The newest addition to the Gordon Institute of Business Science, plans on making a big difference across Africa

Issued by Gordon Institute of Business Science

1 Mar 2021

With the eruption of the pandemic, the fault lines in our economic system have become all too apparent. A new collaborative model would need to be fostered between the public, private and civic sectors across Africa to deploy capital directly towards primary markets, thereby re-establishing the primary function of linking capital to means of production, labour and technology.

But herein lies the challenge.

While there has been a marked shift in investment focus towards projects with an environmental or social impact, we are now drowning in a veritable “alphabet soup” of international and local agencies: each with its own compelling vision of how to address the future, and each with its own set of optimal outcomes.

The UN’s 17 Sustainable Development Goals, may well be an appropriate rallying point for 193 nations, but how do we create a meaningful bridge between the development imperatives reflected in their 169 hard targets and 232 indicators for 2030, and the financial aspirations of businesses, or the investment obligations of asset managers for their next reporting period? We have introduced complexity and confusion to the system. The will to “build back better” may be there, but where do we start?

The Gordon Institute of Business Science (GIBS) has recently launched the Responsible Finance Initiative (RFI), co-founded by Anne Cabot-Alletzhauser and Deslin Naidoo, with the view that finance can be a powerful lever to promote radical change across the continent. For over a decade, Anne and Deslin have been working together at shifting the focus of the financial services industry towards being more relevant and responsible to the needs of Africans. Anne as the previous head of the Alexander Forbes Research Institute, centred their research around a single question: whether the financial services industry serves anyone’s interests other than its own? Armed with this experience, she now seeks to tackle the problem at a macro level within South Africa and across Africa.

Anne believes: “Africa needs to prioritise its socio-economic development plans first and foremost. For Europe, North America and Asia, environmental issues may well come first (we decidedly need an inhabitable world in our future). The lesson for Africa though, is that without addressing the issues of social inequality, political instability and extractive economic practices, a focus on environmental issues simply does not gain traction. We understand the need for a far more collaborative model, but allocating responsibility between government, business, development finance institutions, asset owners, and civil society to ensure that whatever funding takes place is sustainable in the future should be the real goal. When private and foreign initiatives supplant the need to develop our own institutions for effective governance and self-determination, we can hardly see that as sustainable.”

She further states that, “We need to critically assess our financial ecosystem as it exists today to determine exactly how and why it is failing to deploy capital effectively. ‘Building back better’ is more than just underpinning industries to create new jobs. It is about ensuring that we have an effective means for sustaining redeployment, regeneration and reinvestment. That means we need to identify and educate at the levels of national, corporate, societal and individual family financial decision-making on how to get the greatest impact from that redeployment and redistribution.”

Co-founder and practice director, Deslin Naidoo has been in the financial services sector for over 20 years, pioneering strategies from indexation and portfolio insurance in asset management to implementing the first multi-dimensional risk budget in a pension fund with the Eskom Pension and Provident Fund (EPPF), and solutions based life-stage investment strategies with Alexander Forbes.

He believes, “It is critical that capital allocators, investors and corporates understand that every investment decision has an impact. It’s time to identify whether that impact is positive or negative to long term sustainable growth. What is needed is to embed optimisation techniques into our portfolio construction processes to help us manage those critical trade-offs between risk, return and impact. Further, we require a culture of assessment and accountability that allows us to identify whether these capital flows are really creating the outcomes we need and if not, how do we redefine and refine to improve on these outcomes?”

This is where the Responsible Finance Initiative sees itself as playing a pivotal role. Its mission is to empower economic agents to effectively allocate and mobilise capital to meet the development and economic growth imperatives of African nations and regions, as set out by their commitments to the UN Sustainable Development Goals. This will demand enhancing and optimising both financial ecosystems and multi-stakeholder collaborations to achieve this end.

What the Responsible Finance Initiative will not attempt to do is supplant the considerable work that has already gone towards meeting these ends by one stakeholder group or another – either global or local. Rather, its core function is to catalyse integration and alignment between all these interest groups – by employing a distinctly African lens to developing solutions.

That means our work on impact and the effective allocation of capital will need to be relevant to:

- policymakers and regulators;
- asset owners, fiduciaries, and beneficiaries of investing;
- agents of development finance and capital markets;
- corporates; and ultimately
- national and regional economies.

Why responsible?

To understand contemporary finance is to understand contemporary inequality. Any attempt to address the sustainable development goals of our planet must start with a reconfiguration and realignment of the financial ecosystem that underpins economic growth. ‘Sustainable’ finance suggests, we are only considering environmental, social and governance issues in our assessments of risk and value. ‘Responsible’ finance takes us one step further – it looks for answers on how best to lever finance for a ‘better world’. It suggests that, as a financial ecosystem we need to have a hard look at how the value chain works together effectively.

Why finance?

If we confined ourselves to considering investment alone, we only address the activity of allocating capital to gain value or profitable outcomes. But, the concept of finance extends to those social contracts that underpin the trust and the will that facilitate production or consumption. A focus on finance allows us to interrogate the broader activities of commerce, government, and development agencies in managing debt, credit, and money flows, in addition to investments. This will be critical to stimulating outcomes that can do more than just meet minimum development targets for an economy.

It allows us to consider how a given society is organising its cumulative economic resources. To what extent is the financial system creating excessive intermediation that extracts without providing economic or societal benefit? To what extent is the financial system eroding the relationship between capital and labour, and to what extent is it eroding societal safety nets by transferring risk from organisations to individuals and their families?

Why Africa?

The imperative to lever these systems to meet developmental ends is more keenly felt here than anywhere else in the world. That said, each country that makes up this continent is at a very different point in the evolution of its own financial ecosystem. Their available resources, governance frameworks, social priorities and implementation capabilities vary significantly. While there are important interdependencies and linkages between these different financial systems, the real value of a continental focus is an opportunity to rethink what would work best for Africa, independent from its colonial legacies. There are still enough nascent financial activities on the continent to provide us with an opportunity to reconsider its current development trajectory, and for Africa to build African solutions.

Naidoo says, “GIBS, as a business school geared for Africa, provides the ideal platform for the RFI to operate, as it balances academic soundness with robust practice. The RFI’s intention is to produce practical, replicable and implementable solutions for measuring and reporting impact, enhancing the asset allocation framework for investors looking to deploy capital along a risk, return and impact frontier, and ultimately provide solutions to fill any funding gaps in capital market mechanisms. This will require a dual but integrating focus between macro and micro mechanisms.”

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