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**NAMIBIA INVESTMENT REVIEW**  
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# FOREWORD



## LIONEL KANNEMEYER

### MANAGING DIRECTOR

Old Mutual Investment Group Namibia

In a rapidly changing world, the pursuit of sustainability and responsible investment has never been more crucial. It is with great pleasure that I introduce the inaugural edition of the “Old Mutual Namibia Investment Review,” a thought-provoking compilation that transcends borders to explore the dynamic landscape of investment from global to local perspectives.

As we embark on this enlightening journey, we find ourselves at the intersection of finance and impact, where investments bear the potential to regenerate economies and advance the United Nations Sustainable Development Goals (SDGs). In a world grappling with geopolitical tensions, energy crises, and the lingering aftermath of a global pandemic, the path to achieving the SDGs by 2030 may appear daunting. However, as this publication will reveal, decisive action and a regenerative mindset can steer us toward a genuinely sustainable future.

#### SECTION 1: GLOBAL INSIGHTS

We begin our exploration on a global scale, where the renowned Sir Ronald Cohen underscores how sustainable capital wields the transformative power to regenerate economies. Ashok Parameswaran, in his insightful piece, reminds us of the pivotal role played by market practitioners in advancing this regenerative journey. The article by Citi Global focuses on women entrepreneurs as catalysts for growth, innovation, and equality, a theme that resonates universally.

#### SECTION 2: A PAN-AFRICAN PERSPECTIVE

Africa, a continent of immense promise and potential, takes center stage in the next segment. We delve into how Africa can fast-track its development by leapfrogging conventional finance. Jackwell Feris examines how Africa can power the green hydrogen revolution, a potential game-changer with global implications. Whistleblowers, as articulated by Ben Theron, play a crucial role in safeguarding our economy, revealing how integrity and transparency are the cornerstones of sustainable growth.

We explore the transition away from fossil fuels, the repurposing of commercial property, and the imperative of retirement-driven investing in a decarbonizing world. The role of trustees in driving active ownership and the intriguing possibilities of artificial intelligence in the ESG landscape provide fresh perspectives on navigating the future.

#### SECTION 3: NAMIBIA'S CONTRIBUTION

In our final section, we turn our attention to Namibia, our home, and a place where our commitment to sustainability runs deep. Nicole Martens reflects on the relevance of ESG in the Namibian context, while Cirrus Capital provides an insightful economic overview.

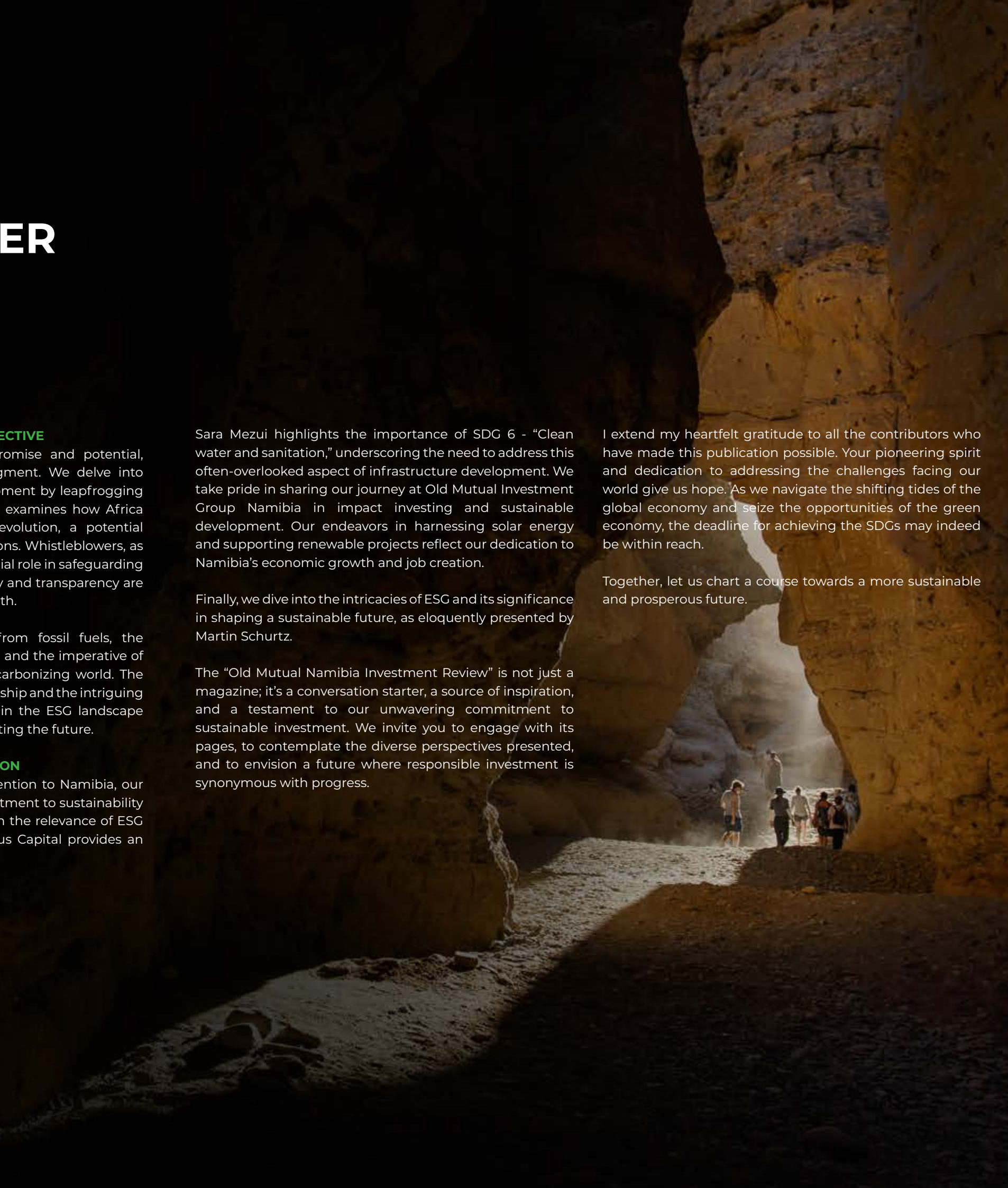
Sara Mezui highlights the importance of SDG 6 - “Clean water and sanitation,” underscoring the need to address this often-overlooked aspect of infrastructure development. We take pride in sharing our journey at Old Mutual Investment Group Namibia in impact investing and sustainable development. Our endeavors in harnessing solar energy and supporting renewable projects reflect our dedication to Namibia’s economic growth and job creation.

Finally, we dive into the intricacies of ESG and its significance in shaping a sustainable future, as eloquently presented by Martin Schurtz.

The “Old Mutual Namibia Investment Review” is not just a magazine; it’s a conversation starter, a source of inspiration, and a testament to our unwavering commitment to sustainable investment. We invite you to engage with its pages, to contemplate the diverse perspectives presented, and to envision a future where responsible investment is synonymous with progress.

I extend my heartfelt gratitude to all the contributors who have made this publication possible. Your pioneering spirit and dedication to addressing the challenges facing our world give us hope. As we navigate the shifting tides of the global economy and seize the opportunities of the green economy, the deadline for achieving the SDGs may indeed be within reach.

Together, let us chart a course towards a more sustainable and prosperous future.





# GLOBAL ARTICLES



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# SUSTAINABLE CAPITAL IS A POWERFUL FORCE IN REGENERATING ECONOMIES



Sir RONALD COHEN

Sir **RONALD COHEN** is co-founder Chair of the Global Steering Group for Impact Investment (GSG), The Portland Trust and the recently-created International Foundation for Valuing Impacts (IFVI). He is also a former co-founder Chair of Bridges Fund Management, Big Society Capital, and Impact Weighted Accounts (IWA) at Harvard Business School and a co-founder Director of Social Finance UK, USA and Israel.

## KEY TAKEOUTS

- A change in values is punishing companies that create harm in search for profit, and favouring those that bring solutions.
- Impact-weighted accounting proposes a transformative solution that can provide immense value to Africa.
- Africa should encourage big corporates to use sustainability-linked bonds to target a Just Transition.

