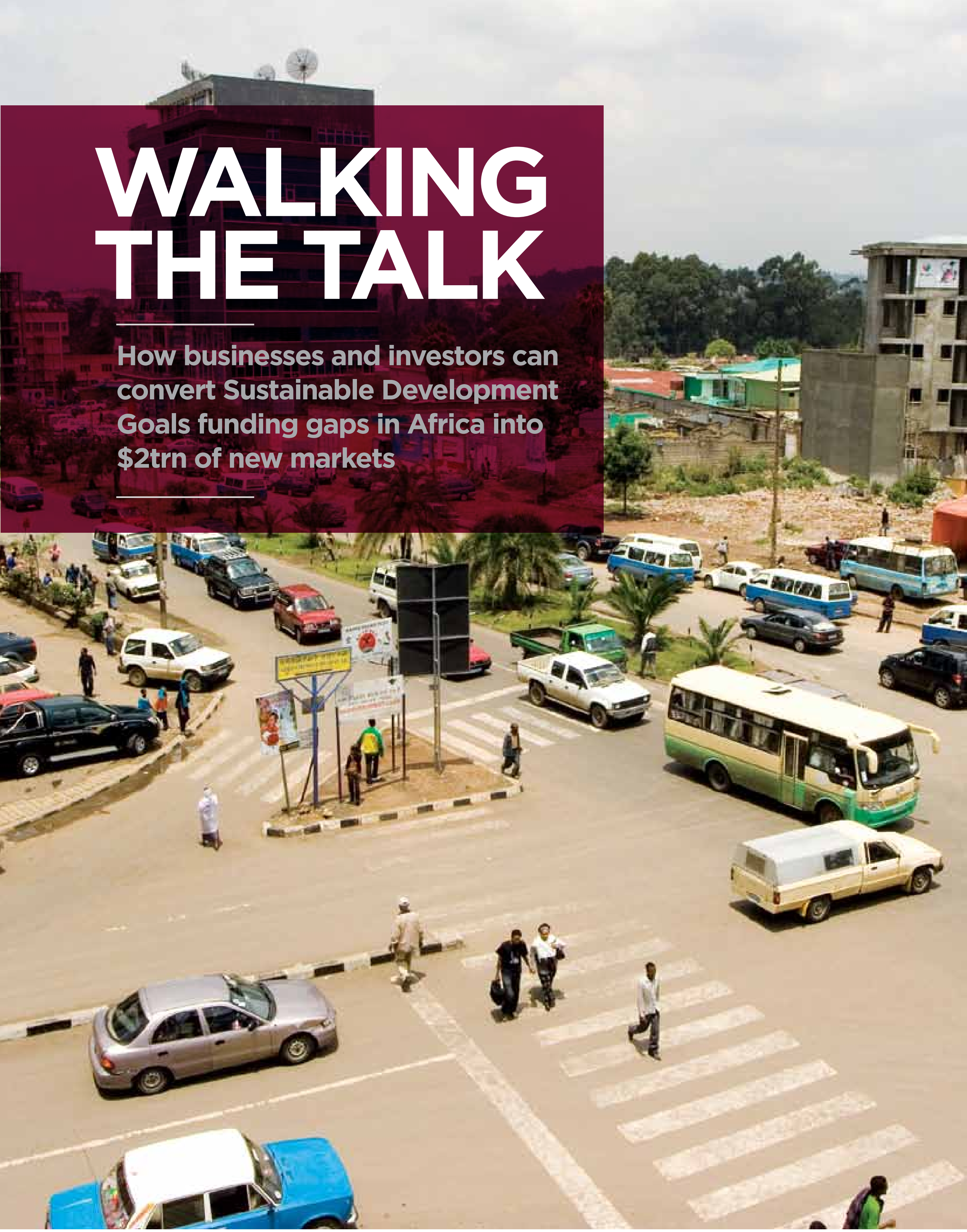


WALKING THE TALK

How businesses and investors can convert Sustainable Development Goals funding gaps in Africa into $2trn of new markets

Dalberg

ACKNOWLEDGEMENTS AND AUTHORSHIP

This briefing builds on the knowledge and research of many business leaders, fund managers, institutional investors and experts. The findings and analysis in what follows is the result of insights garnered through working with our clients, as well as individual businesses, fund managers, sustainability & ESG experts and teams responsible for other global estimates of the investment gap to meet the sustainable development goals, who kindly donated their time and perspectives.

