

Fund Alignment with the U.N.'s Sustainable Development Goals

A Case Study

Provided by Investisseurs & Partenaires in Association with the EMPEA ESG Community

I&P Afrique Entrepreneurs



Enko Education © Béchir Malum

The Fund's Story

In 2012, Investisseurs & Partenaires (I&P) launched I&P Afrique Entrepreneurs (IPAE) to address the needs of small and medium-sized enterprises (SMEs) in Sub-Saharan Africa, focusing on companies with financing needs between US\$350,000 and US\$2 million. This fund targets larger and more mature companies, compared to the other funds managed by I&P, so as to provide a complete investment continuum to the businesses of the 'missing middle.'

The launch of IPAE was an opportunity to formalize the environmental, social and governance (ESG) and impact strategy progressively developed by I&P since 2002. IPAE's successor fund, IPAE 2, recently launched in 2017 and goes even further in terms of impact objectives and alignment with the U.N. Sustainable Development Goals (SDGs). The impact performance of IPAE 2 will be reflected in the investment manager's carried interest percentage, which will reflect whether the team has met certain impact as well as financial targets.

The Role Played by Private Capital

IPAE's impact thesis is to promote a new generation of responsible entrepreneurs in Africa, specifically focusing on those who will have the greatest impact on their local stakeholders (employees, clients, sub-contractors and the environment) and with a significant, concrete and proven contribution to the U.N. Sustainable Development Goals. The SDGs had not yet been defined when IPAE 1 was launched, but the firm decided to use this framework to better track and demonstrate the fund's impact. SDG considerations are systematically incorporated into the fund's investment process (screening, due diligence, etc.), impact

measurement and reporting (with a specific section in investor reports dedicated to this issue). The SDGs have also become a key element of I&P's advocacy strategy, notably with the publication of the study *Investing in Development in Africa – How Impact Investment Can Contribute to Meeting the SDGs in Africa*.

Based on the annual impact evaluation of the portfolio, I&P maps its SDG-focused impact at two levels: at the company level (by listing the contribution of all the companies whose activities directly contribute to the SDGs) and at the portfolio-wide level (evaluating the global contribution of the fund to the SDGs). As a result, IPAE addresses a significant number of SDGs, both sector-specific (health, education, energy, etc.) and cross-sectoral (decent work and economic growth, reduced inequalities, gender equality, etc.).

At I&P, the SDGs have clearly enriched the understanding of the firm's impact and measurement systems, allowing the firm to place existing measurements in a global perspective. Several key objectives are in direct harmony with I&P's investment approach, such as Goal 8 (Decent Work and Economic Growth). Several of the SDG's sectoral objectives, such as Goal 3 (Good Health and Well-being) and Goal 7 (Affordable and Clean Energy), are linked to many of the fund's target sectors, with 70% of the fund's capital being invested in companies that address basic needs and services.

I&P has drawn two important conclusions from its experience with SDG alignment: the SDGs represent a tremendous opportunity for institutional recognition in the public and private spheres, paving the way for increased mobilization of capital for impact funds and their beneficiaries in developing countries. At the same time, it is important to be aware of 'impact washing,' with actors claiming a contribution to the SDGs that is neither

I&P AFRIQUE ENTREPRENEURS



Essentials

Vintage Year: 2012

Status as of 2018: Fully invested (successor fund in fundraising stage)

Geographic Focus: Sub-Saharan Africa

Fund Type: Growth equity

Sector Focus: Multi-sector

Size (US\$): US\$65 million

GP: Investisseurs & Partenaires, an impact investment group dedicated to small and medium-sized enterprises based in Sub-Saharan Africa and in the Indian Ocean (ietp.com)

Number of Investments: 29

Range of Investment Size: US\$350,000 to US\$2 million

Highlights

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intentional nor rigorously measured. I&P believes that the intention to generate social and environmental impact and the methodology used to measure this impact should be publicly disclosed as precisely as possible.

Measuring Impact

IPAE seeks to maximize impact through the proactive management of its portfolio based on measurable impact targets aggregated at the fund level. The core impact objectives pursued include: developing responsible entrepreneurship through African SMEs; investing in the most fragile countries; creating decent jobs; meeting unsatisfied demand for basic goods and services; creating business for local subcontractors and densifying the local economic fabric; and fostering environmentally friendly businesses.

To measure the fund's contribution to the SDGs, an impact evaluation is sent annually to all companies in the portfolio. The fund collects around one hundred indicators, with a key focus on the portfolio's contributions to the SDGs, especially on the client side (e.g. access to essential goods and services).

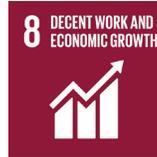
The biggest challenge is translating the SDGs into the daily operations of African SMEs. The 17 SDGs are broken down into 189 targets, which are followed by 230 macroeconomic indicators. The impact measurement team made several adjustments to apply these indicators at the microeconomic level. For example, one of the country indicators for SDG 1, "proportion of population covered by social protection systems," is adapted to fit the company level (in this case: the number of employees covered by health insurance).



Eden Tree © Béchir Malum

SDG

Contribution(s) to the SDGs



- IPAE accounts for more than 5,500 jobs created or maintained. The average net monthly wage of its portfolio companies' employees is 70% higher than the average wage in Sub-Saharan Africa (based on figures from Institute for the Study of Labor discussion paper *Minimum Wages in Sub-Saharan Africa: A Primer*).
- I&P is careful to ensure that companies provide safe and secure work environments: 50% of its portfolio companies have implemented programs to enhance safety at work (formalized processes, employee training, etc.).
- Portfolio companies provide business opportunities to small-scale suppliers and distributors, and 70% of their suppliers are local.



- I&P promotes women entrepreneurs and women's access to leadership positions: as of 2017, 20% of portfolio companies are owned or led by women (compared to an average of 5% of African companies with female CEOs per McKinsey's August 2016 *Women Matter Africa* report).
- The fund aims to develop women's access to decent jobs and income-generating opportunities: across the fund's portfolio companies, women account for 40% of employees. Many of the fund's companies target women as clients, with women accounting for more than 50% of the clientele of the fund's microfinance institutions.
- I&P shared the key elements of its gender policy in a document titled "Opportunities to Address the African Gender Gap."



- Extending health coverage to all companies in the portfolio is a top priority for I&P. The firm has implemented a tailored assistance program to help IPAE portfolio companies implement or upgrade their health insurance systems. As a result, 90% of the fund's portfolio companies provide health insurance, and 50% of them have implemented or upgraded their system since IPAE's investment.



- The majority (80%) of I&P's investments are allocated to the least developed and most fragile countries in Sub-Saharan Africa, as defined by the United Nations and the World Bank.

Note: All figures as of March 2017.

Membership in the EMPEA ESG Community is open to all individuals at EMPEA member firms who have an active interest in ESG in the emerging markets space. This Community provides a platform to share resources and advice for EMPEA members considering how to build and/or expand their ESG management strategy, as well as offers practitioners and experts a forum to advance the development of ESG best practices through information exchange, research and the aggregation and development of innovative resources.

Find out more and get involved at EMPEA.org

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