Investing in Development in Africa

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

I&P INVESTISSEURS & PARTENAIRES

FERDI

An advocacy project to raise awareness on the role of impact investing to reach the SDGs

Purpose of this study

- **Present the opportunity that the SDGs represent for impact investors active in Africa** and for their portfolio companies.
- Be used as an **advocacy project** in order to contribute to change mentalities and develop the impact investment industry in Africa.
- *It relies on research and compilation of the most recent reports on impact investment and on I&P's experience and knowledge of several funds and practitioners in Africa.*

A challenging African economic context

- Sustained economic growth since the early 2000's (5.3% per year on average), producing a growing middle class estimated at 350 million people.
- Yet, growth has been more moderate the past two years
- Africa's HDI levels remain low: 0.51 in 2014 compared to a world average of 0.71

Financing African development

- Investment needs for the SDGs are estimated at USD 3.3 to 4.5 trillion every year in developing countries, well beyond the amounts of official development assistance (ODA)
- 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 2014
- 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

Impact investors are 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 contribute to achieve the SDGs
- Impact investors are eager to explore how their impact strategies can contribute to this global effort, and some are already actively leveraging the SGDs as a framework for their investments

Africa’s progress towards the Sustainable Development Goals

The SDGs: 17 goals to transform our world

- The Sustainable Development Goals (SDGs) comprise 17 core goals, from ending hunger to stemming climate change, that altogether provide a **critical roadmap to a sustainable future and prosperous world**.
- Based on current trends, no country 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.
- Thus, the SDGs are highly ambitious goals for every country and are **universally applicable in developing and developed countries alike.**

Africa’s progress towards the MDGs

- Between 2000 and 2015, the Millennium Development Goals (MDGs) achieved success such as reducing poverty and improving health and education in Africa, despite challenging initial conditions.
- **Africa has made considerable progress towards achieving the MDGs but more efforts need to be made**
  - 25% of its population have faced hunger and malnutrition during the 2011-2013 period
  - Africa has the lowest access to sanitary water in the world, and only 16% of the population has access to piped drinking water

The private sector is a vital partner in achieving the SDGs

Financing the SDGs

- The annual SDG financing gap in developing countries is estimated at USD 2.5 trillion.
- It constitutes only 3% of global GDP, 14% of global annual savings, or 1.1% of the value of global capital markets (Sachs, 2014).
- There is enough money to close this gap (OECD, 2014), but today only a small fraction of the worldwide investment assets is targeted to sectors and regions that advance sustainable development in developing countries. Translating these assets into SDG-compatible investments is crucial to succeed.

USD 2.5 trillion

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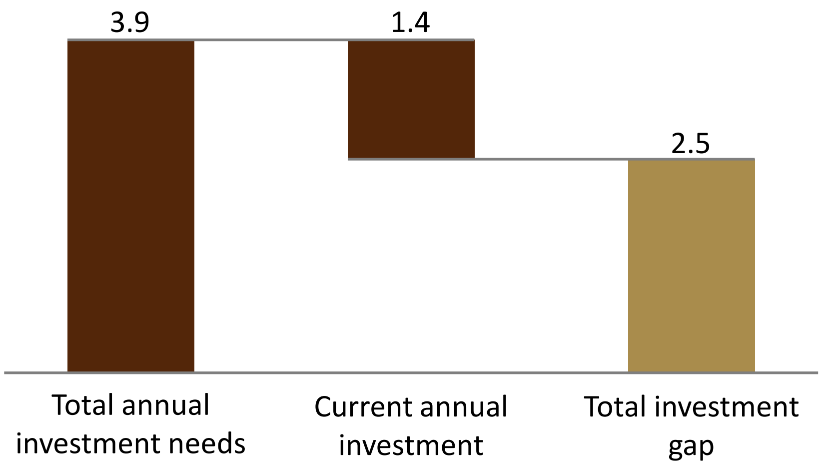
3% of global GDP

Estimated investment gap in key SDG sectors, 2015-30

Trillions of USD, annual average



Source : UNCTAD, World Investment Report 2014

SDGs represent a common framework for all stakeholders

- The SDGs have been agreed upon by all governments, stakeholders.
- Unlike the former MDGs, the SDGs explicitly call on all businesses to apply their creativity and innovation to solve sustainable development challenges. They acknowledge the key role that business can and must play in achieving them.
- Meeting such challenges requires a dynamic private sector that not only invests in Africa to create jobs that provide essential goods and services, but also contribute to deliver socially and environmentally sustainable growth.