The timing of this briefing accompanies an event in London on 22nd March 2018, titled 'What do the sustainable development goals mean for business in Africa?' to discuss how businesses and investors can unlock commercial value by addressing the substantial annual investment gaps that currently need to be filled to meet the goals by 2030. We would like to acknowledge and thank our co-sponsors for this event, the Royal Africa Society and the Africa Club at the London Business School.

This briefing was authored by Aly-Khan Jamal and Arianna Freschi, with input from Greg Snyders, Veronica Chau, Mark Freedman, Edwin Macharia, James Mwangi, Henrik Skovby and Daniella Balou-Aares.

The Sustainable Development Goals are increasingly on the agenda for businesses and investors[1], both as a responsibility and an opportunity

In September 2015, all member states of the United Nations signed up to the Sustainable Development Goals (SDGs). There is broad consensus that today's economic growth model is environmentally and socially unsustainable. The 17 goals that constitute the SDGs capture a vision for an alternative pathway for growth that is sustainable by being environmentally secure, more economically dynamic, and more inclusive and fair in the way the benefits of that growth are shared.

By denoting 17 goals and 169 targets, the SDGs are also an organising framework that is important in two ways. Firstly, they signpost where a lot of activity and investment is likely to be, and needs to be, directed. Secondly, they have created a shared language between the private sector and a diverse range of other actors that have traditionally been in the lead in the development agenda. This is key because there is a substantial funding gap of ~$2.5trn or more[2] per year to hit the SDG targets by 2030, and the resources and expertise of the private sector are increasingly being recognised as critical.

There has also been a growing recognition from businesses and private investors that they have an important responsibility in driving sustainable and inclusive growth, recently well captured by Larry Fink, the CEO of BlackRock, in his letter to CEOs[3]; the advent of the SDGs has further supported this trend. But beyond this, there is a growing commercial imperative. Many of these gaps can be viewed as sizeable untapped market opportunities. This, combined with a common language that is emerging around the 17 goals and associated measures, creates – potentially – an unprecedented opportunity for the private sector to work with government, development institutions and other actors to pursue these goals and create value.

$2.5tr per year: the annual investment gap to meet the Sustainable Development Goals by 2030

---

[1] The term 'investor' can refer to a range of actors, including fund managers that invest directly such as private equity or debt funds, and large scale asset allocators such as pension funds. Throughout this report we use the term 'investor' to refer to both of these types; it does not include public investment such as multi-lateral, bi-lateral or domestic government investors.

[2] United Nations Commission for Trade and Development, 2014. *World Investment Report 2014* that estimates of global investment gap of $1.9-3.3trn per year to 2030 with $2.5trn as a midpoint and Schmidt Traub, Guido, 2014. *Investment needs to achieve the SDGs*. UN Sustainable Development Solutions Network, which estimates the global investment gap is $2.6trn

[3] https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter

In Africa, successfully filling a $600bn per year investment gap to realise the SDGs could unlock commercial opportunities worth more than $2trn a year by 2030

