Responsible investors channel over $400bn into Africa

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Responsible investment in Africa continues to rise. According to the latest data from the 2017 African Investing for Impact Barometer (AIFIB), there has been an increase in investments on the continent targeting financial returns combined with positive social and environmental impacts or good governance.

“In 2017, we saw an increase of 23% in Southern Africa and 18% in East Africa in the Investment for Impact (IFI) market compared to the previous year,” says Stephanie Giamporcaro, Director of the AIFIB publication and Associate Professor at the University of Cape Town Graduate School of Business (GSB). “Over $400bn in financial assets have been directed to investing for impact in Southern Africa, East Africa and West Africa. ”

Southern Africa leads with $399.45bn of assets being reported to implement at least one IFI strategy. East Africa is second with $18.24bn of overall assets that deploy at least one IFI strategy and West Africa features last with $10.60bn.

“Assets in this market are growing at a steady pace,” says Giamporcaro. “This suggests that the industry is aligning to calls from the likes of the CEO of Black Rock, the biggest asset management company in the world, for business to become a positive force aligned to the betterment of society.”

Now in its fifth year, the AIFIB publication reveals that more than half of the funds examined in sub-Saharan Africa are invested in one or more IFI strategies. The publication is an annual study produced by the Bertha Centre for Social Innovation and Entrepreneurship and is based at the GSB. It provides a snapshot of the growing IFI market in Africa. The Barometer is compiled from publicly available information sourced from fund manager disclosures on their websites, reports and fund- fact sheets as at 31 July 2017.

While investment increased in Southern and East Africa, there was a drop of 16% in West Africa, which Dr Giamporcaro says can partially be attributed to the fluctuation of the local currencies compared to the US dollar.

The AIFIB scores investments according to five different investment strategies: environment, social and governance (ESG) integration; investor engagement; screening (positive and negative); sustainability; and impact investing as implemented by professional fund managers.

Dr Giamporcaro says there has been a marked increase in investments in the environmental, social and governance integration (ESG) category (the systematic integration of ESG factors into investment analysis, valuation and decision-making), making it the leading investment strategy in all regions.

“In East Africa, ESG integration increased from 45.9% to 70.3%. This has, for the first time in our survey, put ESG integration ahead of sustainability themed investments in both East and West Africa, whereas ESG integration was always leading in Southern Africa,” she says.

In East and West Africa, ESG integration attracted $15.8bn and $7.6bn in assets respectively. South Africa has $360.4bn assets allocated to ESG integration.

A growing area of investment is investor engagement, which saw $361 billion in assets invested on the African continent in 2017. Investor engagement strategies seek to influence companies’ behaviour through active investment practices like proxy voting, board participation and engagement. This investment strategy increased from 40.4% to 70% in Southern Africa.

“This spectacular progression is attributed to South African fund managers declaring investor engagement to be implemented beyond the listed equity asset class,” says Xolisa Dhlamini, PHD student and lead researcher for the Barometer. “There are a lot of very interesting initiatives regarding investor engagement notably in South Africa in terms of reporting and disclosure.”

Screening, which is the term used to describe investments related to religious and ethical investment practices, like Islamic Finance, for instance, is the third most significant investment strategy on the continent with over $192bn in assets across all the three regions. This area grew particularly in East Africa due to the development in Islamic finance, from 31% to 59% of all the impact for investment assets in the country.

Associate Professor Giamporcaro says that impact investment in Africa is becoming the norm rather than the exception, but that it still has a significant way to go when compared to the rest of the world. “In the coming years, more African countries will require billions annually to deliver on the Sustainable Development Goals (SDG) and the UN Agenda, this should hopefully result in more capital being geared towards impact investment and sustainability-themed investment if both the private and the public investment sector deliver on their promises.”

She concludes: “The big question however remains: can these investment decisions change the lives of those who live in Africa for the better? The Barometer shows us that more work needs to be done to conclusively demonstrate this.”

To download a copy of the 2017 African Investing for Impact Barometer please visit: http://www.gsb.uct.ac.za/impact-barometer