IMPACT IS THE REVOLUTION

5 PRINCIPLES FOR IMPACTFUL INVESTMENTS

Knowledge Pele

Implementing Research-Led Development

The fourth industrial revolution presents us with an opportunity to rewrite the story of Africa and indeed, much of the so-called ‘developing world’. Stripped down to its essence, this revolution is about the transformation of the global economic system driven by changes in the relations of production and consumption. For us, citizens of the ‘third world’, this historical inflection point poses a fundamental question about our next chapter: do we continue to work for the economic system or will the system start to work for us, for a change?

Without undermining the extent of the problems that must be overcome to shift our place in the system, it is important to focus our minds on the forms of investment that will have catalytic, path-altering effects on the course of our history. This is what is meant by impact investing and the outcome, quite simply, is development. The purpose of this article then is to present impact investing, by way of a values-based guide, as the game-changing opportunity for the story of African development.

THE FIVE PRINCIPLES OF INVESTING FOR IMPACT

1. IMPACT IS AN IMPERATIVE ACROSS ALL ASSET CLASSES

There is a tendency to confine the notion of impact investing to a limited set of asset classes that have an explicit social objective such as healthcare and education. This approach, although helpful in bringing social benefit to the forefront of the investment lexicon, has had the unfortunate effect of perpetuating the historically flawed silo-approach to investment thinking. Therefore, without intending to, the mainstream understanding of impact investing has inadvertently justified the persistence of socially blind/agnostic investment approaches which are now commonly referred to and accepted as ‘traditional’. The reality is that socially and environmentally agnostic investment approaches have contributed to some of the world’s most catastrophic crises. It is therefore no longer helpful to isolate impact as the choice of progressive do-gooders. Impact is an imperative of sound investment across asset classes.

2. THE PUBLIC IS PRIVATE AND THE PRIVATE IS PUBLIC

The winds of change also compel us to rethink the boundaries between the notions of public and private. At the heart of this is the understanding that problems of government are problems of society and problems of society are problems of the private sector. In other words, all problems are shared. Investing for impact therefore comes with an expanded understanding of the problems that capital ought to solve. Linked to the issue of redefined public and private sector roles is the redefinition of public versus private goods as a function of technology. Technology, understood holistically as advances in both artefacts and production approaches, has made it possible to change the nature of goods that we once understood as possessing the qualities of being non-rival and/ non-excludable. Thus, where roads were once a good example of a public good, the introduction of digital gantries introduces a set of possibilities that were not conceivable: the ability to count the number of users, the amount of their individual usage and thus develop an accurate user-pays system. In other words, technology has made it possible for the private sector to participate in the delivery of public goods. It is important to note that impact investing is not a panacea to all social problems. However, an insight that we cannot ignore is the inevitable changing meaning of public vs private and the requirement for government to redefine the meaning of its social mandate. For example, in the context of education, is the purpose of the government to build schools or to deliver a curriculum that builds social cohesion? Finding the sweet spot between profit and development creates a critically important opportunity: it allows the private sector to invest more in proven forms of development innovation whilst allowing the state to target the more vexing challenges. This virtuous cycle allows the private sector to draw in more capital to bankable opportunities whilst enabling the state to de-risk new innovations and thus create new investment pipeline opportunities.

3. THE OPPORTUNITY LIES IN NEW VALUE CREATION

Societies that have been constructed as unequal must use the instruments of reparations and redistribution to achieve justice. This however, is but one part of the story. To win the future, we need to focus our attention on the emerging entrepreneurs who are creating new economic value. New economic value is where the jobs of the future lie, along with exponential profits. Smart money should therefore have its eyes firmly set on identify and supporting the new bastions of industry because therein lies the true rebirth of the continent.

4. PROFIT ONLY GENERATES SOCIAL VALUE THROUGH REINVESTMENT

The fourth principle of investing for impact is reinvestment. This principle is possibly the hardest to embrace as it challenges the private accumulation possibilities of even the best-intentioned impact investors. Nevertheless, if we are to remain true to the lesson of history, we must appreciate that sustainability is only achieved through shared value. Put differently, in the absence of shared value, profits cannot be sustained. Some examples that illustrate the point are thus: without fairness and equality, there can be no peace; without trust, achieved through good governance, the market cannot function; without a viable natural environment, human beings cannot exist. The theme that connects these relationships is the principles of shared value: the value we create together must be enjoyed together. What this means therefore is that there is, by definition, a short window on the privatisation of profit and attendant consumption. In the long, profit must be reinvested in ways that reflect and support the sources which generated it in the first place.

5. GENUINE MONITORING AND EVALUATION IS THE GLUE THAT HOLDS IT ALL TOGETHER

Brunson's theory of 'organised hypocrisy' states that organisations use the power of discourse as a substitute for difficult change-actions. This is easily observable in the context of the investment sector, which has become adept at using the language of impact without changing its fundamental behaviour. Instead, organisations have become skilled at reframing their stories, the stories of the same underlying investments, as stories of sustainability and impact-it just takes a few uplifting images to achieve the trick of misdirection. This not the way of the future. To genuinely pursue impact is to closely monitor and evaluate the impacts of investments. This is not to collect company policies and 3rd party reports en route to completing a checklist. Genuine monitoring and evaluation requires consistent primary data collection; the willingness to learn, understanding that some investments may not deliver on their impact thesis and most importantly, the courage to do differently when presented with impact failures. In the absence of genuine monitoring and evaluation, impact verification, we miss the opportunity to transform the risk profile of investments and impact is simply reduced to a hollow public relations exercise.

IN CONCLUSION...

It is clear from this analysis that Fund Management is the next frontier of Development and therefore, stated differently, Development is the future of Fund Management. Without collapsing the meaning and capabilities of either discipline, Investing for Impact compels the two areas to work as a single force in service of the grandest social challenges of our time. Indeed, Knowledge Pele's partnerships target African challenges such as infrastructure; SMME finance; healthcare, agriculture and social housing- grand challenges that require sustainable funding models. This much-needed intervention holds promise for the future of our continent. Thus, as we transition to a world embedded with artificial intelligence, we are compelled to nurture our most uniquely human capability: insight. Insight is the ability to connect the dots. And it is in connecting Development and Fund Management that the insight of Impact Investing is made manifest. Because it is through genuine Impact Investing that we may begin to carve out a financially sustainable development path. And that, is how we make the economy work for US in the era of the fourth industrial revolution!

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3 Centex Close,
Brooklyn Place, Eastgate
Kramerville, Sandton

Phone: + 27 11 262 0515
Email: k.masongoa@knowledgepele.com