*The impact revolution is well underway – and the breadth of solutions it can deliver to regenerating economies has never been so great.*

The ongoing debate surrounding ESG – and whether it represents the best means of creating a fairer system of capitalism that can solve, rather than perpetuate, our great social and economic challenges – has come to the fore in recent months.

The challenge of greenwashing, which ESG’s critics are highlighting, is being remedied by advances in impact measurement.

Impact-weighted accounting, which originated at Harvard Business School (HBS), proposes a transformative solution that can provide immense value to Africa, unlocking new sources of capital and revealing new investment opportunities.



Impact investment first came to light with the first social impact bond (SIB) launched in 2010 to address recidivism among young offenders in the UK. Since then, the idea of paying for achieved social and environmental outcomes has inspired US\$1.5 trillion in both sustainability-linked bonds and loans across the world.

In my career as an investor, I have spent a lot of time spotting trends. The trend I see today favours investors and companies that optimise risk, return and impact. A huge change in values is punishing companies that create harm in their search for profit, and favouring those – like Tesla – that bring solutions to great challenges we face.

At the same time, leaps in technology – through artificial intelligence, machine learning and augmented reality – give us the ability to deliver impacts globally in ways humanity could never contemplate, and we are progressing fast in measuring the impacts companies create and monetising them so that they can become an integral part of financial analysis and the valuation of companies.

THE CHALLENGE OF GREENWASHING, WHICH ESG’S CRITICS ARE HIGHLIGHTING, IS BEING REMEDIED BY ADVANCES IN IMPACT MEASUREMENT.





PAY FOR SUCCESS IS THE BIG INNOVATION IN FINANCIAL MARKETS TODAY. IT OPTIMISES RISK, RETURN AND IMPACT.



Innovations in sustainable finance will continue. And within the next three to five years, I predict that governments worldwide will mandate the publication of Impact Statements that show in monetary terms the revenues, costs and impacts created annually by companies.

So where do the investment opportunities lie?

Impact investing opportunities

IMPACT BONDS

Social impact bonds (SIBs) and development impact bonds (DIBs) create a “win-win” situation for investors, outcome payers (commonly governments, official aid providers and philanthropists) and delivery partners (such as socially oriented businesses and NGOs) bringing solutions.

By harnessing private sector capital, this model attracts greater funds to tackle social issues at a time when public budgets are under huge pressure, ensuring that the money is wisely allocated to achieving the best possible results. The creation of professional Outcomes Funds to design and monitor achievement of the payment targets is the next step in scaling this market. Africa would do well to establish funds to tackle key social issues, such as graduation from high school, sanitation and the local supply of energy and potable water.

SUSTAINABILITY-LINKED BONDS AND LOANS

Unlike SIBs, sustainability-linked bonds (SLBs) do not require a third-party outcome payer. Rather, the investor is paid by the borrower. The first SLBs were devised by the Swiss pharmaceutical company Novartis and the Italian energy and gas utility Enel in 2019. Africa should encourage its big corporates to use this market to target a Just Transition to net zero. One example would be

the reskilling of mine workers to fill jobs in the infrastructure sector, to improve roads, sewage, water, electricity, telecom and digital delivery.

Pay for success is the big innovation in financial markets today. It optimises risk, return and impact. It builds on the success of more than US\$2 trillion worth of fixed-return green and social bonds.

It would behoove African governments to incentivise companies and lenders to central and municipal governments to provide tax incentives that enhance their investment yield.

What sustainable capital can achieve

World governments are currently focused on achieving the UN Sustainable Development Goals (SDGs).

At the Impact Summit convened by the Global Steering Group (GSG) for Impact Investment, Old Mutual’s Chairman Trevor Manuel remarked that “most sustainable investing opportunities come from the developing world, especially in food and agriculture”. He estimates that more than 95 million new jobs can be created on the African continent by 2030, if enough sustainable finance can be attracted. The investment opportunities that can be funded through impact investment by that date exceed US\$1 trillion of private capital.

Sustainable capital is now a powerful force for good in regenerating economies.

The Impact Revolution can help Africa flourish. New and necessary investment tools are available. By using them at scale, forward-thinking investors, companies and governments can lead the transformation of African society.



# THE ROLE OF MARKET PRACTITIONERS IN CREATING A REGENERATIVE ECONOMY



ASHOK PARAMESWARAN

**ASHOK PARAMESWARAN** is President and Founder of the Emerging Markets Investors Alliance, an organisation that enables institutional emerging market investors to support good governance, promote sustainable development and improve investment performance in the governments and companies in which they invest.

## KEY TAKEOUTS

- A regenerative economy forsakes extractive business models in favour of those that support nature and society.
- Asset owners and managers have poorly represented the interests of the “true principals”, the beneficiaries.
- Poor stewardship has accelerated unsustainable and inequitable corporate practices.
- Investors can advocate with their investments to move the economic system towards regeneration.

The term “regenerative economy” conjures up images of small-scale farms and farmers with ponytails. The term almost never invokes the capital markets, which are thought of as contributors to what John Fullerton, the guru of regenerative capitalism, calls a degenerative economy.

According to Oxford University’s Smith School of Enterprise and the Environment, a regenerative economy is one that moves away from extractive business models and unlocks the potential for positive contributions for nature and society.<sup>1</sup> So, what role can market practitioners, who manage mainstream funds without a sustainability mandate, play in creating a regenerative economy?

The answer starts with reframing the problem. Economists and mainstream financial professionals are often unfamiliar with the language of regeneration. Perhaps the closest they come is through the concept of externalities, an explanation of market failures. However, this framing is abstract, and even disempowering. It does not inspire solutions.

<sup>1</sup> <https://www.smithschool.ox.ac.uk/research/regenerative-economy>



## Focusing on the true principals

Let me propose an alternative rubric that could bridge the vision of regenerative economies with Economics 101 in a more useful way. Perhaps viewing the challenges we face through the lens of the principal-agent problem could provide a more intuitive and empowering framework from which mainstream financial professionals can begin to move in the direction of fostering regenerative economies.

The principal-agent problem arises when one actor (the agent), charged with advancing the interests of another (the principal), instead pursues its own agenda. For instance, when company management does not act in the interests of shareholders or when legislators disregard the interests of their constituencies.

We normally consider investment managers to be agents and asset owners – defined here as pension plans or sovereign wealth funds (SWF) – to be their principals. However, in reality, the pension plan or SWF is itself an agent of the pension fund’s clients or a government’s citizenry. These clients are *true principals* for investment managers and the beneficiaries of their investments. *True principals* either are, or are responsible for parents, grandparents, children, grandchildren and future generations, spouses, pets,

PERHAPS VIEWING THE CHALLENGES WE FACE THROUGH THE LENS OF THE PRINCIPAL-AGENT PROBLEM COULD PROVIDE A MORE INTUITIVE AND EMPOWERING FRAMEWORK...



IF AGENTS ARE NOT CONNECTED TO THE INTERESTS OF THEIR TRUE PRINCIPALS, IT WILL BE DIFFICULT, IF NOT IMPOSSIBLE, TO MOVE AWAY FROM EXTRACTIVE BUSINESS MODELS TOWARDS THOSE THAT SUPPORT NATURE AND SOCIETY.

communities, natural and built surroundings, and the environment. Their agents – asset owners, asset managers and publicly listed corporations – should represent the overall interests of these *true principals*.

Both asset owners and asset managers, who typically use proxy voting services such as ISS or Glass Lewis, have poorly represented the interests of the *true principals*. Their “stewardship” has not challenged but accelerated unsustainable and inequitable corporate practices – the results of which the world is grappling with today. If agents are not connected to the interests of their *true principals*, it will be difficult, if not impossible, to move away from extractive business models towards those that support nature and society.