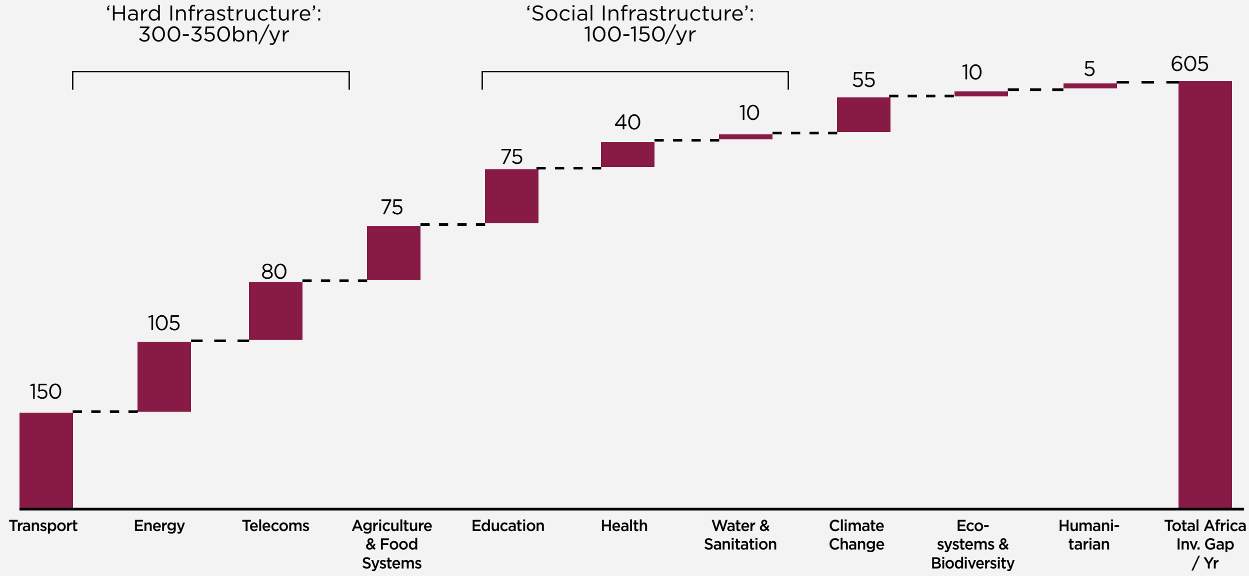
We estimate that, of the global investment gap of $2.5trn per year, roughly $600bn a year arises in Africa, across 10 investment areas[4]. Similar to the rest of the world, 'hard infrastructure' areas of transport, energy and telecoms are key; and combined they make up just over half of the African gap at $300-350bn per year. But investments in other areas are particularly key in the African context: substantial gaps in 'social infrastructure' areas of education, health, water and sanitation requires $70-80bn per year; and climate change requires $50-60bn per year.

The fact that Africa's annual investment gap represents 'only' about one quarter of the world total, seen from the context of the substantial gains to be made across all SDGs in the region, may appear surprising. However, this recognises the global nature of the goals; challenges in areas such as climate change and protecting biodiversity above land and under the sea require global responses, while rising regions such as developing Asia have particularly high investment gaps to address in some key areas such as infrastructure. However, at over 25% of Africa's GDP, the relative scale of the investment gap to the continent's economy highlights the importance of mobilizing private sector investment; public sector and development finance resources alone will not meet the full extent of Africa's needs.

$300-350bn per year: the annual investment gap in Africa that could addressed by the private sector

[4] A definition of the investment areas used, and how they align with the Sustainable Development Goals, can be found in at the end of this note.

Annual Investment Gap to fulfil the Sustainable Development Goals in Africa
$Bn per year, 2015-2030



SHARE OF TOTAL	Transport	Energy	Telecoms	Agriculture & Food Systems	Education	Health	Water & Sanitation	Climate Change	Eco-systems & Biodiversity	Humani-tarian	Total Africa Inv. Gap / Yr
	25%	17%	13%	12%	12%	7%	2%	9%	2%	1%	

Methodology: Estimates are based on allocating UNCTAD and UN SDSN estimates of the annual SDG investment gap to the African region, based on a weighted model of Africa's share of GDP and population in their different estimation methodologies. Total implied numbers are also triangulated against bottom-up estimates from other sources for the annual investments required for most of the individual investment areas identified above
Sources: Schmidt Traub, Guido, 2014. Investment needs to achieve the Sustainable Development Goals. United Nations Sustainable Development Network. United Nations Commission for Trade and Development, 2014. World Investment Report 2014; African Development Bank, Light Up and Power Africa; African Development Bank, Feed Africa; McKinsey, Bridging Global Infrastructure Gaps, 2016; Dalberg analysis.

