas emissions from agriculture; and increasing the resilience of agriculture to climate.

Context and development issues

Africa contains 60% of the world's uncultivated arable land, approximately 70% of the population is directly employed in the agricultural sector, which accounts for approximately 30% of the region's GDP²⁸. As the dominant source of income in Africa, agriculture is most likely to impact economic growth. However, most countries in Africa exhibit a large, under-resourced subsistence agricultural sector characterized by low productivity. Those countries that have relatively high proportions of subsistence agriculture tend to lag behind in terms of human development. Indeed, approximately 21% of Africa's population is malnourished²⁹. Hunger and poor food security lead to under-nutrition, with dire consequences on health, well-being, and economic capacity and growth. It is thus important to break this vicious circle by investing in rural development.

The United Nations Sustainable Development Solutions Network estimates that USD 46 billion needs to be annually invested to “end hunger, achieve food security and improved nutrition, and promote sustainable agriculture” (SDG 2, UN, 2015). Given its relatively low level of development and the predominance of agriculture, Africa should be a priority for impact investors.

Furthermore, climate change will have a significant impact on the investment needs for food security and sustainable agriculture by influencing where crops can be grown and livestock reared. Depending on the local context, yields may be affected both negatively (from increased weather variability and extremes, reductions in rainfall) and positively (through lengthened growing seasons). However, overall the IPCC predicts that agriculture will be negatively affected in most regions in the longer term³⁰. It appears that developing countries in lower latitudes (i.e., closer to the equator) will suffer earlier and greater damage to agriculture³¹; thus Sub-Saharan countries will be significantly affected. As a result, the development of irrigation and access to new drought-resistant

or flood-tolerant crops will become essential in order to maintain agricultural productivity and food security in Africa.

Synergies with investment needs in other sectors

Agriculture, nutrition, and food security are among the investment areas that exhibit the strongest synergies with other investment areas, since food production and consumption affects water and land resources, biodiversity, health, and climate. Agriculture accounts for 10 to 12% of global greenhouse gas emissions (IPCC 2014), notably through methane emissions from livestock and rice paddies, as well as nitrous oxide from the use of fertilizer. Changes in cultivation methods will have to play a significant role to mitigate agricultural pollution, but investments are also possible at the processing stage.

With food expenses accounting for 50 to 70% of spending by people living under the USD 1.25-a-day poverty line, action to eradicate hunger is also closely related to ending extreme poverty (SDG 1).

Opportunities for public and private financing

UNCTAD³² projects that 75% of agricultural investments, or USD 35 billion out of USD 46 billion needed to achieve SDG 2, can be privately financed. This private investment share results from the fact that the bulk of UNCTAD's investment needs cover investments to increase the productivity of commercial agriculture, which should indeed be overwhelmingly privately financed. Thus, agriculture is one of the main sectors where the private sector can play a key role in achieving the SDGs.

Agriculture is a key sector for impact investors, and receives a great number of deals. For impact investors, agriculture is full of high impact opportunities where investee companies can easily reach large numbers of people often living in poor conditions and have the potential to make a difference in many lives. Yet, as seen in Section 2, the average deal size tends to be limited when placing capital into small producers, explaining why agriculture only represents 8% of total assets under management in Sub-Saharan Africa.

²⁸ African Development Bank Group (2014). “Inclusive Growth: An Imperative for African Agriculture”.

²⁹ FAO (2015). “The State of Food Insecurity in the World”.

³⁰ IPCC (2014). “IPCC Fifth Assessment Report: Climate Change 2014 Synthesis Report”.

³¹ Mendelsohn R., Dinar A. and William L. (2006). “The distributional impact of climate change on rich and poor countries”.

³² UNCTAD (2014). “World Investment Report 2014”.

Impacts are high through investments in agriculture, both on suppliers and clients

Impact investors in the agriculture sector

Many impact investors have investee companies in the agriculture sector. Some impact investors focus exclusively on this sector, including Injaro, AgDevCo, Agri-Vie, Doreo Partners, Root Capital or Voxtra to mention just a few.

Impact funds can contribute to SDG 2 in many ways by investing across the entire value chain, from farming companies to food processing, seeds, soil health products, crop protection companies, etc. Investisseurs et Partenaires (I&P) is also fostering the development of irrigation in West Africa by investing in Delta Irrigation, a company that sells and installs irrigation equipment and provides technical assistance to its clients in Senegal and Côte d'Ivoire. Regarding nutrition, Investisseurs et Partenaires (I&P) has also invested in Nutrizaza, a Malagasy-based company fighting against infant and child malnutrition. In line with SDG 2.2 (end all forms of malnutrition), the company has developed a network of restaurants for babies alongside with the commercial selling of a range of enhanced baby food.

Impacts are high through investments in agriculture, both on suppliers (e.g., processing facilities help to structure networks of out-growers) and clients (e.g., access to essential food commodities for people at the bottom of the pyramid). For example, Root Capital, an agricultural impact investor, promotes food security by financing vital pre-harvest inputs for domestic crop production, such as drought-resistant seed, and by financing businesses that produce dietary staples such as dairy products and maize for sale in domestic markets.

Furthermore, access to suitable financial services is an essential condition for achieving SDG 2. For example, micro-insurance of crops and livestock is bound to play a steadily increasing role in the protection of family farms against natural risks, as well as provide incentives for smallholder to increase production. For example, Alterfin grants loans to microfinance institutions (MFIs) who in turn offer microloans to small local businesses and farmers. Alterfin invests in several microfinance institutions and fair trade farmers and producers cooperatives in Africa. Another example could be investments in leasing companies. For instance, AgDevCo has invested in EFTA Ltd, a Tanzanian finance company which provides SME businesses with equipment leases.