In addressing the principal-agent problem, investors must take full responsibility for the impacts of their investments on their *true principals*. It is that simple. Just as legislators have a responsibility to advance the interests of their entire constituency, and just as corporate executives have a responsibility to advance the interests of all their shareholders, investors have a responsibility to consider the full breadth of impacts of their investments on the interests of their *true principals*. This is a powerful definition of the term responsible investing.

However, investment management agreements often constrain investors’ ability to incorporate impact into investment analysis. Constrained by indices, performance bogeys, tracking error targets, mainstream investors focus their attention on

financial returns, rather than on the broader interests of their *true principals*.

Circumventing these constraints could involve many parties and be time-consuming. Governments, asset owners and asset managers could work towards revising legal frameworks, altering regulations and changing contractual norms.

However, even relatively simple changes to practices and policies, which asset managers could implement themselves, could significantly reduce the gap between the goals asset managers pursue and the actual interests of their *true principals* – and push investors towards responsible investing and the creation of regenerative economies. Indeed, the core of the [Emerging Markets Investors Alliance’s](#) work is to align and empower asset managers to advance the real interests of their *true principals*.

### Investor advocacy

Perhaps the simplest and most direct way for asset managers to reconnect with the interests of their *true principals* is through advocacy. A key challenge to implementing advocacy is that asset managers have historically focused almost exclusively on creating financial returns. Asset managers were not designed to drive change on sustainability and governance issues. Not that they haven’t made significant progress, but even hiring an army of ESG analysts will not enable an asset manager to effectively understand and to address the innumerable problems caused by their investments.

This problem can be addressed if asset managers can better understand their *true principals*, including the communities, natural surroundings and environment that their investments impact.

Asset managers can accomplish this goal by engaging the advice of credible experts. The Emerging Markets Investors Alliance curates leading experts and engages them to help investors understand the interests of their *true principals*. These experts represent non-profits and international organisations that work to advance the public interest or are academics who bring deep knowledge of best practices from the natural and social sciences. Such experts can provide investors with a roadmap to responsible investing and to the creation of regenerative economies.



### INVESTORS CAN ADVOCATE WITH THEIR INVESTMENTS TO MINIMISE NEGATIVE IMPACTS AND STRENGTHEN POSITIVE IMPACTS

Armed with this roadmap, investors can advocate with their investments to minimise negative impacts and strengthen positive impacts. In a broader sense, they can move the economic system towards regeneration.

While more sustainable forms of capital are growing, non-sustainable capital still represents 64% of total assets under management, conservatively measured.<sup>2</sup> The asset management community does not have to wait for regulations, laws and contracts to be changed to start acting in alignment with the interests of the *true principals*. Investor advocacy and responsible investing are critical to strengthening the link between asset managers and the *true principals* and fundamental to creating regenerative economies. Asset managers can and should take this step today.

<sup>2</sup> <http://www.gsi-alliance.org/wp-content/uploads/2021/08/GSIR-20201.pdf> (see page 5)



# WOMEN ENTREPRENEURS: CATALYSING GROWTH, INNOVATION AND EQUALITY



**CITI GLOBAL PERSPECTIVES & SOLUTIONS** aims to help readers navigate the most demanding challenges and greatest opportunities of the 21<sup>st</sup> century. The editorial team accesses the best elements of global conversation with senior Citi professionals, academics and corporate leaders to anticipate themes and trends in today's fast-changing and interconnected world.



Demonstrating and championing the economic case for gender equality in the global workplace has been a consistent feature of the Citi GPS series over many years. In this new report, we have turned our attention to advocating the business case for supporting women entrepreneurs to start and grow businesses. As the world seeks to build back from the pandemic, transition to a low-carbon economy, and achieve the potential of the UN Sustainable Development Goals, we believe that building a gender-balanced playing field for entrepreneurs is critical. Supporting women entrepreneurs and women-led businesses is not just the right thing to do socially, it is one of the smartest things that governments, corporations and the finance community could do economically.

Today, women participate in entrepreneurship at 80% the rate of men, according to Global Entrepreneurship Monitor (GEM). This marks a significant improvement over the past 20 years: the equivalent report in 2001 found that women participated in entrepreneurship at roughly half the rate that men did across the countries included in that year's data set. However, while the pick-up in the simple participation rate is welcome, it masks the fact that women still face many more challenges than men in starting and growing a business. Moreover, much of the growth in participation has been in developing economies where women often start businesses with minimal capital as solo entrepreneurs, in part because they find it even harder to access suitable employment in the formal economy. The International Labour Organization (ILO) estimates that, in 2021, women's participation in employment was 63% that of men, meaningfully lower than the participation rate as entrepreneurs.

There is sadly no shortage of worrying statistics to demonstrate the barriers that many female entrepreneurs face. Lack of access to finance is one of the greatest challenges that women entrepreneurs face around the world. The barrier is perhaps best documented at the venture capital stage: global venture capital funding that went to women-led businesses reached 2.8% of all VC funding in 2019 and fell to 2.3% in 2020<sup>1</sup>. On other statistics, women-owned micro, small and medium-sized enterprises (MSMEs) make up 23% of the total number of enterprises but account for 32% of the total MSME finance gap.

While critical in itself, access to finance is only part of the story, and simply improving access to finance is no guarantee that the entrepreneurial gender gap will close. Women's entrepreneurial capacity is also materially underleveraged. The ILO, for example, estimates that 50% of women's entrepreneurial potential is underused, compared with just 22%<sup>2</sup> of men's. And, according to the World Bank, 104 out of 190 countries still have legal barriers to women's entrepreneurship. Women entrepreneurs face a series of other barriers in accessing the full business ecosystem. These barriers come with different considerations in different countries, especially in developing economies, but range across legal, cultural and practical limitations on women's participation in commerce; the difficulty of accessing national and international markets; challenges in building personal networks, with links to mentors who can help navigate the business ecosystem; less access to education and training, especially in business and digital skills; and disproportionate caring and domestic responsibilities,

especially among married women.

In aggregate, our analysis finds that closing the gender gap in business growth globally could add up to US\$2.3 trillion to GDP and up to 433 million jobs on a conservative estimate of the substitution effect in the labour market. In addition to simple gains in economic growth and output, women's economic empowerment also drives much wider social and economic multiplier benefits across families and communities. Women-owned or -led businesses generally employ more women employees, which can help drive a virtuous circle in further boosting women's economic empowerment. In addition, women tend to invest more of their income than men in the health, education and welfare of their families and communities.

Women entrepreneurs can also play a decisive role in achieving the UN Sustainable Development Goals more broadly. Empowering women entrepreneurs is itself an exercise in development, as they will create jobs, generate income, build human capital and drive growth while reducing inequalities, which will lead to reductions in poverty and hunger, and improve health and wellbeing. In addition, women are also an underused source of knowledge, perspective and innovation, and the businesses they create can provide innovative solutions to global challenges.

Having surveyed the global entrepreneurial landscape, we set out a series of recommendations for legislators and also for both public and private capital to help promote more gender-balanced outcomes. Financial institutions, including microfinance initiatives, banks, venture capital and private equity firms, and institutional investors, will be key to unlocking the opportunities around women entrepreneurs. We are here encouraged by two growing trends: the rapid transfer in wealth to women and the rise of environmental, social and governance (ESG) and gender-lens investing.

Unlocking the potential of women's entrepreneurship requires micro-level interventions alongside a dismantling of macro-level constraints. It also requires concerted actions across the law, public policy and the private sector. Only by partnerships can we put all our resources to productive use and achieve scalable and sustainable impact.

<sup>1</sup> Ashley Bittner and Brigitte Lau, "Women-Led Start-Ups Received Just 2.3% of VC Funding in 2020," Harvard Business Review, February 25, 2021.