Business is 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.

Ban Ki-moon,
United Nations Secretary-General

But the SDGs also represent business opportunities!

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.

STRENGHTENING STAKEHOLDER RELATIONS

Companies that align their interests with the SDGs can **strengthen customers, employees and other stakeholders' engagement**. The others will be exposed to growing legal risks and consumer criticism and pressure. Consumers are increasingly basing their purchases on their perception of a company's sustainable performance, and the SDGs may even more strengthen this trend.

STABILIZING SOCIETIES AND MARKET

Businesses cannot succeed in societies that fail. Successful implementation of the SDGs will help to:

- Lift billions of people out of poverty, thereby growing consumer markets around the world;
- Strengthen education, thereby fostering more skilled and engaged employees;
- Make progress on gender equality and women's empowerment.

USING A COMMON LANGUAGE AND SHARED PURPOSE

The success of the SDGs relies 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 identified.

- The global goals can help unify the language used among impact investors and simplify the dialogue with funders.
- The SDGs can enable impact investors to review their impact measurement practices and ensure that they efficiently pursue appropriate and achievable impact objectives.
- They can provide a communication framework to better highlight their investees' outcomes

Impact investment, a relevant tool to address African development challenges

What does « impact investment » mean ?

As defined by the GIIN, impact investing include 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. An **impact investor must demonstrate intent to create positive impact as part of their core strategy**.
- The intentionality of the impact investor can be 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

ADDITIONALITY

- Impact investors target sectors that have difficulties in attracting commercial capital, such as financial inclusion, renewable energy and rural development.
- By fostering access to services in the fields of health, food security, education, energy or housing, impact investment confirms its role as a catalyst in global and inclusive development.
- **Their purpose is to fill up financial gaps.**

ACCOUNTABILITY

- **Impact investors commit to measuring and reporting social and environmental impact objectives**.
- According to UNDP, 99% of impact investors in Africa measure the impact of their investment and indicate that they valued impact performance tracking
- Yet, a more transparent approach is needed. Almost half of impact investors' websites do not release any impact data.

FLEXIBILITY

- **Impact investors are in the field.** Despite being mostly headquartered in developed markets, more than half of impact investors have a permanent presence on the ground.
- They can identify market gaps, provide entrepreneurs with finance and close strategic mentoring.
- They also play an important role **in social innovation by experimenting business models or new funding mechanisms.**

Africa is a major market for impact investment, despite geographical disparities…

19% of total assets under management in 2015 has been **disbursed in Sub-Saharan Africa, the second largest amount worldwide**, behind North America.

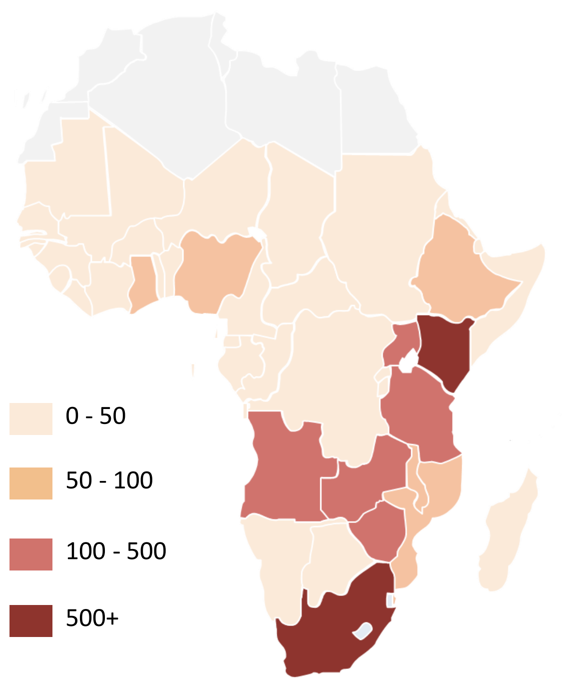
54% of impact investors **plan to increase allocations in Sub-Saharan Africa**, the highest number, followed closely by East and South East Asia (50%) and Latin America & the Caribbean (22%).