Measuring contributions to SDG2

Many agricultural indicators can be monitored as shown in IRIS metrics that are designed to measure the social, environmental and financial performance of an investment. These include for example the number of smallholder farmers who sold to an enterprise, the value of payments made to smallholder farmers, the amount of pesticides used, the type of crop(s) produced, the type of payment (direct payment), the amount, etc. In order to "end hunger and ensure access by all people to safe, nutritious and sufficient food all year round" (SDG 2.1), impact investors can measure the quantity of product exported and the percentage that is locally consumed. It is also important to monitor the average agricultural yield per hectare in order to reach SDG 2.3 aiming to double the agricultural productivity.



CASE STUDY

Injaro, unlocking the potential of agricultural SMEs in West Africa



Injaro is an impact-oriented fund manager primarily focused on agribusiness opportunities in West Africa. Injaro targets individuals who earn a daily wage of USD 2 or less; and smallholder farmers who cultivate less than 2 ha of land and provide/derive products/services to/from their investee companies. When assessing an investment, they take into account social impact factors such as potential job creation, income provision of goods and services for their target group (low income people), and potentially increasing local sourcing of inputs.

Injaro has invested in SeKaf, a Ghanaian-based company that has built on a strong impact story and actively signed on 22 sheanut collector villages under its Ecocert/Organic certification. SeKaf has also setup a Village Savings & Loans scheme to reduce the number of unbanked people in the region where the company operates and to progressively increase the number of women it actively supports. SeKaf has begun the construction of a biogas plant aiming at substantially reducing waste generation through prevention, reduction, recycling and reuse in line with SDG 12.5.

3 Healthcare, water and sanitation

SDG 3 and its associated targets focus on tackling major infectious diseases, non-communicable diseases (NCDs), child and maternal mortality, sexual and reproductive health, as well as providing universal health coverage (UHC). The SDG agenda for health is considerably broader than the MDG agenda, notably through its focus on universal access to health systems and the inclusion of the targeting of NCDs.

Context and development issues

Many of the world's poor are excluded from decent health services. The World Health Organization (WHO) estimates that approximately 47% of the African population has low or no access to basic health care services³³. In addition, more than 800 million Africans do not have adequate sanitation services and almost 300 million live without access to clean and safe water, resulting in widespread preventable diseases such as cholera, which in turn affect key areas for development, such as access to education, employment and labor productivity.

Current estimates suggest that in order to "ensure healthy lives and promote well-being for all, at all ages" by 2030 (SDG 3), USD 51-80 billion will be needed in developing countries alone³⁴. For its part, Hutton³⁵ provides one of the most comprehensive assessments of investment needs for access to water supply and sanitation, estimating that almost USD 50 billion per year will be needed between 2015 and 2030 in order to reach SDG 6.

Synergies with investment needs in other sectors

Policies and investments in many other areas contribute to improving or worsening health outcomes. Examples include providing safe water and improved sanitation to reduce diarrheal diseases and improve nutrition, improving access to clean cooking fuels to reduce pulmonary infections and related NCDs, building transport infrastructure and services to improve access to health facilities, promoting gender equality to improve women's and children's health outcomes.

Opportunities for public and private financing

In both developed and developing countries, the private sector plays a major role in the delivery of healthcare services. Private health insurance can make significant contributions to health financing in developing countries where there is a lack of social safety nets. In the health sector, private household expenditure on health in developing countries accounts for a significant share of total expenditures, often higher than in high-income countries. Yet, Oxfam claims that the private sector does not respond to healthcare needs of its poorest citizens³⁶. On the other hand, IFC released a report highlighting the key role that the private sector can play in meeting the needs of more and better health provision in Sub-Saharan Africa³⁷. Though the purpose of this study is not to debate the benefits on public versus private healthcare provision, it is clear that private sector participation will be essential to achieve SDG 3 and SDG 6 in any meaningful way.

Household financing for water and sanitation can also be a critical tool for ensuring effective water use. Tariffs on water can help reduce water wastage and increase efficient water use by discouraging its use for low-value purposes. Current private sector investment in the water and sanitation sector is low. The 2012 Global Analysis and Assessment of Sanitation and Drinking Water³⁸ estimates that a mere 7% of total spending comes from the private sector. The potential for increasing this share appears to be strong. UNCTAD (2014) estimates that private sector investment in water and sanitation can reach up to 20% in developing countries. In other words, some USD 10 billion of the USD 40 billion gap might be financed by the private sector.

As seen above, despite its prominence as a sector of interest, the health sector has seen relatively few deals. It implies that impact investors see limited viable, investible opportunities and that they may have difficulty placing capital in this sector. Still, the private sector plays and will continue to play a key role in the delivery of health services and water and sanitation infrastructures.

Impact investors in the Health sector

When speaking about healthcare services, people tend to think primarily of healthcare clinics or facilities, which are traditionally impact investor interest areas. However, guaranteeing the delivery of health services includes, but is not limited to, clinics. Impact investors can focus on any business that powers any dimension of the healthcare industry, including health insurance providers, pharmaceutical companies and even healthcare equipment providers.

Approximately 47% of the African population has low or no access to basic health care services

³³ WHO (2004).

"World Medicines Situation Report".

³⁴ UN (2015). "The Addis Ababa Action Agenda of the Third International Conference on Financing for Development".

³⁵ Hutton G. (2015). "Benefits and Costs of the Water and Sanitation and Hygiene Targets for the Post-2015 Development Agenda".

³⁶ Oxfam (2009). "Optimisme aveugle : Une remise en question des mythes concernant les soins de santé privés dans les pays pauvres".