<sup>2</sup> International Labour Organization, Women at Work Trends, March 8, 2016

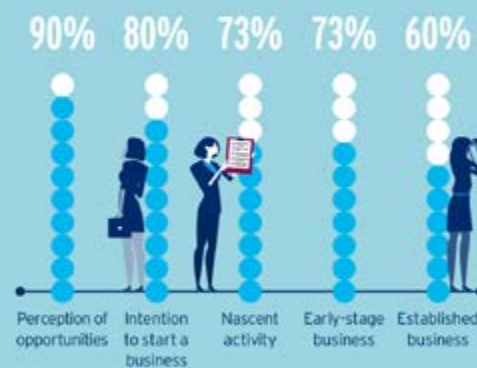


# Unlocking the Potential of Women Entrepreneurs

## GENDER GAPS IN ENTREPRENEURSHIP

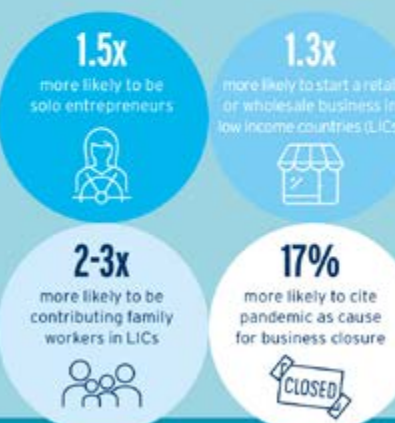
Women engage in entrepreneurship at a lower rate than men (11% vs. 14%), and the gaps grow wider through each stage of entrepreneurship. The International Labour Organization estimates that 50% of women's entrepreneurial potential is underused, compared with 22% of men's.

### Women's participation as a % of men's through the entrepreneurial process



Source: Global Entrepreneurship Monitor (2021)

### Compared to their male counterparts, women entrepreneurs are:



Source: Global Entrepreneurship Monitor, UN Women, World Bank Group

## WHAT OPPORTUNITIES COULD GENDER PARITY BRING?

Supporting women entrepreneurs (financially and non-financially) in growing their business is just as important as supporting them in starting their business. Women entrepreneurs are key to tackling global challenges, including catalyzing the post-COVID-19 recovery and addressing the UN Sustainable Development Goals.



### Achieving gender parity in business growth could:

- Increase global GDP by up to \$1.6 to \$2.3 trillion, or around 2-3% of global GDP
- Generate 288 million to 433 million jobs globally



### The business case for supporting women entrepreneurs

- Gender-smart and diverse supply chains build resilience and growth
- Untapped business opportunities for financial institutions
- Virtuous circle in women's wealth creation and management
- Opportunities to mainstream gender lens investing

## BARRIERS TO WOMEN ENTREPRENEURSHIP

Women entrepreneurs face two types of barriers: (1) access to finance, and (2) full participation in public life and the business ecosystem. These barriers appear at different stages of the entrepreneurial lifecycle.

### Barriers to Women Entrepreneurship Across Stages of Business Development

|                     |                                                | Business Stage |          |        |          |
|---------------------|------------------------------------------------|----------------|----------|--------|----------|
|                     |                                                | Assessment     | Start-up | Growth | Maturity |
| Access to Finance   | Lack of access to financial services           | ●              | ●        | ●      | ●        |
|                     | Lack of collateral                             | ●              | ●        | ●      | ●        |
|                     | Misperception of women-led businesses as risky | ●              | ●        | ●      | ●        |
|                     | Lack of women investors                        | ●              | ●        | ●      | ●        |
| Business Ecosystems | Restrictions on mobility                       | ●              | ●        | ●      | ●        |
|                     | Lack of market access                          | ●              | ●        | ●      | ●        |
|                     | Small networks                                 | ●              | ●        | ●      | ●        |
|                     | Lack of business skills                        | ●              | ●        | ●      | ●        |
|                     | Lack of digital skills                         | ●              | ●        | ●      | ●        |
|                     | Lack of care infrastructure                    | ●              | ●        | ●      | ●        |

Note: Fields in blue include barriers that are particularly pressing for women entrepreneurs in emerging economies.  
Source: Crunchbase, World Bank Group



2.3% of venture capital funding went to women-led businesses in 2020



30% of women in EMs have access to a bank account vs. 40% of men



70% of women-owned SMEs in the formal sector in EMs are underserved financially



55% of countries do not prohibit gender discrimination in accessing credit



10% of countries do not provide equal ownership rights to immovable property

Note: EMs = emerging markets; SMEs = small and medium-sized enterprises.

## KEY ACTIONS TO UNLOCK POTENTIAL

Unlocking the potential of women entrepreneurs requires purposeful action and collaboration across all sectors. We recommend several key actions for financial institutions, governments, and the private sector, including those below. IGOs and NGOs are key stakeholders and hold great influencing power and reach from policymakers to individual women and their communities.

### Financial Institutions



- Recognize the business opportunity of women-owned businesses
- Collect gender-disaggregated data
- Apply a gender lens to investment instruments
- Support women employees and invest in talent

### Governments



- Improve policies to end gender discrimination
- Improve data collection on women entrepreneurs
- Lead by example (e.g., smart procurement policies)
- Invest in educating girls and upskilling women

### The Private Sector



- Adopt gender-smart supply chains
- Provide funding and support (e.g., business/digital skills training)
- Implement gender equality policies
- Innovate gender-smart products and services



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# AFRICA ARTICLES



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# LEAPFROGGING CONVENTIONAL FINANCE TO FAST-TRACK AFRICA'S DEVELOPMENT



MISHA MORAR JOSHI

MISHA MORAR JOSHI is an economist and Lead of Impact Investing SA. She was, until recently, a senior project manager in the Innovative Finance team at the UCT Graduate School of Business Bertha Centre for Social Innovation and Entrepreneurship. MOTSHEGWA MORE is a senior consultant at Letsema Consulting and Advisory specialising in sustainability and development projects, and serves on the Secretariat of Impact Investing SA. MANDY JAYAKODY is on Impact Investing SA's board. She is an entrepreneur and a consultant and has extensive experience in infrastructure and construction, with a specific focus on ESG impacts.



MOTSHEGWA MORE

## KEY TAKEOUTS

- Silicon Valley-type infusions of fast cash at high costs cannot work for Africa.
- While SMEs are a key contributor to achieving our SDG goals, they still struggle to access formal finance.
- Africa requires innovative solutions beyond conventional modes of financing.
- By leapfrogging conventional funding, impact investing could help solve Africa's critical developmental challenges.



MANDY JAYAKODY

Conventional financing approaches have not developed in Africa and are often not fit for purpose. According to the International Finance Corporation (IFC), in South Africa alone, small and medium-sized enterprises (SMEs) employ 50% to 60% of the work force and contribute around 34%<sup>1</sup> to GDP. However, these businesses continue to cite access to finance as one of the greatest hurdles to advancement, particularly beyond the survivalist stage. The Centre for Strategic and International Studies further indicated that 51%<sup>2</sup> of SMEs across sub-Saharan Africa require more financing than they are currently able to access.



Given the role of SME businesses in economic growth and Africa's US\$256 million per annum shortfall in meeting its Sustainable Development Goals (SDGs), tailor-made financing is critical. Impact investing is a prospective leapfrogging opportunity, providing a market-based solution to social and environmental problems without the unnecessary effort of "catching up" to conventional financial markets.

Impact investing is a sustainable finance investment approach that differs from ESG and other SRI approaches by intentionally aiming to achieve measurable financial and social and/or environmental returns. In contrast, conventional finance approaches, which may measure other impacts ex post, have no "impact" starting point. Due to the wide-ranging approaches of impact investing, it is important to note that the rates of return and financing mechanisms of these investments differ according to the context and investors' strategic priorities.

BUSINESSES CONTINUE TO CITE ACCESS TO FINANCE AS ONE OF THE GREATEST HURDLES TO ADVANCEMENT, PARTICULARLY BEYOND THE SURVIVALIST STAGE.



<sup>1</sup> <https://www.ifc.org/wps/wcm/connect/2dddbf2b-bd44-4965-a7bf-b71475602649/2019-01-MSME-Opportunity-South-Africa.pdf?MOD=AJPERES&CVID=mxHod>  
<sup>2</sup> <https://www.csis.org/analysis/small-and-medium-sized-enterprises-blended-finance-and-climate-change-sub-saharan-africa>



Africa requires innovative financing solutions to unlock its vast and unique potential to enable the betterment of its population. Aspects such as its large youth population (70% of the population is under the age of 30), its extensive food production capacity (60% of the world's most arable land is in Africa, despite it being a net food importer), its innovative approaches to market failures and its enabling regulations are promising for the continent.

