# Investing for good on rise in Africa, but impact remains low - new study

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*New research from the UCT Graduate School of Business shows that the idea of investing for positive social, environmental and governance impact is gaining ground in Africa - but professional investors still have a long way to go in terms of practice and disclosure.*

Almost half of all assets under investment in three of Africa's most significant economies are being invested for good in some way, according to new research from the Bertha Centre for Social Innovation & Entrepreneurship, a specialised unit at the UCT Graduate School of Business (GSB).

The 2015 African Investing for Impact Barometer, published on 10 November, has revealed that 47% of US$721 billion of investment assets surveyed in South Africa, Kenya and Nigeria, the largest economies in South, East and West Africa respectively, were earmarked for positive impact; from Islamic finance to clean technology and building affordable housing.

But while many investment companies pay lip service to the practice, there are only a handful of industry leaders that are able to demonstrate that they do it consistently well, the researchers found.

The report, now in its third year, is issued annually by the Bertha Centre, and seeks to shine much-needed light on the practice of Investing for Impact (IFI) in Africa and to put the continent on the map, as a global contender in this investment space. This year, the research was supported by the Government of Flanders.

"It is vital to quantify the African IFI market because it demonstrates to the rest of the world that investors operating in Africa are increasingly declaring their commitment to developing the continent in a sustainable manner," said Dr Stephanie Giamporcaro, research director at the GSB and director of publication for the report.

"But measuring the size of the market only makes sense if, as researchers, we are able to also start to qualify and quantify the actual positive impact of these IFI strategies," she said.

The GSB study segmented investments according to five internationally recognised investment strategies: ESG (Environmental, Social and Governance) integration, investor engagement, screening (positive and negative); thematic investment and impact investing.

ESG integration, which involves the integration of environmental, social and governance factors in investment decisions across asset classes, was the leading IFI strategy employed in Africa with US$490 billion under investment, representing 68% of IFI assets invested. In second place was investor engagement, where an investor uses its shareholder or bondholder status to promote positive societal and environmental change within invested company's behaviour, at US$474 billion (66%). Screening, a category that includes religious and ethical investment practices such as Islamic Finance, was in third place at US$148 billion (21%).

Impact investing and thematic investing, which involve investing directly in companies promoting sustainability and social development themes such as renewable energies, education or health, remained the two least used IFI strategies in Africa. They represent respectively 2% and 4% of the total IFI assets invested and Giamporcaro said this was cause for concern.

"If investors operating in Africa are serious about being direct drivers of sustainable developmental change through more actively investing in innovative small- and medium-sized enterprises, this percentage ought to progress urgently in the future," she said.

To further assist with the understanding of the market, this year the study introduced a new tool to identify which professional investors are IFI leaders by country and by type of strategy. The tool classified investors as "cool", "warm" or "hot", depending on their level of impact and disclosure.

"The really 'hot' investors are those who are both active in the space and who report accurately on what they are doing," explained Xolisa Dhlamini, PhD Bertha Scholar at the GSB and lead researcher on the study.

"When looked at like this we can clearly see that hot investors were unfortunately still in the minority, which suggests that the impact that these investments are making is still not as powerful as it could be," Dhlamini said.

The tool has turned up a number of paradoxes in the data. For example, while investor engagement has the second highest amount of money in play, it has the lowest number of hot leaders across all three countries - at just 2%. While impact investing, which had the lowest amount of IFI assets invested, has one of the highest numbers of hot leaders. Twenty-six percent of investors analysed in this category were able to demonstrate that they are consistently making a positive impact with their investments.

"Investor engagement is a key strategy for responsible investors to promote and influence the implementation of good governance, and social and environmental standards to investees. The Barometer results suggest that some investors need to strengthen their disclosure and implementation effort to convince shareholders of the positive impact on society of their investor engagement strategy," said Dhlamini, adding that currently the research is limited by information that is publically available.

According to Giamporcaro, the researchers hope that the Barometer data will enable professional investors to benchmark their practices more effectively in order to improve the industry overall.

"We hope to encourage a culture of transparency in the industry and to encourage investors both to invest more for positive societal and developmental impact in Africa, and to be more transparent and innovative in the way they monitor it. A strong IFI industry in Africa could strengthen the continent, but only if it truly walks the talk," she said.

*To find out more about the GSB Bertha Centre for Social Innovation and Entrepreneurship, visit www.gsb.uct.ac.za/berthacentre. For more information on the barometer visit http://www.gsb.uct.ac.za/s.asp?p=499*


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