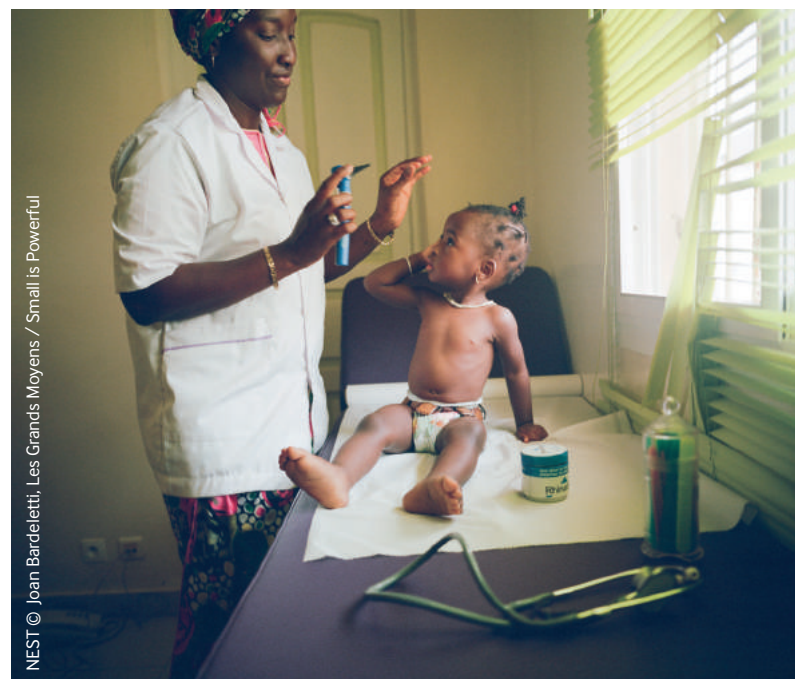
³⁷ IFC (2010). "Investir dans la santé en Afrique: Le secteur privé : Un partenaire pour améliorer les conditions de vie des populations".

³⁸ UN (2012). "2012 Global Analysis and Assessment of Sanitation and Drinking Water".

For example, The Africa Health Fund (AHF), managed by Aureos (now The Abraaj Group) is a private equity fund which seeks to develop SMEs in healthcare related services and industries. In 2012, The Africa Health Fund (AHF) completed a USD 5 million investment in Therapia Health Limited, the first assisted reproductive center in West Africa.

Beyond Capital Fund (BCF) is another impact investment fund that focuses on the water, waste and sanitation healthcare sectors in India and East Africa. They have invested in Penda Health, a Kenyan-based company that delivers affordable, high quality outpatient healthcare by way of a chain of medical clinics. BCF has also invested in Koosongo, a social venture that produces and sells low-cost ceramic water filters (CWFs) in urban and rural markets in Burkina Faso. These ceramic water filters do not need any electricity or chemical additives. Up to 25 liters per day (enough to meet the drinking needs for a family of five) can be filtered for removal of turbidity, bacteria, and parasites and then safely stored. Safe storage is an added benefit of Koosongo's filter, further helping to reduce waterborne disease.

Impact investors can also reduce the financial barriers people face in accessing financial services by investing in microfinance institutions (MFIs). MFIs can manage healthcare financing products, such as healthcare loans, healthcare savings, microinsurance or prepaid packages to help cover the healthcare needs of their clients. They can also provide certain healthcare-related services, such as preventive healthcare education. When MFI clients are armed with healthcare information and access to financial services, the goal of achieving improved health and wellbeing is within reach. Giving populations the capacity to pay for healthcare injects financing into the healthcare system allowing the sector to reinforce the supply of healthcare services.



NEST © Joan Bardeletti, Les Grands Moyens / Small is Powerful

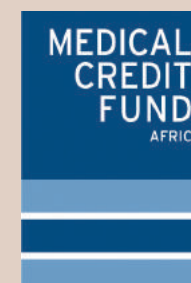
Measuring contributions to SDG 3

In order to measure contributions to SDG 3, many indicators can be monitored, such as number of healthcare units provided, number of clients served, number of caregivers employed, health intervention completion rate, facility utilization rate, diseases treated, etc. In the case of a maternity hospital for example, monitoring the maternal mortality rate would be an essential indicator to help achieve SDG 3.1 aiming to reduce the global maternal mortality ratio to less than 70 per 100,000 live births by 2030. Similarly, it is important to monitor diseases addressed by the investee companies in order to reach SDG 3.3 aiming to end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases.



CASE STUDY

The Medical Credit Fund, Financing medical quality improvement in Africa



The Medical Credit Fund (MCF) is a non-profit health investment fund that helps private healthcare facilities in Africa obtaining capital to strengthen and upgrade their operations in order to enhance access to affordable quality healthcare. To achieve this objective, the MCF provides performance-based

financing in combination with technical support to eligible private primary healthcare providers. Founded in 2009 by PharmAccess International, the MCF already has a large network of clinics in Africa: 200 clinics in Kenya, 121 clinics in Nigeria, 91 clinics in Ghana and 46 clinics in Tanzania. The number of patient visits per clinic varies largely from 5,000 to around 30,000 per year, up to 70% of which are made by patients in the lower income segments. Most patients visit the clinic for post-natal care and illnesses such as malaria, HIV/AIDS, respiratory infections, chronic diseases, skin infections and diarrhea.

4 Education

The SDGs include a strong focus on quality education at the pre-primary, primary, secondary, and post-secondary education levels, as well as on adult literacy. This represents a substantial broadening of the education agenda compared with the MDGs, which focused on enrolment in primary schools. Moreover, focus is shifting from increasing enrollment levels towards achieving education outcomes since it has been consistently shown that enrollment alone does not necessarily lead to adequate results (UNESCO 2010, 2014).

Context and development issues

Access to education remains a substantial challenge in Africa. In 2012, 56 million sub-Saharan Africans aged 15 to 24 (equal to one third of the population), had not completed their primary school education and lacked skills for work³⁹. Drivers for low education levels include insufficient investment in schools, teachers, and textbooks, as well as dependence of low-income households on additional income generated by children and youth.

The most recent Education for All Global Monitoring Report⁴⁰ estimates incremental investment needs for the education SDG at USD 40 billion between 2015 and 2030.