The UNDP SDG Investor Mapping exercise has identified various opportunities for investors to make SDG-aligned investments on the continent while achieving a financial return. These impact investments fall into the categories of infrastructure, healthcare, agriculture and education. Opportunities such as ed-techs that improve educational outcomes, or small-scale renewable energy infrastructure for underserved communities have proven to be lucrative impact investments that directly contribute to developmental objectives.

Impact investing calls for a mindset shift

Impact investing on the continent does require an impact mindset. For starters, it is important to be mindful of the timeframe required to meet the continent's developmental goals. Creating true, sustainable impact is a long-term objective. Conventional finance timeframes of venture capital and private equity are not always appropriate for the requirements of many African businesses. These approaches typically prioritise more immediate financial returns, such as those delivered by high-valued initial public offerings (IPO). Africa's challenges cannot be solved with Silicon Valley-type infusions of fast cash at high costs. A great example of a patient capital approach employed in the US, with potential for replication in Africa, is the US\$2 billion Breakthrough Energy Fund launched by a coalition of investors led by Bill Gates, which invests in 20-year cycles.

An impact mindset further promotes a more inclusive investment

approach, particularly of marginalised communities. Investors unfortunately exhibit unconscious or implicit biases and social stereotypes about potential investees outside their own conscious awareness, without regard for the quality or potential of the investment itself. For example, female business owners in Africa continue to face gender-based discrimination and obstacles (such as legal discrimination, social norms about the role of women, risk of gender-based violence, and education and skills gaps) that affect their profits, community engagement and ability to successfully maintain businesses. As such, women-owned businesses in Africa earn 34%<sup>3</sup> less per month, on average, than those owned by men. However, impact investing recognises the important role of women through a sub-impact investing approach termed gender-lens investing.

The biases of conventional investors may also lead financiers to rule out innovative models of delivering finance. For instance, expanding financial services might mean:

- i) Looking beyond existing channels, such as banks, traditional accounts and physical branches
- ii) Addressing specific financial constraints/needs outside of the financial sphere, such as in agriculture; or
- iii) Considering non-traditional forms of collateral to make, for instance, smallholder farmers bankable.

Encouraging simple, suitable and innovative solutions for Africa is not far-fetched – we have successfully and consistently leapfrogged in the past. Just 20 years ago, many Africans did not have telephones and laying cables across the continent proved to be technically and financially unfeasible. When cheaper mobile technology was introduced, the continent simply leapfrogged the landline era and embraced the new technology. Today, 43%<sup>4</sup> of the sub-Saharan African population have a mobile phone, while 272 million use mobile internet. Mobile phones are used beyond the abilities of traditional phones – for instance, for cashless purchases, learning and education, and applications for loans and insurance policies. Mobile phones have thus become a key factor in financial inclusion across the continent.

While there is a strong case for Africa to leapfrog conventional modes of financing to impact investing, an enabling environment is key. We need financiers that are patient regarding timelines, along with having risk-taking and research & development agendas. Impact investors are well situated to take advantage of and support this sort of transition. The continent further requires enabling policies and the institutional infrastructure to truly embrace impact investing. Regulation 28 of the Pension Funds Act in South Africa that encourages pension funds to

WOMEN-OWNED BUSINESSES IN AFRICA EARN 34% LESS PER MONTH, ON AVERAGE, THAN THOSE OWNED BY MEN.

invest more in infrastructure asset classes is one such example.

Most importantly, a critical enabler for Africa to leapfrog towards a more appropriate investment approach, is the commitment and collaboration of stakeholders. Governments across the continent have reiterated that they cannot reach development goals without the support of institutional investors, corporations, foundations and even the citizens they aim to empower. Investors must reconsider the concept of value in Africa. Existing financial and economic systems must be pivoted to speak to the specific challenges and features of the continent's real economy. Business risks and opportunities are impacted by the context and if investors fail to take this into account, they may find themselves pitching landline communication services to a continent of young, digital natives conquering the globe on their mobile phones.

For impact investors looking to further engage with opportunities on the continent, be sure to look out for announcements regarding the first Africa Impact Investing Summit 2023, taking place in Cape Town, South Africa.

<sup>3</sup> <https://www.theafricareport.com/66365/women-led-businesses-is-missing-ingredient-to-maximizing-african-entrepreneurship/>  
<sup>4</sup> [https://www.gsma.com/mobileeconomy/wp-content/uploads/2020/09/GSMA\\_MobileEconomy2020\\_SSA\\_Eng.pdf](https://www.gsma.com/mobileeconomy/wp-content/uploads/2020/09/GSMA_MobileEconomy2020_SSA_Eng.pdf)



# HOW AFRICA CAN POWER THE GREEN HYDROGEN REVOLUTION



JACKWELL FERIS

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## KEY TAKEOUTS

- Despite the impact of the global energy crisis on net-zero targets, Europe remains committed to intensify clean energy investment.
- Africa needs to seize the opportunities that clean hydrogen presents to large global carbon emitters.
- Through clean hydrogen, Africa can help decarbonise the global economy, while also providing significant

The commitment to decarbonising the global economy by 2050 has become much stronger since the release of the Intergovernmental Panel on Climate Change (IPCC) report titled “Climate Change 2021: The Physical Science Basis”. The report was released before COP26 in Glasgow, Scotland in 2021, where several states committed to reaching net zero by 2050. COP27, held in Egypt in November 2022, saw the narrative shift more firmly to the implementation of commitments made during COP26 through climate finance and climate adaptation. As such, the IPCC report remains relevant. This is particularly so during a time when we continue to be in the depth of a global energy crisis caused by the geopolitical effects of the Russia-Ukraine war. A consequence of the war is that several European countries have rushed to re-commission coal-fired power stations for energy security during the impending winter months.

“Conference of the Parties” or COP is the United Nations’ annual climate change conference. The figure denotes the number of events held.



This accelerated use of fossil fuels in Europe is counterintuitive to the climate crisis. Alarm bells have been set off that it may already be too late to meet the greenhouse gas emissions targets set in the 2015 Paris Accord. Fortunately, the use of fossil fuels to get through this energy crisis is touted as a temporary measure and Europe appears to be committed to accelerating investment in clean energy technologies. This energy transition away from fossil fuels (coal, petroleum products etc.) has largely solidified the central role that green and blue hydrogen (i.e. clean hydrogen) can play as an alternate fuel source to decarbonising hard-to-abate industries. This means Europe could still meet the global target of reducing CO<sub>2</sub> and other greenhouse gas (GHG) emissions to limit global warming to about 1.5°C by 2050.

THIS ENERGY TRANSITION AWAY FROM FOSSIL FUELS HAS LARGELY SOLIDIFIED THE CENTRAL ROLE THAT GREEN AND BLUE HYDROGEN CAN PLAY AS AN ALTERNATE FUEL SOURCE TO DECARBONISING HARD-TO-ABATE



### Africa's role in decarbonising the global economy

Europe's commitment to accelerate investment in clean hydrogen is important for Africa. With COP27 having been held at Sharm El-Sheikh in Egypt, it was an important platform for the continent to put forward a uniform approach on the role Africa can play in the decarbonisation of the global economy. This can be achieved through, among other things, strong commitments by major GHG emitters such as Europe to invest in the development and establishment of production, storage and handling facilities for clean hydrogen and derivative PtX products (ammonia etc.) in Africa. At COP27, Egypt, Namibia and South Africa all made concerted efforts to position the continent as a potential major exporter of green hydrogen to the biggest GHG emitters. By helping these countries to decarbonise their hard-to-abate industries with green hydrogen, Africa will be provided with significant sustainable growth and development opportunities that could catapult millions of Africans out of poverty.