FIGURE 1: Africa's share of the total SDG funding gap by sector

$2trn+ per year:

in value could be unlocked for the private sector is the investment needs in Africa are met

Neither do they need to. While a portion of the investment needed must address 'traditional public goods' areas that necessitate public investment, there are also a range investment opportunities for the private sector that are either commercially viable on a standalone basis, or can be made so through collaboration between the public and private sector. Our analysis indicates that just over half of the investment gap, or $300-350bn per year, could be shouldered by private investors and businesses.

Those that are able to take the lead in closing the SDGs investment gap in Africa could gain a leading position in unlocking new market opportunities worth $2-4trn per year[5], more than doubling Africa's GDP[6]. Our estimates are potentially conservative: other, global level estimates, suggest unlocking four areas (agriculture, cities, energy and health) could be worth $12trn to $36trn per year[7], achieving gender parity alone would add at least US$12 trillion to global growth[8].

To unlock this value, businesses and investors need to get three things right in three areas: where to focus, what measure and how to partner effectively.

Unlocking these market opportunities will be based on contributions from both the private and the public sector, and hence strong cooperation between the two will be essential. While the SDGs, as an organising framework, help create a common language and momentum to collaborate, making this successful is still far from straightforward. Our research suggests that, to unlock the value at stake, businesses and investors need to get things right in three areas: where to focus, what to measure, and how to partner effectively.

[5] Range is based on the typical multipliers for incremental revenue vs. total public and private investment collated from our experience across sectors in this study, and triangulated against the implied multipliers from the Business Commission for Sustainable Development Better Business, *Better World 2017* report of ~4-6x.

[6] Based on nominal GDP for Africa of $2trn in 2016 according to the International Monetary Fund

[7] Business Commission for Sustainable Development, 2017. *Better Business, Better World*.

[8] McKinsey Global Institute, 2015. The Power of Parity: Advancing women's equality can add $12 trillion to global growth.