Synergies with investment needs in other sectors

Good education outcomes depend not only on functioning education systems, but also on progress in other sectors⁴¹. Improved access to water, sanitation, transport services, modern energy, and other infrastructure services all increase school attendance of children, especially of girls in middle school. In particular, access to electricity and lighting has been shown to increase education outcomes by enabling children to do homework after dusk⁴². A major drag on education outcomes in developing countries stems from poor child health, particularly inadequate nutrition⁴³. Greater gender equality, particularly the education of mothers, has also been shown to improve learning outcomes among children (UNESCO, 2010).

The consequences of low levels of access to education are significant, as education obviously plays a critical role in determining future employment prospects, and represents one of the main paths to escaping poverty. Thus, impact investments in education will also contribute to eradicating poverty (SDG 1).

Opportunities for public and private financing of education

As in the health sector, private household expenditure on education in developing countries accounts for a significant share of total investments and may be as high as 30% (UNESCO, 2015a). In many countries private schools provide a growing share of primary and secondary education. Indeed, private spending on education represents a higher share of total spending in low- and lower-middle-income countries than in high-income countries (UNESCO 2015a). Strong evidence exists that suggests privately-operated schools can produce good learning outcomes at comparatively modest cost. The debate on public versus private provision of schooling goes beyond the scope of this paper but the private sector will undoubtedly have to be fully engaged in order to achieve SDG 4.

Impact investors in the education sector

Impact investors help to reach SDG 4 by financing schools. They traditionally invest in low-cost schools or universities but they also contribute to building whole education ecosystems. Indeed, impact investors invest across the educational spectrum in models that impact learning outcomes, such as providers of educational materials and education-related services to teachers and students. SDG 4 also promotes lifelong learning opportunities for all. More precisely, SDG 4.4 aims to substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills for employment, decent jobs and entrepreneurship. For example, Investisseurs et Partenaires (I&P) has invested in TRAINIS, a Malian-based company that offers general high-level management training. TRAINIS responds to a strong need for training among African executives who want to get in line with international standards.

Education costs are a major barrier for students, parents and providers. Innovations that balance quality and quantity on the supply side with the demand-side requirements for education services will be crucial. Microfinance is an important channel to address those challenges. On the supply side, MFIs can improve the financial capacity and efficiency of the education system. Loans to schools can channel investment capital to address insufficient or out-dated educational material or poor physical infrastructure. These can be furthered leveraged when bundled with capacity-building services such as training for teachers or enhancing school safety standards. On the demand side, barriers to school entry disproportionately impact the poorest children and youth, hence a need for education finance products.

In 2012, 56 million sub-Saharan Africans aged 15 to 24 (equal to one third of the population), had not completed their primary school education

³⁹ UNESCO (2012). "One third of young people in Sub-Saharan Africa fail to complete primary school and lack skills for work".

⁴⁰ UNESCO (2015b). "Education for All Global Monitoring Report: The cost of reaching new targets by 2030".

⁴¹ UNESCO (2015a). "Education for All Global Monitoring Report: Education for All 2000-2015 Achievements and Challenges".

⁴² Modi V., McDade S., Lallement D. and Saghir J. (2006). "Energy Services for the Millennium Development Goals".

⁴³ Bhutta Z.A. et al. (2013). "Evidence based interventions for improvement of maternal and child nutrition: what can be done and at what cost?"

For example, the Regional Education Finance Fund for Africa (REFFA) was initiated by KfW Development Bank in order to facilitate the demand-driven and sustainable provision of education finance services in African countries. The Fund was set up primarily to support students and their families by giving them access to customized education finance products that can help them reduce the financial burden of education.

Measuring contributions to SDG 4

Once invested in the education sector, an impact investor can monitor a number of indicators, such as the number of students enrolled (SDG 4.1), number of teachers employed, teacher and student attendance rate, percentage of students advancing from one level of schooling to the next, student dropout rate, student to teacher ratio, school fees, existence of scholarship programs (SDG 4.b), existence of subsidized meals, value of new education facility materials provided to students during the reporting period, textbook to student ratio, student to toilet ratio, hours of school offered per week, etc. A gender focus will be needed for most of these indicators in order to reach SDG 4.5 (eliminate gender disparities in education and ensure equal access to all levels of education and vocational training).

5 Energy access

By including a goal on sustainable energy and energy access, the SDGs are filling a major gap in the MDGs, which omitted any references to energy. Investment needs in energy in Africa are vast. They include universal access to electricity and modern cooking solutions, increased power generation, transmission for industrial and other needs and funding carbon-free energy sources.

Context and development issues

More than 700 million people (two-thirds of the population) in Africa live without access to electricity⁴⁴. Access to energy for cooking, lighting and heating therefore remains a key challenge for many African households with many relying on the traditional use of solid biomass (firewood and charcoal and dried animal dung) for cooking. Unfortunately, cooking with these solid fuels has significant negative environmental and health implications including potential risks for pneumonia among children and chronic respiratory disease among adults. For households living off the grid, kerosene lamps are the primary lighting source—an expensive technology that is also unsafe, because kerosene is flammable as well as poisonous when inhaled or ingested.

SDG 7 calls on the global community to “ensure access to affordable, reliable, sustainable and modern energy for all” (UN, 2015). The demand for energy is growing in developing countries, with the estimated need for investment in renewable energy at around USD 34 billion (UN, 2015; Schmidt-Traub and Sachs, 2015).

More than 700 million people (two-thirds of the population) in Africa live without access to electricity. Access to energy for cooking, lighting and heating therefore remains a key challenge for many African households

Synergies with investment needs in other sectors

The positive impacts of clean energy development on outcomes in other sectors have been widely documented. Poor households often spend high proportions of their income on cooking fuels and electricity (e.g., to charge their mobile phones). Access to affordable fuels frees up income for other basic needs and helps improve food security. Access to modern energy also promotes education, by reducing the pressure on children to participate in the collection of fuel, and allowing them to study after nightfall and in the early morning. Modern energy services also promote gender equality and health outcomes. The Global Burden of Disease study estimates that between 2.7 and 4.4 million people worldwide die from household air pollution from solid fuels every year, making it the third leading risk factor for global disease burden⁴⁵. Achieving the goal of universal access to clean cooking fuels would have huge impacts on health outcomes throughout the developing world. Switching from fossil fuels and promoting energy efficiency will also reduce air pollution.