Several African countries, in particular Egypt, Morocco, Kenya,

Namibia and South Africa, are taking steps to develop into major green hydrogen exporters. The International Energy Agency (IEA) touts countries in Southern and North Africa as having a cost-competitive advantage to produce green hydrogen – due to the abundance of solar and wind resources. However, this does require African countries to be first movers in the development of this nascent industry. Namibia has demonstrated this ability by streamlining the development and adoption of its policy and legislative framework with the launch of its Green Hydrogen and Derivatives Strategy at COP27. South Africa also launched its Just Energy Transition Investment Plan (JET-IP) at COP27, which highlights green hydrogen and electric vehicles as a major component of the plan. Global leaders have praised South Africa's JET-IP for being a well-articulated investment roadmap to move the country away from coal in a manner that protects the most vulnerable in society (workers and communities), but also ensuring new economic development opportunities are created with the nascent green hydrogen economy.



CLEAN HYDROGEN COULD BE ONE OF THE GAME CHANGERS FOR AFRICA. IF APPROACHED REGIONALLY, IT HAS THE POTENTIAL TO MATERIALLY IMPACT AFRICA'S INDUSTRIALISATION, AS IT ALLOWS FOR BOTH THE EXPORT OF GREEN HYDROGEN AND INVESTMENT IN HEAVY INDUSTRIES.



## People before profit

On a continent where millions of people need access to basic electricity, African states must balance the reality of eliminating energy poverty with the renewable electricity needed to produce green hydrogen primarily for the export market. Another important point is that in recognising the opportunity green hydrogen holds for the continent, African countries have also reached consensus that there is a continued need to encourage the exploitation and use of fossil fuels (in particular, natural gas as a lower carbon fuel). In addition, in the journey to carbon neutrality, African states need to ensure that there is a just energy transition from the use of fossil fuels to cleaner energy sources. As mentioned, South Africa's JET-IP intends to realise such a just energy transition, while also acknowledging that the country's national contribution to Africa's GHG emissions (estimated at around 33% thereof) must be gradually reduced.

Africa remains the continent with the lowest GHG emissions – accounting for about 3%<sup>1</sup> of the global emissions. The International Energy Agency's Africa Energy Outlook 2022 states that it is profoundly unjust that Africa, the continent that has contributed the least to global warming, is the one bearing the brunt of the most severe climate impacts. In this regard, the need to accelerate finance for climate adaptation was re-emphasised at COP27, including loss and damage climate finance for developing countries facing the brunt of climate change through extreme weather events. Fortunately, one of the biggest highlights of COP27 was the establishment of a Loss and Damage Fund for climate-vulnerable developing countries.

## The cost of development

With the prospects of increased intra-Africa trade, facilitated by the industrial growth required to realise the economic prospects under the African Continental Free Trade Area (AfCFTA), more intensive energy usage is inevitable. This means the expanded use of fossil fuels (coal, oil and gas) in prospective industries<sup>2</sup> that intend to tap into the opportunities that the AfCFTA presents – with resultant increased GHG emissions. The narrative for Africa is clear: Africa cannot be left

behind in the race to decarbonise the global economy by 2050, as the economic growth prospects of the hydrogen economy are immense. However, Africa should be allowed to continue to exploit fossil fuels (primarily gas) as part of the just energy transition.

### What is imperative to appreciate around the development of the hydrogen economy in Africa?

- The African Union's Agenda 2063 specifies that renewable and clean energy sources must provide the basis for expansion of Africa's energy systems – to ensure energy security and contribute to decarbonisation. Several regions in Africa have an abundance of natural resources in the form of solar radiation exposure and wind. With the continued shift to these renewables, largely driven by an ongoing fall in relative costs and government policies to incentivise and promote low-carbon energy, regions in Southern and North Africa will be able to produce cost-competitive green hydrogen or derivative products.
- Twelve African countries have announced long-term zero emission pledges, aiming to reach carbon neutrality by between 2050 and 2070 – with the larger global GHG emitters having committed to provide the funding in the region of US\$100 billion per annum to reach these commitments. Part of this will be providing climate funding for large-scale green hydrogen and low-carbon production processes in Africa, along with funding for climate adaptation.
- Regional value chains, supported by robust and integrated regional policies that aid and nurture emerging industries, such as clean hydrogen, are imperative if Africa is to realise the economic growth to achieve its Agenda 2063.

Clean hydrogen could be one of the game changers for Africa. If approached regionally, it has the potential to materially impact Africa's industrialisation, as it allows for both the export of green hydrogen and investment in heavy industries, such as the automotive industry, steelmaking, ammonia production, and other complimentary downstream industries, at net zero.

<sup>1</sup> International Energy Agency's Africa Energy Outlook 2022

<sup>2</sup> Local producers or manufacturers of goods, logistics & freight companies that need to transport such goods



# SPEAKING UP! WHISTLEBLOWERS DEFEND OUR ECONOMY



BEN THERON

About The Whistleblower House

The Whistleblower House was established in 2022 to support those whistleblowers who desperately need assistance after suffering hardship due to their courageous acts. This assistance includes legal, psychological, security and financial support. We have supported 117 whistleblowers since our inception.

**BEN THERON** is the Chief Executive Officer of The Whistleblower House. Launched in early 2022, the organisation aims to support whistleblowers, providing them with access to medical, financial and legal assistance.

## KEY TAKEOUTS

- The Special Investigating Unit estimates up to R400 billion is lost annually in illicit financial flows.
- Corruption has a direct impact on Government's ability to deliver services.
- Whistleblowers greatly assist in stopping the rot, sometimes at huge personal risk.
- Organisations need to take all steps possible to protect whistleblower identity.

Whistleblowers are heroes, not only of companies, but also communities, society and the country. They are the last line of defence and one of the easiest mechanisms to identify malfeasance and wrongdoing.

Instead, whistleblowers are often maligned and ostracised. They are typically labelled as traitors, sellouts or snitches (to mention a few) and accused of leaking company confidential information, bringing the company into disrepute and causing harm to the organisation. Whistleblowers are also the guardians against losses, whether a business or a country is involved. They are instrumental in halting malfeasance.



“The whistleblower is one of the most effective weapons against corruption. In most cases the whistleblower has information that provides a detailed insight into hitherto unsuspected criminality, which is not readily ascertainable from routine inspection. The present system offers no inducement to the whistleblower to break cover. The bona fide whistleblower is actuated by a sense of duty of the highest order.”<sup>1</sup>

– Chief Justice Raymond Zondo

<sup>1</sup> Judicial Commission of Inquiry into State Capture Report: Part 1 Vol. 1: South African Airways and its Associated Companies, paragraph 555, page 805.



According to Zukiswa Kota, Head of Monitoring and Advocacy at Rhodes University, and Danita Hingston, Lecturer at the University of KwaZulu-Natal, South Africa's Special Investigating Unit (SIU) told Parliament in September 2021 that of the R138.8 billion associated with Covid-19 spending from April 2020 to June 2021, R14.8 billion was being investigated for procurement irregularities. This translates into 11% of the total spend on the Covid-19 response. Most of these contracts fell under provincial governments. Of the R32 billion that provincial governments had spent on Covid-19-related contracts, an alarming R11.6 billion (36%) was under investigation.

An estimated R27 billion is lost to procurement corruption in the Department of Health. This represents over one-third of the 2021/22 health budget. In addition, the SIU reported that between R159 billion and R400 billion is lost in illicit financial flows annually in the country.

These losses have a direct and negative impact on services to South African citizens and is felt in the lack of services such as water, sanitation, health and education, to name a few.

|                      |                                                            |
|----------------------|------------------------------------------------------------|
| <b>R14.8 billion</b> | Covid-19 spend under investigation                         |
| <b>36%</b>           | Provincial government Covid-19 spend under investigation   |
| <b>R27 billion</b>   | Estimated loss to procurement corruption                   |
| <b>R400 billion</b>  | Estimated maximum lost annually in illicit financial flows |

Corruption is a cancer that, unless identified and addressed, will spread – whether in a company or a country. When one person (or a group) is involved in corruption and it is not addressed, the message spreads and others are tempted to follow suit. Whistleblowers can assist in stopping the rot, as illustrated in the examples below, and in many instances, at great risk to themselves. Babita Deokaran paid the ultimate price for exposing corruption.

