KEYNOTE INTERVIEW

No need to compromise on financial performance

Financial returns and positive social and environmental outcomes are mutually reinforcing if investors take a well-considered and targeted approach, says Shami Nissan, head of responsible investment at Actis

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As this publication clearly demonstrates, impact investing has come a very long way in a short space of time – and possibly nowhere more so than in the conversation around whether impact investment can deliver strong financial returns. What was once considered a niche investment strategy that had more to do with philanthropy than generating returns is becoming an increasingly important part of institutions' portfolio construction considerations. In 2014, just over half of investors (54 percent) surveyed in The Global Impact Investing Network's study targeted market-rate returns; by 2019, that percentage had grown to 66 percent.

Even so, it's still a subject for debate among many investors, in particular as some aspects, such as ways of measuring and reporting on impact are still in their infancy and can be confusing. We caught up with Shami Nissan, head of responsible investment at Actis, to discuss how impactful investment strategies can align closely with financial return objectives and explore the difference between impact metrics and measurement.

Q To what extent is impact investing commercially viable?

It's completely commercially viable, in our experience. This is based on a long track record that spans several decades and a guiding philosophy that values drive value. We've always had a 100 percent commercial objective and our investments have resulted in meaningful impact in the majority of the sectors and countries where we work.

Q What kind of compromises are involved?

Some may see an inherent conflict or a need to compromise either financial returns or impact. Of course there is a continuity but our view is that the two goals are mutually supportive. We invest in hard and soft critical infrastructure which supports the basic needs in the countries, cities and communities in which we operate – from energy to education and healthcare – and we approach this in a way that distributes value not just for immediate stakeholders, but also the wider community.

A thoughtful and intentional approach to creating impact helps ensure the business has a licence to operate and is valued highly by employees, the wider community and, ultimately, a buyer when it comes to exit.

Q Some sectors can be more obvious targets for impact investors. But is it possible to generate impact across the board?

Absolutely. Right now, impact funds tend to be focused very much on specific sectors with high intrinsic impact, such as healthcare, education and agriculture – that's one end of the spectrum. Yet the world's economies are comprised of myriad sectors and the challenge is how you achieve impact across all sectors. I'd say this is more of an incrementalistic approach. This approach requires an understanding of the top levers in the business for delivery of a measurable positive impact to people or the planet. You must then implement and measure.

Q So what is Food Lover's Market doing to generate impact?

Food Lover's Market, one of the largest retail groups in Africa, is a company that really demonstrates how a business can make significant, lasting differences. It underwent a root and branch review of everything it does to create a truly sustainable business for today and tomorrow.

"Some may see an inherent conflict or a need to compromise either financial returns or impact, but our view is that the two are mutually supportive"

Waste reduction is one area – it managed a 43 percent reduction in waste to landfill in just six months, saving it 250,000 rand ($16,491; €15,132) a year in the process. Reducing water consumption, high quality training, family budgeting courses, help with safe transport for employees, supporting smallholders in a way that takes into consideration climate change – these are all initiatives being put in place by the company that both build financial value and have important social and environmental impact that stretch far beyond the company's premises.

Q Given the link you outline between financial performance and impact outcomes, are there metrics that overlap?

Yes – many of the financial or commercial performance metrics we use can also track impact. If you look at education metrics, for example, there may be the number

How can impact and financial returns be mutually supportive?

Ostro is a great example of this. We created this Indian renewable energy business from scratch in 2014. This allowed us to shape the kind of company we wanted to build. In a country where 200 million people still lack access to electricity, there is clear impact in helping bring more people onto the grid and doing so with renewable energy sources. By 2018, the business had 1GW of contracted generating capacity.

However, we also recognised that there was much more we could do to create value and manage risk at the same time. Together with management, we implemented international best practice for labour accommodation standards and site safety – these standards are exceptional in a market where working conditions are often poor and accidents frequent. Safe drinking water was also an issue for local populations, leading

to a number of health problems. Ostro therefore installed water ATMs, where the community could access clean, safe water for a small fee. It's these kinds of initiative that give Actis and our portfolio companies a licence to operate among vulnerable communities while at the same time building significant financial value.