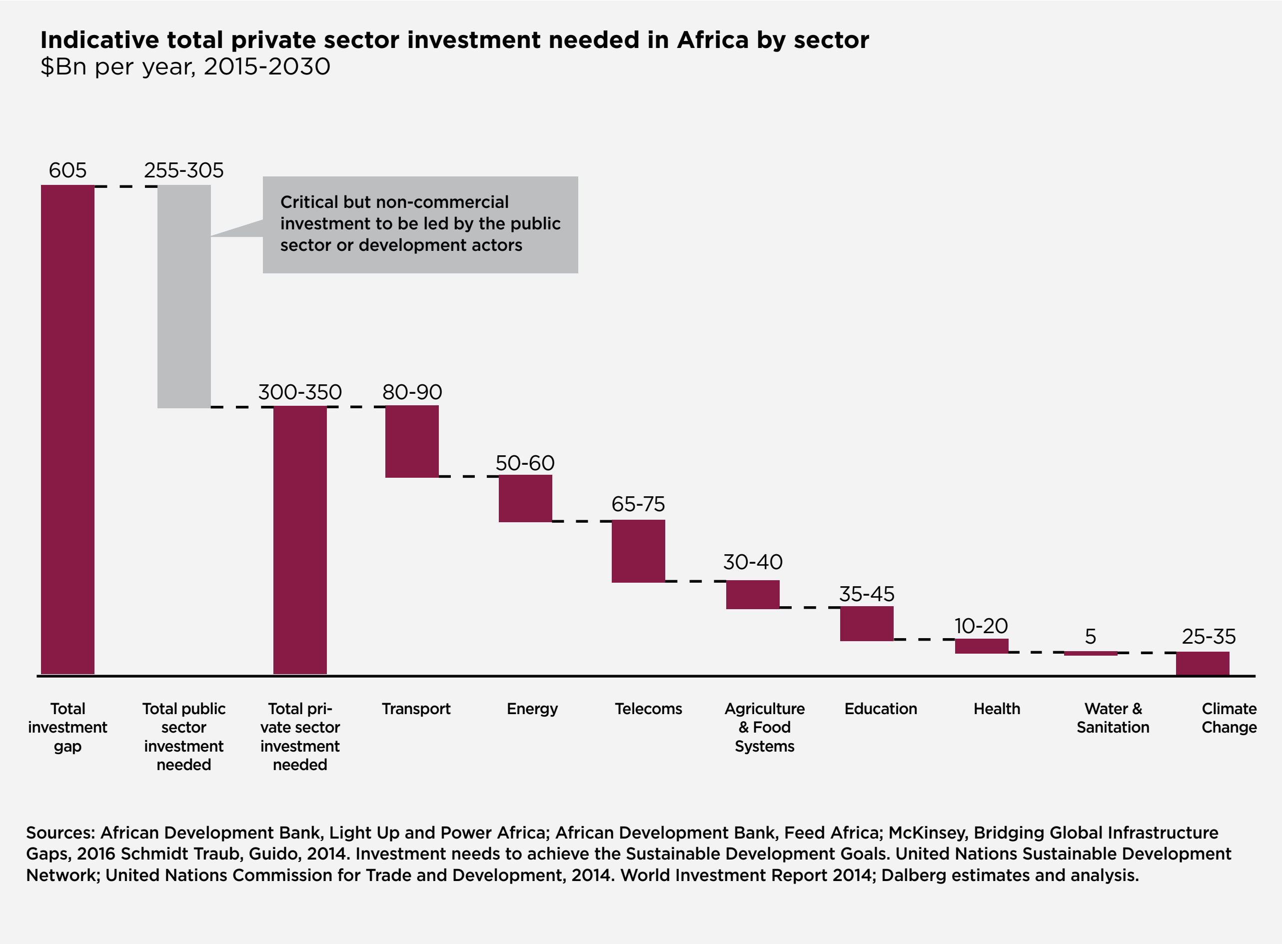


FIGURE 2: Indicative total private sector investment need in Africa per annum by sector.

<table>
<tr><th></th><th>FOR BUSINESSES</th><th>FOR INVESTORS</th></tr>
<tr><td>Where to focus: start from where you can create value to identify where you can have impact</td><td>Corporate social responsibility (CSR) activities that solely focus on delivering impact often involve businesses dedicating resources to areas that are of importance to the firm but are not necessarily related to core activities.

But in the current context of delivering both impact as well as commercial returns through investing in areas related to realising the SDGs, businesses need to identify where their core competencies and assets lie, where the SDGs intersect, and use this as a starting point to define where they can create impact. Our discussions with business leaders reveal that firms that successfully weave these considerations into core long term strategy are better equipped to identify where and how they can drive long-term value creation, and engage with other partners and sources of capital to successfully finance associated activities</td><td>Major asset allocators, especially those with long-term investment horizons, are increasingly requiring that their portfolio investments and the fund managers that they work with have strategies for sustainable value creation. In this context, as passive and even active environmental, social and governance (ESG) screening becomes accepted as a standard requirement, ‘responsible’ fund managers that can clearly articulate active investment strategies that create value and impact are best placed for conversations with asset allocators, as well as in creating portfolio value. Put simply, using passive screening and a ‘rising tide lifts all boats’ approach to investing in Africa is gradually becoming insufficient to attract investment capital over time.