⁴⁴ Africa Energy Outlook (2014). “Energy in Africa Today”.
⁴⁵ Lim S. et al. (2013). “A comparative risk assessment of burden of disease and injury attributable to 67 risk factors clusters in 21 regions, 1990-2010: a systematic analysis for the Global Burden of Disease Study 2010”



CASE STUDY

Pearson Affordable Learning Fund (PALF)

The Pearson Affordable Learning Fund (PALF) makes significant minority equity investments in for-profit companies to meet the growing demand for affordable education across the developing world. PALF’s mandate is to invest in companies that can build quality, scalable education solutions to meet a growing demand for affordable educational services.

Since 2012, PALF has invested in and managed ten companies, serving over 125,000 children in South Africa, Ghana, Kenya, Tanzania, Nigeria, India and the Philippines.

The PALF has also invested in Omega Schools, a chain of schools in Ghana delivering quality affordable education to 20,000 students. An important innovation pioneered by Omega Schools has been the introduction of the daily fee which caters to the many parents who cannot afford to pay monthly or term fees.

Opportunities for public and private financing

Historically, private investment in the energy sector of developing countries has accounted for some 43-47% of the total investment (UNCTAD 2014). Applying this same share to investment needs suggests that the private sector may provide some USD 16 billion in financing for achieving universal access to electricity. Similarly, improved cooking stoves can absorb substantial shares of private investments since many households are able to afford more efficient stoves that reduce daily expenditure of cooking fuels, particularly in urban and peri-urban areas.

Impact investors in the energy sector

The most financed renewable energies and energy efficiency solutions are solar home systems, efficient cook stoves, biodigesters, and efficient refrigerators. In addition to equipment manufacturers, impact investors are also investing in companies involved with energy-related activities, such as solar panel distributors or micro-finance institutions providing loans for solar customers.

For example, Persistent Energy Capital (PEC) is an impact investor focusing on startups and early stage companies in the off-grid energy sector. Similarly, the "Oasis Energy - Solar for All Fund", launched by Ashoka, Bamboo Finance, and the Canopus Foundation, invests in companies that bring affordable solar power to markets that are without access to electricity. Investments are made as equity or debt in companies across the solar PV supply chain, from manufacturing and distribution to end-user finance.



Measuring contributions to SDG 7

According to IRIS metrics, numerous indicators can be monitored, including number of clients, number of units sold, energy generated for sale, etc. A particular focus can be made on the type of clients reached to be in line with achieving SDG 7.1 (ensure universal access to affordable, reliable and modern energy services). The type of energy produced is also a key concern in order to "increase substantially the share of renewable energy in the global energy mix" (SDG 7.2.). To reach SDG 7.3 ("double the global rate of improvement in energy efficiency by 2030"), several indicators can be monitored, such as greenhouse gases (GHG) generated, energy savings from products sold, GHG reductions due to products sold, product lifetime, etc.



CASE STUDY

Energy Access Venture, electrifying Africa



The Energy Access Ventures Fund provides long-term funding to support access to energy for the poorest populations by strengthening local energy infrastructure in Africa. It aims to provide electricity for a million people by 2020.

The Fund will target smaller businesses in Africa that specialize in promoting low-carbon and low cost electricity access solutions in rural areas and close to main towns that cannot access regular financing. In addition to funding, a range of technical support

services will be provided to offer practical help and advice for local businesses concerning management, governance, energy efficiency, and environmental best practices.

The Energy Access Venture has invested in PEG, a Ghanaian-based company that distributes and finances solar home systems for low-income households in rural and peri-urban areas. PEG enables customers to replace their perpetual spending on polluting fuels such as kerosene, with the purchase of solar energy that quickly becomes an asset the customer owns. PEG is offering a pay-as-you-go system for which fees are collected via mobile phone systems. The key element of the pay-as-you-go solar model is enabling low-income earners in off-grid locations to make small payments towards acquiring solar systems and electrical devices that would ordinarily be out of their reach.

6 Infrastructure and innovation

Achieving the SDGs will require significant increases in investments in infrastructure and innovation (SDG 9). Transport infrastructure, including roads, railways, and ports, is critical for promoting trade and economic growth, as well as facilitating access to services for previously unserved populations. Road networks provide links to global and local markets. Information and Communication Technologies (ICTs) democratize access to information and reduce transport costs by allowing people to conduct transactions remotely. It therefore represents an important investment area for achieving the SDGs. In addition to increasing the level of infrastructure investments, the composition of capital investments must shift away from unsustainable technologies (e.g., high greenhouse-gas emitting energy technologies or inefficient water use) towards sustainable infrastructure.

Context and development issues

Infrastructure development has been responsible for more than half of Africa's recent improved growth performance and has the potential to contribute even more in the future. Simulations suggest that if all African countries were to catch up with Mauritius (the regional leader in infrastructure), per capita growth in the region could increase by 2.2 percentage points. Catching up with the Republic of Korea would increase per capita growth by 2.6 percentage points a year⁴⁶.

Africa's infrastructure networks increasingly lag behind those of other developing countries and are characterized by missing regional links and stagnant household access. In most African countries, particularly the lower-income countries, infrastructure emerges as a major constraint on doing business, depressing firm productivity by about 40%⁴⁷. Infrastructure development is critical to economic growth and development on the African continent and remains one of the main obstacles to productivity.

Meeting Africa's infrastructure needs calls for a very substantial program of infrastructure investment and maintenance which includes completing the intraregional fiber-optic backbone network and continental submarine cable loop, interconnecting capitals, ports, border crossings, and secondary cities with good quality road networks, providing all-season road access to Africa's high-value agricultural land, providing global mobile voice signal systems and public access broadband to 100% of the population, etc.