14% of impact capital disbursed has been made in **African Least Developed Countries (LDCs).** Impact investments are thus mostly focused on Southern and Eastern Africa, especially on English-speaking countries.

WESTERN AFRICA

USD 221 million

Despite the region's high GDP growth, impact investments in Western Africa are very small, and half of capital deployed is concentrated in **Nigeria and Ghana**



Total direct impact investment

By USD millions

Source : GIIN, Annual Impact Investor Survey, 2016

EASTERN AFRICA

USD 1.4 billion

Kenya plays a prominent role, receiving almost half of capital disbursed in East Africa.

SOUTHERN AFRICA

USD 5.6 billion

3/5 of impact deals in the region have been in **South Africa.**

… and a large disparity across sectors

Microfinance is a key sector for impact investors

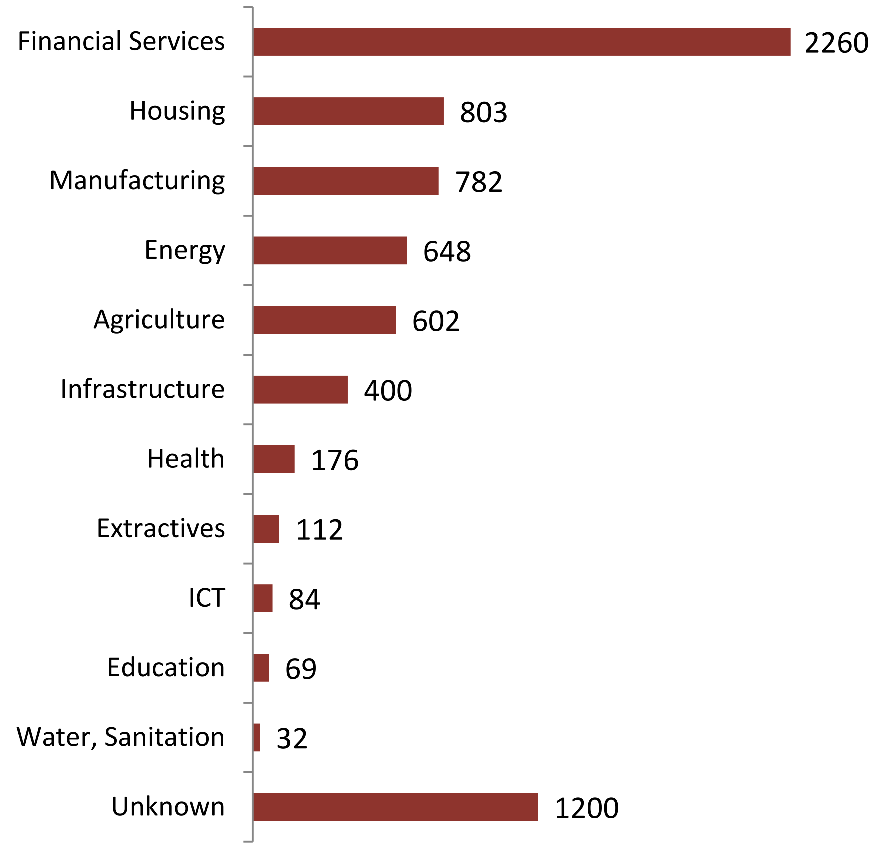
- Microfinance represents **32% of assets managed**.
- It reflects the recognition of **the large gaps in financial inclusion in the region**. MFIs allow borrowers to have access to basic services (**SDG 1.4**) and increase access of small-scale enterprises to financial services (**SDG 9.3**).