‘Responsible’ asset allocators themselves also need to be clear on where they can also be most effective, in areas such as activism on corporate governance, or driving standardization and comparability of impact metrics.</td></tr>
<tr><td>What to measure: focus on getting measurement of your impact right</td><td>Measuring performance is far from new territory for businesses. But when partnering with development actors, and especially when using donor or development finance capital, the standards and level of detail for monitoring and evaluating performance are high.

In this context, businesses need to develop a clear framework that explains how their activities will deliver development outcomes and impact, and what the metrics should be, often called in the development industry a ‘theory of change’. It is important for businesses to get this exercise right. Poorly designed theories of change can create a multitude of metrics and heavy burden of measurement that divert resources from driving results. Clear theories of change that balance rigor with uncomplicated, well-chosen metrics position businesses to leverage development capital as well as make trade-offs between rigorous reporting versus deploying resources to drive impact and value.</td><td>For most fund managers, the widespread adoption of ESG screening means that the importance and practicality of measurement is already familiar and well-understood. As asset allocators place increasing importance on the long-run sustainability of returns, attention on SDG-related measures is increasing, with clear implications for fund managers.

At the same time, the most forward-leading fund managers are finding that SDG indicators that are well integrated into portfolio analytics add an additional lens to understand portfolio performance and identify potential areas of new opportunity. In the words of one Africa-focused fund manager: “When we started integrating SDG metrics into reporting on our infrastructure fund, we found we were underweight on goal 6 [clean water & sanitation]. We know [SDG-related] resources will be flowing here, so we are looking at our water infrastructure strategy.”</td></tr>
<tr><td>How to partner effectively: invest carefully in creating effective partnerships</td><td colspan="2">Although the value at stake identified in this report, at more than $2trn per year, is substantial, most of it cannot be unlocked by either the public sector or private sector acting alone.

Options to work with a growing and diverse ecosystem of actors that share common objectives to realise SDGs and reinvigorating existing business models present a growing set of commercial opportunities for those that are able to create effective partnerships. This space is typically unfamiliar territory for many businesses and investors, and those that are able to leverage these areas can create material competitive advantage.

This is already broadly understood, but the opportunity often remains hard to act on. The landscape of potential partners is complex, and it is often difficult to sort the credible services and partnerships that are worth the time investment versus those that are not commercially viable or effective in delivering impact. In one example, a multinational industrials client seeking potential partners across relevant SDGs had almost 200 ‘forums’ and strategic partners to choose from, was already connected to 110, but on further analysis found only 6 were effective in driving value. Through focusing they have moved from participating in many areas to leading a few, critical initiatives that are delivering impact and core business value.</td></tr>
</table>

	DESCRIPTION
Agriculture & Food Security	Investments in eliminating hunger, including responses to emergencies; improving nutrition; meeting the special needs of smallholder farmers or artisanal fishermen; maintaining and restoring productive soils; rural infrastructure; increasing the productivity and sustainability of commercial agriculture and research and development (R&D).
Health & Wellbeing	Infrastructure investment in hospitals and tackling the major infectious diseases, noncommunicable diseases (NCDs), child and maternal mortality, sexual and reproductive health, as well as providing universal health coverage (UHC).
Education	Infrastructure investments in new schools and operating expenditure, including teachers' salaries, at pre-primary, primary, secondary, and postsecondary education, including adult literacy.
Water & Sanitation	Provision of water and sanitation services for households and industries, including safe drinking water, wastewater treatment; integrated water resources management; community participation in water management; and capacity building.
Energy	Investment in generation, transmission, distribution of electricity to all rural and urban households through extension of the established grid, mini-grid, and off-grid solutions. Investment in clean cooking: initial capital costs of improved biogas systems and liquefied petroleum gas, stove.
Transport	Infrastructure investment in roads, airports, ports, rail.
Telcoms	Investment in telecoms infrastructure (fixed lines, mobile, internet).
Ecosystems & Biodiversity	Investment in conversation and safeguarding ecosystems, resource management, sustainable forestry, etc
Climate Change	Mitigation: Investment in relevant infrastructure, renewable energy generation, research and development of climate friendly technologies. Adaptation: Investment to cope with the impact of climate change in agriculture, infrastructure, water management, coastal zones, etc.
Humanitarian Response	Emergency response and humanitarian work to long-term humanitarian situations and disaster response including infrastructure rebuilding, provisional social services for vulnerable populations, etc.