Implementing such an ambitious program to address Africa's infrastructure needs would cost around USD 93 billion a year (about 15% of the region's GDP). Some two-thirds of this total relates to capital expenditure, and the remaining one-third to operation and maintenance requirements⁴⁸.

Opportunities for public and private financing

Regarding transport infrastructure, UNCTAD (2014) estimates that the private sector will cover 52-57% of total costs. Similarly, the private sector is expected to cover 54-86% of total costs for telecommunications infrastructure.

Impact investors and the Infrastructure sector

Impact investors have a wide range of opportunities to invest in the infrastructure sectors in Africa, from power to transport, irrigation, water and sanitation, and information and communication technologies (ICTs).

Investisseurs et Partenaires (I&P), with InfraMed, launched I&P Africa Infrastructure (IPAI), a fund dedicated to supporting a wide range of small infrastructure projects in Africa such as oil residue recycling unit, hospital project, photovoltaic panels on carports, desalination plant, hydropower facility and cotton biomass power plants.

Information and communication technologies (ICTs) can accelerate progress towards achieving the SDGs and lower the cost of doing so, notably in health, education, and agriculture, but also in the energy and water sectors by helping to monitor and reduce consumption. ICTs can also make production processes more efficient, facilitate the collection and exchange of information, and help create, organize and strengthen communities.



⁴⁶ Foster V. and Briceno-Garmendia C. (2010). "Africa's Infrastructure: A Time for Transformation". The World Bank.

⁴⁷ Escribano A., Guasch J.L., and Pena J. (2008). "Impact of Infrastructure Constraints on Firm Productivity in Africa". Working Paper 9, Africa Infrastructure Sector Diagnostic, World Bank, Washington D.C.

⁴⁸ Foster V. and Briceno-Garmendia C. (2010). "Africa's Infrastructure: A Time for Transformation". The World Bank.

For example, the Media Development Investment Fund (MDIF) invests in independent media around the world providing the news, information and debate that people need to build free, thriving democratic societies. In 2013, MDIF's investee companies provided news and information to more than 55 million people worldwide. In 2011, MDIF provided a loan to Radio Breeze, a Zambian radio station, to purchase transmission equipment and conduct a follow-up marketing campaign as it expanded its provision of independent news and information to listeners in the far north and west of the province. MDIF also provided launch capital for NewsDay, a Zimbabwean newspaper, and for its publishing company to open a printing house in Harare, ensuring that the newspaper would not be reliant on state-owned printers.

Another example of impact fund fostering innovation is eVentures Africa Fund (eVA Fund), which invests in small and medium sized African internet-related companies. eVA Fund has invested in Verviant, a Kenyan-based software and web development company, and in MoboFree, one of the leading African mobile social market place that allows people to buy, sell and swap products online. Over 3 million users are registered on MoboFree. Their portfolio also includes Nomanini, a South African-based payments platform provider. Nomanini was set out to solve the problem of distributing mobile prepaid services in townships and rural areas. Their product enables informal market entrepreneurs working within their local community to print and sell airtime easily. Rural communities can thus conveniently access and participate profitably in this massive and essential mobile services value chain.

7 Sustainable cities

More than half of the world's population now lives in urban areas. By 2050, that figure will have risen to 6.5 billion people, two-thirds of the world's population. Sustainable development cannot be achieved without significantly transforming the way we build and manage our urban spaces. Making cities safe and sustainable means ensuring access to safe and affordable housing and upgrading slum settlements. It also involves investing in public transport, creating public green spaces, and improving urban planning and management.

Context and development issues

Urbanization is a strong component of Africa's economic growth. With an annual urbanization rate of 3.5% over the past two decades, African cities are the fastest growing in the developing world. Currently, about 40% of the continent's one billion people live in cities and towns, and it is estimated that by 2030 50% of Africa's population will be living in an urban environment. One of the central challenges created by Africa's rapid urbanization is poor-quality housing units or "urban slums". The African slum population is estimated at 400 million people representing 40% of its population⁴⁹. Furthermore, as urbanization grows the demand for housing rises. Yet the majority of the new urban residents do not have access to suitable housing solutions or incomes that can finance house ownership.

*by 2030 50% of
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will be living in an
urban environment.*

Impact investors in the housing sector

Impact investors can play a catalytic role in funding affordable housing projects by bringing co-investors to the table and creating new financing approaches. Impact investors can contribute to the housing sector and to making cities sustainable by financing real estates as well as by financing building material companies and the actors involved in building construction sectors. Indeed, quality affordable housing is the product of a healthy housing ecosystem where each step of the supply and demand side value chain functions efficiently.

⁴⁹ United Nations Settlements Programme (2010). "The State of African Cities".

For example, the AAROH FUND, founded in 2011, invests in entities that advance the development of productive housing ecosystems in emerging countries. Similarly, Phatisa manages the Pan African Housing Fund (PAHF) dedicated to affordable housing in East and Southern Africa. It seeks to provide risk capital to real estate projects on a joint-venture basis to selected local developers and work closely with these developers to increase their capabilities across both technical and scale dimensions. To date, they have created and support more than 156 skilled construction-related jobs and more than 42 local SME supply chain service providers. They are committed to deliver a total of 650 homes to the East African housing market by 2017.

Besides real estate and building materials, microfinance institutions (MFIs) also play a key role in helping people to access home ownership. In Africa the majority of households cannot afford to buy or build even the least expensive house. The United Nations Center for Human Settlements provides figures which illustrate this: Latin American households need 5.4 times their annual income to buy a house. In Africa, 12.5 times the average household income is required. The lack of housing finance in Africa means that middle class and low-income earners must self-finance their own home construction or home improvement projects. Housing microfinance represents a solution and is actively attracting impact investors.