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

- By **reaching a large number of smallholders' farmers**, investee companies contribute to reduce poverty in rural areas (**SDG 1**) and fostering food production (**SDG 2**).
- Despite the larger number of deals, average deal size tends to be limited when placing capital into small producers. Thus, agriculture represents only **8% of assets managed**.
- Housing projects (**SDG 11**), by contrast, require larger average deal sizes because of high construction costs.

Health and Education lag far behind other sectors

- Despite their prominence as sectors of interest, health (**SDG 3**) and education (**SDG 4**) have seen few deals.



Total direct impact investment by sector
By USD millions
Source : GIIN

How Impact Investment can contribute to meeting the SDGs in Africa

Main SDG investment areas

Due to synergies between SDGs, the goals have been grouped into 8 main “SDG investment areas” where the private sector can play a key role:

Fighting Poverty and Inequalities
Main SDGs associated : 1, 5, 8, 10

Agriculture, Nutrition and Food Security
Main SDGs associated : 2

Healthcare, Water and Sanitation
Main SDGs associated : 3, 6

Education
Main SDGs associated : 4

Energy Access
Main SDGs associated : 7

Infrastructure and Innovation
Main SDGs associated : 9

Sustainable Cities
Main SDGs associated : 11

Environment and Biodiversity
Main SDGs associated : 13, 14, 15

Content of the study

- For all these main SDG investment areas, the study presents the current situation in Africa, the financial resources needed to achieve corresponding SDG, the potential role of the private sector and the synergies with investment needs in other sectors.
- It will highlight how impact investors can contribute to achieve this SDG and how to measure their contributions. In all of these areas, examples of impact investors and investee companies will be given.

One example: how SMEs contribute to fight poverty and reduce inequalities (SDGs: 1, 5, 8, 10)

CONTEXT

- Based on current trends, Africa will create 54 million stable wage-paying jobs over the next ten year. Not enough to absorb the 122 million new entrants into the labor force expected. **By 2050, 450 million young African will enter the job market.**
- **63% of the total labor force in Africa now engages in some form of vulnerable employment** or self-employment.
- The **gender gap in employment is a key issue**: 40% of women are jobless compared to 28% of men

FINANCIAL NEEDS

Greenhill et al. (2015) 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 ¾ of Africans still live under poor human conditions, compared to 1/5 globally.

IMPACT INVESTORS

Some consider that African-owned Small and Medium Enterprises (SMEs) 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 Tanzania), are more secure and provide access to **training and social security**.
- SMEs are usually created and **run by African managers** and foster grater ownership of African growth.
- A large majority of African SMEs **meet the local unsatisfied demand for basic goods and services**.
- They also build networks, generate **opportunities for small-scale suppliers and distributors**.

EXAMPLES

- Some 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. Alitheia Identity Fund will invest in SMEs with significant women participation.
- Women’s World Banking (WWB) is an impact investor devoted to giving more low-income women access to the financial tools.

Impact investors are ready to heed the challenge!

The UN put out a strong call to action for the private sector to play a fundamental role in achieving the SDGs

- 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.
- **The challenge for developing economies will not only be attracting investment but also channeling it towards the implementation of the SDGs.**

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.
- Impact investment tends to target sectors that have difficulty attracting other forms of private investment, such as financial inclusion, renewable energy and rural development, confirming its role as a catalyst in global and inclusive development. Many investee companies meet local unsatisfied demand for goods and services. They build local networks, generating business opportunities for small-scale suppliers and distributors.
- **Impact investors can provide models for leveraging existing capital to produce greater social impact in line with the SDGs.** 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.

The SDGs represent a historic opportunity to develop the impact investment industry

- These global objectives can help **unify the language used among impact investors** and simplify dialogue with investors while **highlighting their investee's outcomes**.
- The SDGs can enable impact investors **to review their impact measurement practices** 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.

APPENDICES

Agriculture, Nutrition and Food Security

CONTEXT

- 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 GDP.
- Most countries in Africa exhibit **a large, under-resourced subsistence agricultural sector characterized by low productivity**. Approximately 21% of Africa's population is malnourished.

FINANCIAL NEEDS

USD 46 billion per year are needed in order to reach SDG 2. UNCTAD (2014) projects that 75% of agricultural investments can be privately financed, mainly investments to increase the productivity of commercial agriculture.