This was demonstrated when we exited the business in 2018 through a sale to Goldman Sachs-backed ReNew Power. Following the deal, the buyer cited Ostro's strong ESG record as a factor that boosted its valuation. Indeed, there is now a story building in India about the kind of companies that we put into the market – there is a kind of halo effect for Actis-backed companies. Buyers know that they are clean, well run and socially responsible businesses, all of which add financial value when it comes to exit.

of enrolments, graduation rates, post-graduation employment levels and starting salaries, number of courses offered etc. These are financial and operational reporting tools, but they also provide a window on how much impact you are having on student outcomes. In healthcare, it's the same. Number of clinics opened, number of patients seen, improvements in clinical outcomes – these are all operational and financial metrics that blend with social outcomes.

There are clearly other impact metrics but broadly speaking you don't have to have a whole new reporting headache; you're often already gathering the information in any case. It's worth saying, though, that metrics are different from measurement.

Q In what way do you see metrics as distinct from measurement?

Metrics are clearly important and there has been a big focus by the industry on this. We're almost drowning in the different sets of impact metrics we can use.

Where we haven't made much progress as an industry is measurement systems. LPs need to be able to compare the impact performance across different managers and funds. GPs need to be able to measure impact at portfolio company levels, and compare across companies, even if they are different sectors. There needs to be a way of reading across all these – as Sir Ronald Cohen said last year: "If impact investing is our rocket ship to social change, impact measurement is our navigation system."

"There has been a lot of work done on which units to look at for impact – we're almost drowning in the different sets of metrics we can use"

That's why we have worked to create an impact measurement framework that, from January 2019, we have applied to all our investments. That allows us to give an impact score to each investment we make so that our impact returns can be compared in the same way as financial returns can be. We have also made the framework open source so that it is available to everyone – the industry needs to move forward together. If we move towards a common measurement system, this could help unlock significant capital from LPs.

Q How do you determine which areas are material?

We have to prioritise because you can't measure and aggregate all impact, so you focus on areas that are the most material – those that are transformative and enduring. So we look at the five biggest impact levers for each investment. These could be CO2 avoidance, jobs created, educational improvements and healthcare outcomes, for example. For each individual impact, we score it on debt/number of beneficiaries/ how underserved those beneficiaries and on contribution. This score addresses the question: Would this have happened anyway?

Q How do you see impact investing developing over the medium term?

It will continue to gain momentum. The creation of the UN's 17 Sustainable Development Goals has really helped people galvanise around a framework organised by themes and, while there is still some way to go before we have greater harmonisation around impact definitions and measurement, institutional investors are increasingly assessing how their capital can be deployed to generate both financial and societal returns.

Some of this is driven by the generational shift we see with millennials and with the increasing participation of high-net-worth individuals and women in investments – these groups really care about how their capital can be used for positive societal and environmental outcomes. The development finance institutions will play an important role here by sharing what they have learned to help mobilise capital and build a robust impact ecosystem. ■

Can you outline impact programmes that run across multiple portfolio companies?

We have implemented programmes that benefit both the local economy, local stakeholders and and our portfolio companies and we've done this on the theme of training, for example.

In Kenya, we partnered with ArcSkills to provide vocational construction-related training to local unemployed young people, an important initiative in a market where there are skills gaps and 80 percent unemployment rates among under-30s. Between June 2016 and July 2017, the programme trained nearly 300 people, 40 percent of whom were female, with the vast majority gaining certification in areas such as masonry, plumbing, plastering and formwork. This gives us a pipeline of skilled labourers that can deliver high-quality workmanship according to international health and safety standards. Yet it also provides enduring benefits for the young people and the wider economy as our trainees are more able to secure employment beyond our investment.

It's the kind of initiative that can be replicated across our markets and we've now run similar programmes in India to help train workers for Indian renewable platform Sprng and in Cameroon, where we're building the country's first shopping mall to international green building standards.