For example, MicroBuild Fund offers longer-term social investment capital to financial institutions seeking to develop products that support the housing goals of low-income clients. MicroBuild Fund was established jointly by Habitat for Humanity International (HFHI) and Triple Jump in 2012 and operates worldwide, including in Sub-Saharan Africa. It supplies debt capital specifically for housing solutions that financial intermediaries offer to their low-income end-clients. MicroBuild Fund can serve as an example to encourage the financial sector to include housing finance as part of the overall services they provide to their clients.

Measuring contributions to SDG 11

IRIS metrics recommend monitoring several housing indicators such as target beneficiaries, number of individual projected to be housed, number of housing units constructed, area of buildings projected to receive energy efficiency improvements, percentage of affordable housing, housing types, percentage of recycled materials used for construction, etc. Besides the number of individuals projected to be housed, it is important to know the percentage of affordable housing projected to be built to be in line with SDG 11.1 which aims to ensure access for all to adequate, safe and affordable housing and basic services.

8 Environment and biodiversity

The 2030 Agenda aims to replace unsustainable consumption and production patterns with sustainable lifestyles and livelihoods that benefit all. Environmental poverty resulting from lack of access to natural assets, inadequate management of resources and exposure to ecosystem degradation and pollution, leads to greater vulnerability and a loss of resilience in communities. Central to the agenda is the understanding that a healthy, well-functioning environment is crucial for humankind to prosper. Thus, the SDGs emphasize the importance of preserving and sustainably managing marine and terrestrial ecosystems, as well as biodiversity (SDGs 13, 14 and 15).

Context and development issues

Africa is extremely vulnerable to climate variability and climate change. Variations in rainfall patterns have led to incidences of drought and flooding, often with disastrous consequences for populations and for the environment. The predicted consequences of global climate change—worsening impacts of drought, desertification, flooding, and sea level rise—may well worsen the plight of Africa’s people, even though the region’s greenhouse gas emissions are, on the whole, negligible. Air quality is an emerging issue of concern in many parts of Africa, especially in expanding urban areas where concentrations of population, industry and vehicles are increasing air pollution. Africa’s high population growth rate will make it even more challenging to provide basic services to the poor without a more responsible consumption and production.

The most comprehensive needs assessments conducted in this area is the High-Level Panel on Global Assessment of Resources for Implementing the Strategic Plan for Biodiversity 2011-2020 (CBD 2012a)⁵⁰. Between USD 153 and USD 436 billion per year is needed between 2013 and 2020 in order to reach the environment SDGs and associated targets.

Synergies with investment needs in other sectors

Investment needs in ecosystems and biodiversity are highly dependent on sound policies and effective investments in other areas. For example, modest investments in upstream watershed management can substantially reduce downstream investments in improved water quality. Similarly, low-cost containment of invasive species can prevent the high cost of managing them once the invasive species have become endemic.

⁵⁰ CBD (2012a). “Resourcing the Aichi Biodiversity Targets: A first assessment of the resources required for implementing the strategic plan for biodiversity 2011-2020”. Report of the High-level Panel on Global Assessment of Resources for Implementing the Strategic Plan for Biodiversity 2011-2020.

Opportunities for public and private financing

Private financing for ecosystems and biodiversity are expected to be limited. Based on discussions in CBD (2012a)⁵¹, some 85% of these investment needs will likely require public financing. Yet, as discussed above, there are numerous synergies with other investment areas where private sector can play a fundamental role.

Impact investors and the environment

Impact investors can intervene through thematic funds focused on environment and biodiversity. For example, sustainable forest management is becoming increasingly courted by impact investors. The Global Environment Fund (GEF) is a global asset manager established in 1990 and dedicated to the energy, environmental, and natural resources sectors. Already 12 investments have been made in African forestry companies through the GEF.

Similarly, The Terra Bella Fund is a frontier private equity fund that provides early-stage project finance capital to high impact community-based forest and agricultural emissions reduction projects in developing countries. Combining climate change mitigation and the production of sustainable local and agricultural export crops is at the core of the Fund's investment objective alongside generating sustainable long-term returns for investors.

Moringa Fund is another impact investor focusing on agroforestry projects. Agroforestry will be a central element in the global response to a growing demand for sustainable agricultural and forest products (timber, biomass). Agroforestry projects counter global warming by planting trees and conserving biodiversity and alleviate poverty by providing opportunities to local communities

Another impact investment fund will be launched in late 2016. The Land Degradation Neutrality (LDN Fund) is designed to support large-scale rehabilitation of degraded land, for sustainable and productive use, with long-term private sector financing. In addition to the restoration of land, this includes generating revenues from sustainable land use for investors and land owners, job opportunities for local communities, increased food and water security and the sequestration or avoidance of CO₂.

Impact investors greatly participate to climate action through a number of cross-cutting investments. Many projects, such as clean energy schemes, have the potential to reduce greenhouse gas emissions, enhance climate change mitigation and increase the resilience and adaptation of their beneficiaries. Financing green technologies requires intensive upfront capital over a long payback period, and few private investors are able to provide this early-stage risk capital. Impact investors are more willing to invest in green technologies given the importance placed on the social and environmental impact and the longer term investment strategy. Many investee companies also work to minimize the negative environmental impacts of their products through environmentally sustainable practices.



CASE STUDY

Althelia Ecosphere, Aligning Economy with Ecology



Althelia Ecosphere aims to address the drivers of deforestation and unsustainable land-use. Through a focus on blended-value investments that deliver the highest-caliber social, environmental and economic performance, they aim to demonstrate that financial performance can be fully aligned with sound environmental stewardship and social development.

Althelia Ecosphere is an asset management business designed to pair economic and financial performance with premium social and environmental outcomes, impacts and risk management.

Their first fund, Althelia Climate Fund (ACF) was established in 2013 to clearly demonstrate that competitive financial returns could be fully aligned with the preservation of natural capital and social development. Using a model that profitably directs finance to activities that generate income from sustainable agriculture (e.g., organic Fairtrade certified coffee and cocoa) and environmental services (e.g., carbon, biodiversity) they have invested over EUR 50 million.

