KEYNOTE INTERVIEW

Pursuing a positive impact in Africa

Investors are capitalising on opportunities to make an impact as well as a financial gain on the continent, say Webber Wentzel's Michael Denenga, Angela Simpson and Andrew Westwood

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Q What impact investing trends are you observing in Africa? Which sectors are seeing the most activity?

Michael Denenga: There has been a lot of activity on the housing side, particularly affordable housing and especially in South Africa. Occupancy rates and collections are above expectations and frequently above 90 percent, so investors have an appetite for that and there is a good opportunity there.

Healthcare has been another big theme this year, with a lot more focus from private equity funds that are involved from the infrastructure side, and also in relation to healthcare technology.

For small and medium-sized enterprises, the financial inclusion agenda has gathered momentum and we are seeing fund structures designed to provide assistance to SMEs and narrow the gap for those that do not have access to finance, which is another significant opportunity.

We see a growing realisation that you can get involved in impact investing without sacrificing profit. There is now reliable research that shows impact is profitable, and that is bringing more investors into the market. Where previously the market was driven by NGOs, now it is more mainstream.

Andrew Westwood: While the average private equity investor is obviously focused on financial returns, we are increasingly seeing funds – particularly those backed by development finance institutions – with mandates to look beyond that and pursue an impact goal as well as a financial goal.

DFIs have always been significant investors in Africa-focused funds, so they have had a strong voice in the requirements of these funds – the International Finance Corporation's Environmental and Social Performance Standards have long been a feature, for example.

Q What role does venture capital play in impact investing?

AW: Because of the risk profile of venture capital investors, and the fact that many of the businesses they invest in are using technology to disrupt markets or make new products available, there is often more scope for someone looking to make an impact to do that via a venture capital investment. Private equity tends to involve larger businesses and the financial return is a bigger focus.

There is a lot of US money coming into venture capital in South Africa and spreading into the impact space. An example is the Michael & Susan Dell Foundation's investment in SweepSouth, a platform that connects 5,000-plus cleaning professionals to homeowners. That mandate is obviously money-making, but it is also very much about employment creation.

Q How has covid-19 impacted ESG in Africa, especially the 'S' of ESG?

AW: While some companies have come through the past 18 months relatively unscathed, one of the obvious impacts for many others was the hit to their balance sheets, which in turn impacted their ability to retain employees. Once they were under financial pressure, many businesses struggled to meet their social commitments.

Private equity and venture capital investors have been able to move quickly, relative to listed companies, in raising capital, and so have been able to provide short-term funding to companies to allow them to meet their obligations and weather the storm. Covid has also heightened the focus on providing employment and protecting people whose livelihoods are at risk.

At SweepSouth, for example, the Covid-19 SweepStar Fund was set up to bridge the gaps in regular income for domestic workers using that platform during lockdown, allowing many to cover their living expenses and purchase necessities for their families.

Q What is happening in Africa when it comes to setting uniform standards on ESG monitoring, reporting and compliance?

MD: Across Africa we are getting more and more allocations from European DFIs and others, and they are cognisant of European guidelines and standards so those creep into Africa. We have seen that with the EU's Sustainable Finance Disclosure Regulation. Some of those provisions are starting to be seen in some of the fund documentation being developed here, depending on where LPs are coming from.

In Africa this is largely investor-driven, with many investors relying on international standards. What we have seen a lot more of is investors creating their own standards, which are frequently even more stringent. That presents various challenges, not least for managers trying to take a blanket approach.

There are also initiatives by the Southern African Venture Capital and Private Equity Association and the African Private Equity and Venture Capital Association to bring common standards into play around ESG reporting, so we expect to see more standardisation. We are already seeing a lot around governance, with a growing focus on diversity, equity and inclusion and board composition, both at the GP and portfolio company level.

Angela Simpson: Most investors are experienced enough to know that you cannot just step in and expect full compliance with European or US ESG standards from day one at portfolio companies, so the focus is on building the capacity of the company from a compliance and reporting point of view. Helping companies to identify areas they can improve and working with them towards enhanced data collection and reporting is often a key element of the value creation story.

AS: One thing covid has certainly revealed is a lot more opportunities, particularly to use tech as an enabler of these projects. Any opposition that remained towards shopping and procuring services online has been eliminated and schooling has changed. We have seen significant private equity investment in capacity and infrastructure building, as well as accessible quality schooling across the continent, using technology as a model of delivery.

Often when dealing with jurisdictions with infrastructure challenges, people have in the past found it difficult to see beyond the way things are currently done, but covid has demonstrated the importance of agile thinking. We have worked on deals in digital infrastructure, energy infrastructure, financial inclusion, education and healthcare – all of which have benefited enormously from that.

Q How are private equity firms driving board-level change and enhanced governance in the companies they invest in?

AS: In the South African context there is a massive emphasis on diversity, both from a Black economic empowerment perspective and from a gender perspective, and there are a number of initiatives under way to drive better board-level representation and inclusion. That is something that all investors are focusing on, and they are always careful about the composition of the board and bringing in independent non-executive directors, local representation and diversity. They are making sure they have a balanced set of skills, and that can only be a good thing for taking the business to the next stage of growth.

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> **MICHAEL DENENGA**

AW: Governance is something both venture capital and private equity investors have been focusing on for some time, but it is now seen as something that will drive value. If companies are well run and well governed, there is value in that, as well as risk mitigation, particularly when you are operating in environments that are more complicated or have more complex regulatory regimes.

MD: Outcomes have confirmed that good governance enhances returns, and even extraneous to fund structures we are seeing ESG being accelerated in terms of corporate governance and a lot of talk about the role of boards in driving forward this agenda. There is going to be more focus on that going forward.

Q How do you expect impact investing to develop in Africa? Are there many active investors, and what solutions do you expect to see more of?

AW: There is certainly more international investment coming into Africa. One outcome of covid has been increased demand for virtual banking and other online financial services, and there is a lot of international capital going into that segment, particularly in the larger population countries like Nigeria. In South Africa, a lot of investment is going into the SA SME fund, which was created by large South African corporates with a view to developing the SME sector. There is growing recognition of how crucial that segment is to fuelling economic growth and creating employment, and 75 percent of that capital will be invested into Black-owned and managed SMEs. That will play out into dealflow and investment in years to come.

AS: If you look at the nature of the transactions we are working on, a lot are in the energy and telecoms infrastructure, transport, education, healthcare and financial inclusion space, with an emphasis on female-owned businesses. Renewable energy is also attractive, not just in South Africa but across the continent, as density in cities increases and we move forward with the electrification of the continent.

MD: We are seeing a lot of infrastructure fund formation and a lot more focus on technology than ever before, including some niche technology funds in areas such as artificial intelligence. Generalist funds are also allocating more of their capital commitment to technology enhancements. There is also still a huge focus on energy funds – we have already set up renewable energy structures this year so it is clear that there is going to be a big focus on renewables going forward.

AS: When it comes to investing in Africa, you do not see a lot of fancy financial footwork – it is not about gearing up to drive returns or quick exits. We see a lot more patient capital with longer investment horizons, with a back-to-basics approach focused on providing not just money but also knowhow, support and opportunities to grow profitable businesses and make a positive impact. ■

Michael Denenga is a funds partner, and Angela Simpson and Andrew Westwood are M&A partners at African law firm Webber Wentzel