MEASURING CONTRIBUTIONS TO SDG 2

Number of smallholder famers who sold to an enterprise, value of payments made to smallholder farmers, amount of pesticides used, type of crop(s) produced, 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 **percentage that is locally consumed**. It is also important to monitor the **average agricultural yield** per hectare in order to reach SDG 2.3 (double the agricultural productivity).

IMPACT INVESTORS

- **Impacts are high**, 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).
- **Impact funds can invest across the entire value chain**, from farming companies to food processing, seeds, soil health products, crop protection companies, irrigation, enhanced food to fight malnutrition, etc.
- Access to suitable **financial services** is also an essential condition for achieving SDG 2. Micro-insurance of crops and livestock is bound to play a steadily increasing role in the protection of family farms against natural risks.

EXAMPLES

- Impact funds specialized in agriculture : Injaro, AgDevCo, Agri-Vie, Doreo Partners, Root Capital, Voxtra, etc.
- Alterfin grants loans to MFIs who in turn offer microloans to small local businesses and farmers
- AgDevCo has invested in EFTA Ltd, a Tanzanian finance company which provides SME businesses with equipment leases.

Healthcare, Water and Sanitation

CONTEXT

- **Almost half of the African population has low or no access to basic health care services** (WHO)
- More than 800 million Africans do not have adequate sanitation services and almost 300 million live without access to clean and safe water

FINANCIAL NEEDS

USD 51-80 billion per year are needed in order to reach SDG 3. A further USD 50 billion per year are needed in order to reach SDG 6. IFC released a report in 2010 highlighting the key role that the private sector can play in meeting the needs of more and better health provision in Sub-Saharan Africa

MEASURING CONTRIBUTIONS TO SDGs

Number of healthcare units provided, **number of clients served,** number of caregivers employed, health intervention completion rate, facility utilization rate, etc. Monitoring the **maternal mortality rate** would be essential 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 reached 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.

IMPACT INVESTORS

- They can focus on any business that powers any dimension of the healthcare industry, including **clinics** but also **health insurance providers**, **pharmaceutical companies** and **healthcare equipment providers.**
- Impact investors can also **reduce the financial barriers** people face in accessing financial services. MFIs can manage healthcare financing products, and often provide certain healthcare-related services, such as preventive healthcare education**.**

EXAMPLES

- The Africa Health Fund (AHF) seeks to develop SMEs in healthcare related services and industries
- Beyond Capital Fund (BCF) focuses on the water, waste and sanitation healthcare sectors in East Africa
- The Medical Credit Fund (MCF) helps private healthcare facilities in Africa obtaining capital to strengthen and upgrade their operations in order to enhance access to affordable quality healthcare.

Education

CONTEXT

- **One third of the population had not completed their primary school education and lacked skills for work.**
- 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.

FINANCIAL NEEDS

- Incremental investment needs for the education SDG are estimated at **USD 40 billion between 2015 and 2030**.
- Private schools provide a growing share of primary and secondary education. Private spending on education represents a higher share of total spending in low- and lower-middle-income countries than in high-income countries.

MEASURING CONTRIBUTIONS TO SDG 4

Number of students enrolled (SDG 4.1), student to teacher ratio, teacher and student attendance rate, student dropout rate, school fees**, existence of scholarship programs** (SDG 4.b), existence of subsidized meals, textbook to student ratio, student to toilet ratio, etc. A **gender focus** will be needed for most of these indicators in order to reach SDG 4.5 (eliminate gender disparities in education).

IMPACT INVESTORS

- They invest in **low-cost schools** or universities but they also 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.
- They can also invest in **training companies** in line with SDG 4.4 (substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills)
- Financial barriers to school entry disproportionately impact the poorest children and youth, hence a need for **education finance products**

EXAMPLES

- The Pearson Affordable Learning Fund (PALF) invest in companies that can build quality, scalable education solutions to meet a growing demand for affordable educational services
- Investisseurs et Partenaires (I&P) has invested in TRAINIS, a Malian-based company that offers general high-level management training.