MAIN GOAL	OTHER RELATED GOALS				
2 ZERO HUNGER	1 NO POVERTY	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	8 DECENT WORK AND ECONOMIC GROWTH	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION
3 GOOD HEALTH AND WELL-BEING	5 GENDER EQUALITY	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	10 REDUCED INEQUALITIES		
4 QUALITY EDUCATION	1 NO POVERTY	5 GENDER EQUALITY	8 DECENT WORK AND ECONOMIC GROWTH	10 REDUCED INEQUALITIES	
6 CLEAN WATER AND SANITATION	5 GENDER EQUALITY	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	11 SUSTAINABLE CITIES AND COMMUNITIES	13 CLIMATE ACTION	
7 AFFORDABLE AND CLEAN ENERGY	1 NO POVERTY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	11 SUSTAINABLE CITIES AND COMMUNITIES	13 CLIMATE ACTION
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	1 NO POVERTY	8 DECENT WORK AND ECONOMIC GROWTH	11 SUSTAINABLE CITIES AND COMMUNITIES	13 CLIMATE ACTION	
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	1 NO POVERTY	8 DECENT WORK AND ECONOMIC GROWTH	11 SUSTAINABLE CITIES AND COMMUNITIES	13 CLIMATE ACTION	
15 LIFE ON LAND	14 LIFE BELOW WATER	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	11 SUSTAINABLE CITIES AND COMMUNITIES		
13 CLIMATE ACTION	2 ZERO HUNGER	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	11 SUSTAINABLE CITIES AND COMMUNITIES
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	1 NO POVERTY	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	13 CLIMATE ACTION	17 PARTNERSHIPS FOR THE GOALS	

FIGURE 3: definition of investment areas, and mapping to sustainable development goals

Introduction to Dalberg

The Dalberg Group is a global group of change makers working to build a more inclusive and sustainable world where all people, everywhere, can reach their fullest potential.

Dalberg Advisors is a strategic advisory firm which brings the best of private sector strategy skills and rigorous analytical capabilities with deep knowledge and networks across emerging and frontier markets. We work collaboratively across the public, private and philanthropic sectors to fuel inclusive growth and help clients achieve their goals.

Our global perspectives are firmly rooted in local realities. We have 17 offices across the world and have served clients in more than 90 countries. By combining local roots and extensive international experience, our strategies blend the best global ideas and innovations with the local practicalities and partnerships needed for effective implementation.

Our Global Locations

AFRICA
Abidjan ▪ Addis Ababa ▪ Dakar
Dar Es Salaam ▪ Johannesburg
Kigali ▪ Lagos ▪ Nairobi

AMERICAS
Washington D.C. ▪ San Francisco
New York

ASIA
Hong Kong ▪ Mumbai ▪ New Delhi
Singapore

EUROPE
Brussels ▪ Copenhagen ▪ Geneva
London ▪ Paris

MIDDLE EAST
Abu Dhabi

Contact the authors

Aly-Khan Jamal
Partner
Dalberg Advisors, London
Aly-Khan.Jamal@dalberg.com
+44 (0)7957 224462
@AlyKhanJamal1

Arianna Freschi
Dalberg Advisors, London
Arianna.Freschi@dalberg.com

Dalberg

www.dalberg.com
@DalbergTweet