In 2014, they have made their first investment into African grassland and forest conservation in the Taita hills area of the Kasigau Corridor, Kenya. The project is poised to generate 5.2 million tons of avoided emissions, protect 120,000 ha of primary ecosystem and support two herds of endangered elephants, rhinos, lions, leopards, and hippos, as well as create 150 local jobs over the next twenty years.

⁵¹ CBD (2012a). "Resourcing the Aichi Biodiversity Targets: A first assessment of the resources required for implementing the strategic plan for biodiversity 2011-2020". Report of the High-level Panel on Global Assessment of Resources for Implementing the Strategic Plan for Biodiversity 2011-2020.

9 Other relevant SDGs

SDG 12.6: “Encourage companies to adopt sustainable practices and to integrate sustainability information into their reporting cycle”

SDG 12.6 encourages companies to monitor and report on social and environmental impact, alongside financial reporting, in a transparent, open and timely manner. As seen at the beginning of this report, one criterion to define impact investment is the need to measure impact. Apart from standard financial reporting, impact investors commit to measuring and reporting against social and environmental impact objectives. It is thus important for impact investors to constantly monitor and assess performance of their investee companies. This contributes to accountability of investment strategies and is fully aligned with SDG 12.6.

SDG 17.1: “Improve domestic capacity for tax and other revenue collection”

Especially when funding small and medium enterprises (SMEs) through small investments size, impact investment can help a number of informal companies to formalize and respect the rules, notably fiscal rules. Because investee companies must have financial statements, formalizing companies is one of the main objectives for impact investors. This improves domestic resources through higher tax revenues and contributes to the economic development of the country. In many countries, this formalization also provides employees with an access to social security, thus offering more decent jobs.

SDG 17.3 “Mobilize additional financial resources for developing countries from multiple sources”

Impact investment can help to mobilize financial resources for developing countries in many different ways. When taking a minority stake in a company, impact investors need to find other financial partners, which could include a wide range of actors, from the entrepreneurs themselves to local banks, private companies, foundations or other impact investors.

Impact bonds can also be an innovative way to mobilize additional financial resources. Indeed, Social and Development Impact Bonds (SIBs/DIBs) are a results-based form of social impact, focusing the allocation of money to social programs that yield effective results. Private investors provide capital to launch or expand innovative

social services that provide a public good. If the expected social benefits are achieved at the end of a given period, investors receive back their capital plus a rate of return (negotiated with public authorities and varying with the level of results achieved). The difference between a Social Impact Bond (SIB) and a Development Impact Bond (DIB) derives from who ultimately pays for outcomes. In a Social Impact Bond the outcome payer is the government, while in a Development Impact Bond the outcome payer is a donor. Social Impact Bonds (SIBs) are increasingly common in the United Kingdom, as well as in the United States and Australia, and have begun to be used in a number of other EU Member States.

In mars 2016, the Departments of Social Development and Health of the Western Cape province of South Africa committed 25 million rand (USD 1.62 million) in outcome funding for three Social Impact Bonds (SIBs) for maternal care and early childhood outcomes. The South African SIBs, whose implementation was facilitated by the Bertha Centre for Social Innovation and Entrepreneurship at the University of Cape Town and Social Finance U.K., is the first impact bonds in Africa. The Bertha Centre writes that “The funding will be made available to three community based organizations working with pregnant women and children up to five years of age with outcomes including improved antenatal care, prevention of mother to child transmission of HIV, exclusive breastfeeding, a reduction in growth stunting, and improved cognitive, language and motor development.” Selecting outcomes however, particularly more complex learning outcomes for children ages 3 to 5, for example, can be one of the greatest challenges for impact bonds.



Conclusion

The Sustainable Development Goals (SDGs) comprise 17 core goals that range from ending hunger to stemming climate change, and altogether provide a critical roadmap to a sustainable future and more prosperous world. Today, there is a clear focus on how to unlock the resources needed to move from the billions heretofore invested to the trillions required to achieve this new development agenda. The challenge for developing economies will not only be attracting investment but also channeling it towards the implementation of the SDGs.

As part of this agenda, the UN put out a strong call to action for the private sector to play a fundamental role in achieving these goals. Indeed, the SDGs cannot be achieved without the active involvement of responsible businesses. The private sector will be essential in creating sustainable, productive and decent employment, economic prosperity, resilient infrastructure that underpins sustainable development and innovations that create green growth and opportunities for all, especially the poor.



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Impact investors can be at the forefront of addressing this challenge. With their dedication to achieving both impact objectives and commercial returns, impact investors are uniquely positioned to invest in companies that further the SDGs. As described in this study, impact investment tends to target sectors that have difficulty attracting other forms of private investment, such as financial inclusion, renewable energy and rural development. By fostering access to services in the fields of health, food security, education, energy and housing, impact investment confirms its role as a catalyst in global and inclusive development. Many investee companies meet local unsatisfied demand for goods and services, thus addressing the SDGs. They build local networks, generating business opportunities for small-scale suppliers and distributors. Impact investors also play an important role in social innovation by experimenting business models or new funding mechanisms.

The SDGs represent a historic opportunity to develop the impact investment industry. These global objectives can help unify the language used among impact investors, simplify dialogue with investors and provide a communication framework to better highlight their investee outcomes. The SDGs can enable impact investors to review their impact measurement practice and ensure that they efficiently pursue appropriate and achievable impact objectives. In sum, the SDGs offer a simple and attractive entry point for impact investors to drive more private capital toward achieving the SDGs.

As stated in SDG 17 aiming to revitalize the global partnership for sustainable development, public and private sector actors can share the same framework and work toward the same global goals. Impact investors cannot replace the core role of the public sector or the need for philanthropy, but they can provide models for leveraging existing capital to produce greater social impact in line with the SDGs.

To find out more.

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