Energy access

CONTEXT

- **Two-thirds of the population in Africa live without access to electricity**
- For people living off the grid, kerosene lamps are the primary lighting source, an expensive technology that is also unsafe
- Many households rely on solid biomass (firewood and charcoal) for cooking, with significant negative environmental and health implications

FINANCIAL NEEDS

USD 34 billion per year are needed in order to reach SDG 7 in developing countries. Historically, private investment in the energy sector of developing countries has accounted for some 43-47% of the total investment (UNCTAD 2014).

MEASURING CONTRIBUTIONS TO SDG 7

A focus can be made on the **type of clients reached** to be in line with 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 **GHG generated** or **energy savings from products sold**.

IMPACT INVESTORS

- They mostly finance **equipment manufacturers**, such as solar home systems, efficient cook stoves, biodigesters, and efficient refrigerators.
- Impact investors are also investing in companies involved with energy-related activities, such as solar panel **distributors** or **microfinance institutions** providing loans for solar customers.

EXAMPLES

- Persistent Energy Capital (PEC) focuses on startups and early stage companies in the off-grid energy sector.
- The "Oasis Energy - Solar for All Fund" invests in companies that bring affordable solar power.
- The Energy Access Ventures Fund aims to provide electricity for a million people by 2020 by promoting low-carbon and low cost electricity access solutions.

Infrastructure and Innovation

CONTEXT

- Infrastructure development has been **responsible for more than half of Africa's recent improved growth performance**
- Infrastructure emerges as **a major constraint on doing business**, depressing firm productivity by about 40%

FINANCIAL NEEDS

- Address Africa's infrastructure needs would cost around **USD 93 billion a year** (about 15% of the region's GDP).
- UNCTAD (2014) estimates that **the private sector will cover 52-57% of total costs** for transport infrastructure. Similarly, the private sector is expected to cover 54-86% of total costs for telecommunications infrastructure.

IMPACT INVESTORS

- 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).
- **ICTs** can accelerate progress towards achieving the SDGs and lower the cost of doing so 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.

EXAMPLES

- 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.
- 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.
- **eVentures Africa Fund** (eVA Fund) invests in small and medium sized African internet-related companies.

Sustainable cities

CONTEXT

- With an annual urbanization rate of 3.5% over the past two decades, **African cities are the fastest growing in the world**.
- Currently, about 40% of the continent's one billion people live in cities and towns, and it is estimated that 50% of Africa's population will be living in an urban environment by 2030.
- Yet the majority of the new urban residents do not have access to suitable housing solutions. **The African slum population is estimated at 400 million people** representing 40% of its population.

MEASURING CONTRIBUTIONS TO SDG 11

Number of individual projected to be housed, number of housing units constructed, area of buildings projected to receive energy efficiency improvements, housing types, **percentage of recycled materials** used for construction, etc. It is also 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.

IMPACT INVESTORS

- Impact investors contribute to SDG 11 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
- **Microfinance institutions** (MFIs) also play a key role in helping people to access home ownership and home improvement projects.

EXAMPLES

- **AAROHI FUND** invests in entities that advance the development of productive housing ecosystems in emerging countries.
- **Phatisa** manages the Pan African Housing Fund (PAHF) dedicated to affordable housing in East and Southern Africa. They are committed to deliver a total of 650 homes to the East African housing market by 2017.
- **MicroBuild Fund** offers longer-term social investment capital to financial institutions seeking to develop products that support the housing goals of low-income clients

Environment and Biodiversity

CONTEXT

- 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.
- **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.

FINANCIAL NEEDS

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. 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

- Impact investors can intervene through thematic funds focused on environment and biodiversity. For example, **sustainable forest managemen**t is becoming increasingly courted by impact investors.
- Impact investors greatly participate to climate action through a number of **cross-cutting investments**. 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.

EXAMPLES

- **Althelia Ecosphere** finance activities that generate income from sustainable agriculture (e.g., organic Fairtrade certified coffee and cocoa) and environmental services (e.g., carbon, biodiversity)
- **Moringa Fund, The Terra Bella Fund** and the **Global Environment Fund (GEF)** are focusing on agroforestry projects