

# Investing for impact has rapidly expanded into the mainstream

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*The 2014 African Investing for Impact Barometer was released on 9 September in Cape Town. Its message: investing for impact is on the rise in both South Africa and Nigeria. The financial industry is already abuzz with talk about the trend, and the Barometer is here to clarify what the talk really means.*

Investing for impact (IFI) - the allocation of capital into investments that combine financial returns and positive impact on society and the environment - is on the rise in Africa. Already an international trend, new research shows that it's a growing and significant slice of the South African and Nigerian investment industry pie. This was the clear conclusion of the African Investing for Impact Barometer 2014, released by the [Bertha Centre for Social Innovation and Entrepreneurship](#) at the University of Cape Town Graduate School of Business (GSB).

The first Barometer, which was first launched by in April 2013, focused solely on South Africa, but the rise in popularity of the concept meant that the 2014 edition was widened to include the Nigerian investment market. This year's edition, compared with the launch Barometer, is a clear indication of how fast IFI is advancing in Africa's two biggest economies.

"We surveyed more than 1,200 funds managed by investors in South Africa and Nigeria," says [Dr. Stephanie Giamporcaro](#), Research Director at the GSB and the academic brain behind the Barometer. "We found that almost half of them do speak about IFI," she continues. "But the question remains, what do their conversations and terminology refer to in the real world?"

The Barometer interrogates this question and provides a window into what investors in South Africa and Nigeria are doing from an impact investing point of view.

## How big is the market?

According to the Barometer, South African and Nigerian funds committed to IFI are considerable. In the surveyed sample, South Africa IFI constitutes 41% of the funds (representing R717 billion, approx. US\$ 67 billion). In Nigeria, IFI constitutes approx. 34% of funds overall (representing US \$2.3 billion in the sample).

Equally, in South Africa and Nigeria, the private equity (PE) space is leading the IFI industry with the larger proportion of IFI strategies found among private equity players. In South Africa 62% of IFI funds are in private equity, almost double the 36% in asset management (AM). In Nigeria the difference is even more pronounced with 39% of IFI in PE and 5% in AM.

"As the IFI markets become more sophisticated, we are growing and enhancing our measurement capacities," says Giamporcaro. "It is an interesting task for academic institutions, such as the GSB and the Bertha Centre, to develop their measurement tools and further understand how IFI can positively impact the environment and society."

This is the intention of Giamporcaro's work and the Barometer itself.

## Industry interest

“ “[The Barometer] is really important in terms of providing evidence of existing products and approaches as well as contributing to the business case behind impact investing. [...] From a PRI perspective, it's very important because we need to have evidence from the continent as to what investors and allocators of capital are doing from an impact investing point of view.”

**Xolisa Dhlamini**, Southern Africa Network Manager at Principles for Responsible Investment (PRI) South Africa "For us the importance of such a study would be the fact that it shines a spotlight on responsible investing. It helps us build a case, which is very important for advocating responsible investing within the business. It also serves as benchmark as it gives us ideas as to where we can grow, what we need to be looking at as well as provides insight on what other fund managers and the industry as a whole are doing."

**Malcolm Gray**, Global Head of ESG at Investec Asset Management ”

## Defining the terms - in theory and in practice

In a space characterised by many overlapping concepts and terminology that is easily misunderstood, the Barometer is designed to root labels and ideas in reality. For instance, the study has revealed the following about IFI terminology:

- *Responsible Investing* is the predominant term used across the board in South Africa - within listed funds (R457 billion under management) and the private equity industry (R104 billion under management).
- The term *Impact Investing* is mainly used in South Africa's private equity space (R29 billion under management).
- In Nigeria, the term *Impact Investing* has a notably larger footprint through its use in private equity funds.

## How well are investors communicating?

The 2014 Barometer also investigated the intention of investors to communicate their IFI involvement. The question is, are they communicating clearly and broadly enough?

The majority of South African investors - 82% of private equity firms and 60% of asset managers - have a dedicated section on their website for their IFI activities. Barometer researchers found, however, that more details could and should be given on the practical implementation of their IFI policies. The same situation was also observed among Nigerian investors. Most of the financial institutions surveyed do not display much - if any - detail on how they include impact criteria in their investment strategies.

Investors' commitment to local and international disclosure and reporting codes and principles are also useful for getting a better understanding of the IFI industry. The UN-supported Principles for Responsible Investment (PRI) is the leading association for IFI players in South Africa, followed by the local CRISA (Code for Responsible Investment in South Africa). PRI and CRISA signatories commit to disclose and report on their IFI practices. However, the Barometer reveals that the level of disclosure and reporting varies widely from one investor to another.

## Measuring more of Africa

"The 2013 Barometer focused on South Africa alone, but for 2014 we decided to go pan-African and include Nigeria in our scope," says Dr François Bonnici, Director of the Bertha Centre for Social Innovation and Entrepreneurship, which is based at the GSB and publishes the Barometer. "This decision was boosted during last year's Africa Impact Investing Forum, organised by the Bertha Centre, the Rockefeller Foundation and The Nigerian Tony Elumelu Foundation. It became clear at the event that Nigeria is a very dynamic lab for IFI, particularly in the private equity space. So it was natural to include the market in our research this year."

Going forward, the Barometer will expand even further to include more sub-Saharan Africa countries and markets.

"We are witnessing a paradigm shift in the investment industry and this momentum needs to be acknowledged," says Giamporcaro. "Undoubtedly, IFI is winning the battle of ideas in the industry. But, as researchers, we now have to measure and capture how it will change investment practices in the long-term, and how it will positively impact society and the environment as a whole."

## About The African Investing for Impact Barometer:

This annual study, published by the UCT GSB Bertha Centre's Innovative Finance initiative, strives to objectively depict the spectrum of investors in Africa that seek to combine financial returns and positive impact on society and the environment. For the purpose of the study, the definition of "investing for impact" (IFI) strategies includes impact, responsible, Shari'ah-compliant, green and socially responsible investing strategies. In a four-page snapshot document, the Barometer provides a series of lenses through which to view the fast-growing but still nascent IFI market in South Africa and Nigeria. The study is based on website consultations, fund fact sheets and industry association reports, such as the SAVCA Matrix 2014 and ASISA's Local Fund Statistics December 2013. The Barometer surveyed 1,287 funds in total - 951 listed funds and 214 private equity funds or holdings in South Africa, as well as 63 listed funds and 59 private equity funds or holdings in Nigeria. Director of Publication is Dr Stephanie Giamporcaro, research director at the GSB.

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