

Theme 11

Impact investing – potentially the best option for Africa but also a critical step forward for best-advice investing everywhere in the world

African Union Commission Agenda 2063

Agenda 2063 is the 50-year African Union vision and action plan for the structural transformation and rejuvenation of the continent, which contains seven aspirations to guide concrete objectives, including:

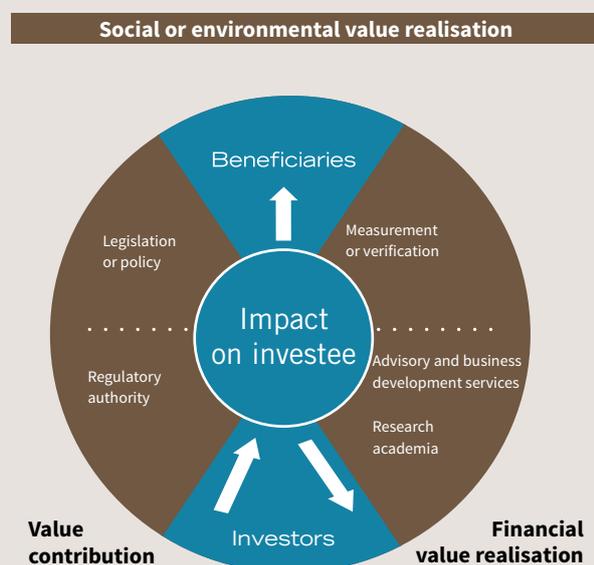
1. A prosperous Africa based on inclusive growth and sustainable development
2. An integrated continent, politically united and based on the ideals of pan-Africanism and the vision of Africa's renaissance
3. An Africa of good governance, democracy, respect for human rights, justice and the rule of law
4. A peaceful and secure Africa
5. An Africa with a strong cultural identity, common heritage, shared values and ethics
6. An Africa whose development is people driven, relying on the potential of African people, especially its women and youth, and caring for children
7. Africa as a strong, united and influential global player and partner

Source: United Nations Development Programme

The AU's Agenda 2063 sets out some ambitious goals for Africa's future. But, in a 2015 UNDP report entitled *Impact Investing in Africa: Trends, Challenges and Constraints*, the authors noted that to deliver on the sustainable development goals (SDGs), developing countries will need to increase their level of public and private annual expenditures by some \$1.3 trillion.³ The same study concluded that low-income countries, most of which are located in Africa, will require US\$342–355 billion annually to deliver on the SDGs, but will not meet these huge investment needs with their own domestic resources. Consequently, there will be a funding gap of approximately US\$130–160 billion.⁴

The impact investment sector ecosystem

The impact investment sector is characterised by an ecosystem of interconnected and interdependent actors who interact through a complex series of relationships as illustrated below.



Source: United Nations Conference on Trade and Development (UNCTAD)

The approaches and strategies employed by development and traditional financial sector organisations are simply not adequate and have yet to match the challenges of new imperatives to support inclusive, equitable, sustainable and resilient growth and development. As private flows increase and traditional official development assistance (ODA) declines, African economies will need to harness this increased private investment by finding market-based solutions that address the priority areas of the African Union's Agenda 2063. This suggests that there is real urgency in accelerating the development of the impact investing model.

Impact investing is not simply a new asset class. Rather, it's an extension of our understanding of how investing in the broadest sense impacts on development overall.

Sixty years ago, the primary focus of investing was simply to achieve the highest returns. Academics such as Nobel laureate Harry Marowitz taught us we need to also understand whether the returns we get adequately compensate the risk we took to get them. In effect, returns needed to be risk adjusted. This last iteration of investment thinking says that we need to go beyond evaluating returns as simply money that returns to the investor's pocket. For every dollar invested, that investment can either impact an economy or society positively or negatively – and we need to start quantifying that.

What is being said here is that if African countries are going to meet their long-term ambitions and sustainable development goals imperatives, all stakeholders – governments, employers, multinationals, foreign investors and individuals – will have to rethink exactly how funds will have need to be redeployed to get the greatest multiplier impact of the current investment scarcity. This applies to pension fund savings, foreign direct investment, social security programmes and corporate spending in equal measure.

These goals *can* be met, but it will require that we all work together.

³⁻⁴ United Nations Development Programme (UNDP), 2015. *Impact Investing in Africa: Trends, Challenges and Constraints*, UNDP Regional Service Centre for Africa, 18 February 2019 (online).