### Impact of corruption

Below are just some examples of how corruption affected South Africa in communities, companies and the State.



#### R20 billion

**The Richtersveld Community** situated on the West Coast in the Northern Cape won a land claims case in the Constitutional Court (Case CCT 19/03). It was estimated that the settlement value was in the order of R20 billion. Today (2022), the community is still suffering financially due to corruption in the Alexkor environment.



#### R90

**The Arms Deal** was approved by Cabinet on 18 November 1998 for approximately R29.99 billion. However, the figure should not be taken as representative of the actual cost of the contracts over the term of their payment. The actual cost had been estimated at R90 billion by 2008. Today, the SANDF is battling to make ends meet with the equipment (aircraft, corvettes, helicopters and submarines) that are idle due to lack of maintenance.



#### R160 billion

In **Eskom**, the Kusile Power Station construction started in 2008, with an estimated cost of R69.1 billion and a completion date of 2014. It is still not completed and the cost estimation is approximately R160 billion – more than double the original estimate. South Africa is now suffering unprecedented stages of load shedding, with an estimated loss of R500 million to the economy per stage. However, the problem is deeper, as companies (especially small companies) cannot afford the high cost of diesel for onsite generators and, in many instances, they close – with resultant job losses.



#### R850

**Gauteng Department of Health's** Chief Director of Financial Accounting, Babita Deokaran, was assassinated after flagging suspicious payments to the value of R850 million (the total budget for the department was R58.8 billion). This has a direct impact on needy patients, who are unable to access health services.



#### R3.5 billion

The **Passenger Rail Agency** of South Africa (PRASA) approved a R3.5 billion contract in 2012 to Swifambo Rail Leasing, a shelf company, to deliver 70 new locomotives. These locomotives did not fit South Africa's rail specifications and at least R500 million has been linked to corrupt payments. The impact in the Western Cape is that commuters pay significantly more, as they have to use other modes of transport due to the train services not being functional.



#### R164 million

The **South African Revenue Service (SARS)** was charged R164 million by consulting firm Bain & Company, to review its operating model and restructure the fully functional organisation – resulting in many highly skilled employees leaving SARS. This led to a shortfall in revenue collection:

| TAX YEAR | REVENUE COLLECTION SHORTFALL |
|----------|------------------------------|
| 2014/15  | R7.34 billion                |
| 2015/16  | R11.29 billion               |
| 2016/17  | R30.71 billion               |

As a result, the fiscus has less money for projects, including health, education, law enforcement and roads.



## Impact of whistleblowing on individuals

Justice Zondo stated with good reason, “The present system offers no inducement to the whistleblower to break cover.” It is common to see companies close ranks once a whistleblower comes forward with information exposing wrongdoing. Whistleblowers find themselves exposed to, among other things, bullying, demotion, transfer, abuse, bogus disciplinary charges, suspension, isolation, dismissal and criminal and civil charges.

In addition, whistleblowers also face loss of income, which results in them being unable to care for their families, pay their mortgages, car and credit card instalments, or buy food and pay school fees. They suffer from health problems, such as psychological, mental and trauma-related issues brought on from stress, because of the way they are/have been treated by their employers for exposing wrongdoing.

The whistleblower needs to obtain legal advice on how and where and to whom they may make a (protected) disclosure. Legal advice and support are required to counter the employer attacks of victimisation, demotion, disciplinary processes etc. The reality is that most employers have deep pockets and can afford protracted lawfare compared with the individual that has little to no funds due to the unemployment they face after having blown the whistle. In addition to the loss of a livelihood, they often also face physical threats, including physical harm and death threats to themselves and family members.

## What can business do?

According to Liezl Groenewald, co-founding director of The Whistleblower House and senior manager at The Ethics Institute, companies should focus on the following to create a safe space for employees to report wrongdoing:

### GAIN BOARD AND TOP-LEVEL COMMITMENT TO THE SAFE-REPORTING PROGRAMME

Creating a strong “tone from the top” is critical in generating an ethical organisational culture from the top down. Not only should the governing body and top management visibly and audibly demonstrate their commitment to an ethical culture, but they should also take a strong stance against the victimisation of employees who report misconduct.

### REGULARLY REVIEW WHISTLEBLOWING TRAINING AND AWARENESS ACTIVITIES

Organisations should embark on regular awareness, communication and training activities using multiple methods, and taking different target audiences into account. Such activities should focus on the available reporting channels, how to report, what to report and the protective measures in place for those who report misconduct. This will give organisations an opportunity to increase reporting rates and gain a better understanding of, and insight into, the ethics risks they face.

### REMIND EMPLOYEES ABOUT THEIR DUTY TO REPORT MISCONDUCT

There are certain principles that underlie an employment contract, such as the duty to act in good faith and the duty of care, but organisations err by assuming that employees are aware of these often unwritten obligations. These unwritten expectations and ethical duties should be made explicit in the organisation’s code of ethics and related policies.

### CREATE TRUST IN TERMS OF PROTECTION OF IDENTITY

Organisations need to take all steps possible to protect the identity of whistleblowers, as well as the confidentiality of information. Limit the people who know the identity of a whistleblower and the content of the report. Ensure that all parties understand their obligations in terms of the Protected Disclosures Amendment Act to protect the identity of a whistleblower (and that a breach of its regulations may result in disciplinary action). Train management on the handling of reports, with the emphasis on the confidentiality of the information provided to them, and encourage employees to use the confidential and anonymous ethics line if they fear exposure.

### COMMIT TO PROTECTING WHISTLEBLOWERS FROM RETALIATION

Ensure that everyone knows that retaliation for well-intended speaking up is unacceptable and against the law. Provide anti-retaliation awareness training to managers and make explicit the position that retaliation, as defined in the protected disclosures legislation, is unacceptable. Encourage employees in awareness campaigns and communication and training, to report retaliation via the ethics line or to the Ethics function.

### REWARD ETHICAL HEROES

As mentioned, whistleblowers can face, among other things, intimidation, harassment, dismissal and violence in retaliation for speaking up. There might be those who do it for the love of the country or their organisation, but for many people



this does not outweigh the risks involved. For this reason, organisations should consider the benefits of encouraging personal ethics in the workplace and rewarding those for taking a stand. The jury is still out about the advantages and disadvantages of incentivising whistleblowers with monetary rewards. And while that is a decision organisations could consider, they should make concerted efforts to praise those who act ethically by blowing the whistle, and they should be meticulous about reporting on what actions they have taken on each reported misconduct. The greatest reward for an employee who makes an input is to know that it has been considered and to see it acted upon, where appropriate.

### OTHER THINGS BUSINESSES CAN DO:

- Establish appropriate channels to report wrongdoing, while maintaining whistleblower anonymity.
- Communicate company standards regarding wrongdoing and the importance of communicating transgressions (and then acknowledging the value of these reports once investigations are complete).
- Independently investigate reports and act on wrongdoing.
- Celebrate and embrace whistleblowers. Make it fashionable.

## What can law enforcement do?

Legislation needs to change to ensure whistleblowers can safely report wrongdoing and that they are more holistically protected.

Law enforcement also needs to understand the life cycle of whistleblowing and improve the support required at every step.

|                                                                                                                                                                                            |                                                                                                                                                                               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1.</b><br>Provide guidance on how to blow the whistle                                                                                                                                   | <b>2.</b><br>Assist during the process (completing affidavits, understanding the complexities of the law and the dangers, dos and don'ts and preparing the witness for trial) |
| <b>3.</b><br>Support the whistleblower after they have given evidence                                                                                                                      | <b>4.</b><br>Publicise the positive effect and advantages of exposing the corruption                                                                                          |
| <b>5.</b><br>Educate the public on the roles of the various law enforcement agencies: NPA prosecutes, Hawks investigate and SIU investigates and follows civil proceedings to recoup funds |                                                                                                                                                                               |

The **Whistleblower House** is a not-for-profit, public benefit organisation (registered NPC (2021/717060/08)) that seeks to support and encourage whistleblowers in their journey of exposing institutional wrongdoing.

**DONATE HERE**



# MOVING AWAY FROM FOSSIL FUELS... WHERE TO LOOK FOR TOMORROW'S GROWTH?



IAN WOODLEY

IAN WOODLEY is a senior investment analyst within Old Mutual Investment Group's MacroSolutions team. He has extensive experience in managing portfolios, with a specific focus on the mining industry.

## KEY TAKEOUTS

- Most change takes place at an evolutionary, not a revolutionary pace.
- The move to clean energy will require a huge amount of fossil fuels over the next 20 to 30 years.
- Despite record-high prices, the financial industry is reluctant to support new investments in fossil fuels.
- Investment opportunities lie in the rising global demand for energy transition metals.

The one certainty about forecasting is that the forecaster will always be wrong. To try to predict the normal occurrence of random unconnected events that all influence where we will go and how the world will look is almost impossible... and the longer term the outlook, the more erroneous the forecast will look with hindsight. Bearing that in mind, I've been reflecting on what "tomorrow" will look like.



For starters, tomorrow and the next day will look much like today. Change is rarely revolutionary; vested interests usually prefer the status quo. Moreover, the sheer level of investment to maintain our world in its current unequal, unbalanced state cannot be tossed aside overnight. Consequently, most change takes place at an evolutionary pace that is slower than the radicals may wish for.

However, over the longer term – decades rather than years – the sheer amount of change that happens can look staggering. The energy transition will probably be similar.

WE ARE FACING AN ENERGY SHORTAGE AND THE HOPE THAT RENEWABLES CAN FILL THAT GAP QUICKLY IS LARGELY WISHFUL THINKING.



## Hostage to fossil fuels

The desire for the planet to be powered by clean renewable energy is surely the correct one. Nevertheless, for the foreseeable future, “dirty” fossil fuels will be an essential part of any energy grid. Indeed, to get to the bright new clean future, we will need a huge amount of fossil fuels over the next 20 to 30 years. Everything that needs to be built to enable renewable energy to power the world is currently hostage to our industrial processes that have been designed to be reliant on fossil fuels, and that will not change quickly. This is not to say that change will not happen. At some stage there will be a tipping point – the time when (probably imperceptible except in hindsight) our dependence on fossil fuels starts to lessen and clean energy increasingly becomes more the norm rather than the exception.

On that premise, where should portfolio managers be looking for growth in a world where money is no longer cheap and inflation can no longer be discounted as an irrelevancy?

## Risk of (not) supporting fossil fuels

To start with, don't discount installed capacity. The two areas that have made well-publicised moves towards decarbonising are power generation and the automobile sector. But even within these sectors there exists, and will continue to exist, strong demand for fossil fuels. The 2021 report from the International Energy Agency still forecasts growth in demand for all fossil fuels for the next few years until peaks start to occur in the middle of this decade (for coal) or not until 2050 (for gas), depending on how seriously the world takes global warming and the 1.5°C target.

As the global energy crisis triggered by Russia's invasion of Ukraine has demonstrated this year, the world needs energy and there's not enough reliable clean renewable energy available at the moment. This has seen demand for fossil fuels skyrocket, with European natural gas and South African coal prices reaching all-time highs in early 2022. With a huge reluctance on the side of the financial industry to be seen to be encouraging new investments in fossil fuels and current production depleting at its normal rate, industry incumbents will probably benefit from prices that remain way above historical norms for a while yet. Their end will come, but the installed base for everything that needs fossil fuels – think power generation, cars, aeroplanes, ships, chemicals etc. – isn't disappearing in a hurry. Even in automobiles, while there are some well-publicised alternatives to the internal combustion engine, electric vehicles (EV) are likely to make up, at most, 15%-20% of the total cars on the road by 2030. This leaves over 80%

of all cars driving around in 2030 still needing fossil fuel to get around.

## Investing in the transition

Another option for portfolio managers is to look at what the energy transition needs to make it happen. Using Wood Mackenzie's<sup>1</sup> current forecasts for the energy transition, to keep global warming to less than 1.5°C usage of everyday metals such as copper and aluminium will have to grow by 100% or more between now and 2050. Slightly more exotic metals like nickel will see growth of 200%, while lithium (essential for EVs) should see up to 500% growth. Can this happen? Consensus is a bit vague here, but with a combination of new projects and recycling, most commentators think that these quantities of metal can be supplied to the market – provided prices move above historical levels even in real terms. When will this happen? Again, a little murky, but consensus is that for most metals there is sufficient availability for the next few years, so prices should stay within reasonable levels. In the second half of the decade though, as the Green Transition picks up speed, there will not be adequate availability. Most mining companies have some investments in new projects or expansions, but the industry as a whole doesn't have anywhere near enough installed capacity to supply expectations for 2030, as an example. When demand outstrips supply, prices react – see my earlier reference to coal and gas prices in 2022, as an example.

### Some of the known unknowns:

- Can green hydrogen (potentially very good for South Africa and the platinum industry) be made into a viable alternative in the chemicals industry, the steel industry and for home heating, among other things?
- Can carbon capture and storage (CCS) be made to work



economically enough to be a help (this should benefit the current installed industry)?

It is certainly not a case of one technology solving all our problems. Most forecasters believe only the use of multiple technologies will help to alleviate the rise of CO<sub>2</sub> in the atmosphere.

### And the unknown unknowns?

While this is obviously a place of interest, portfolio managers really shouldn't be putting pension fund money to work in this space.

In the short term, we are facing an energy shortage and the hope that renewables can fill that gap quickly is largely wishful thinking. We will need fossil fuels. Over the medium to longer term, renewables will continue to displace fossil fuels, especially in power generation and automobiles. At the same time, these uses will be a vast consumer of commodities, pushing commodity prices above their historical price ranges as new investment is sought. Importantly, this doesn't mean the end of boom and bust for the mining industry. Rather, it just exaggerates the effect. This transition will not come without cost. The days of cheap power (pre-2020) are probably gone

OVER THE MEDIUM TO LONGER TERM, RENEWABLES WILL CONTINUE TO DISPLACE FOSSIL FUELS... THIS DOESN'T MEAN THE END OF BOOM AND BUST FOR THE MINING INDUSTRY. RATHER, IT JUST EXAGGERATES THE EFFECT.

for good, but steady, reliable clean power would be a decent substitute for the current situation.



# REPURPOSING COMMERCIAL PROPERTY – FROM LANDLORD TO ELECTRICITY PROVIDER



ANELISE KEKE

**ANELISA KEKE** is the Chief Sustainability Officer at Redefine Properties. She has a background in tax, legal and governance matters and is responsible for developing Redefine's ESG strategy for its real estate assets.

## KEY TAKEOUTS

- Corporates are turning to renewable energy to enable business continuity.
- Landlords play a critical role in supplying tenants with alternative energy sources.
- Rooftop solar will save us money and help us achieve our net-zero portfolio target.
- Cooperation between landlords and municipalities is paramount to the scalability of these projects.

History attests to necessity being the mother of invention. Our energy crisis, with ongoing bouts of load shedding amid growing demand and escalating electricity costs, has necessitated corporate South Africa to focus on energy efficiency and renewable energy generation to enable business continuity.

Tackling limited energy supply while addressing the impacts of fossil fuel-based electricity on the environment is one such focus area. With coal providing approximately 77% of South Africa's primary energy needs and electricity production (making up the most significant portion of the country's carbon emissions<sup>1</sup>), it is no surprise that South Africa is currently the 12<sup>th</sup> largest emitter of carbon dioxide globally<sup>2</sup>. In 2021, 87% of the country's electricity came from coal, resulting in it having the G20's most emissions-intensive power sector<sup>3</sup>. Furthermore, the rapid increase in diesel costs and often high municipal electricity tariffs place a heavy burden on landlords' and tenants' operating costs.

<sup>1</sup> [http://www.energy.gov.za/files/coal\\_frame.html](http://www.energy.gov.za/files/coal_frame.html)

<sup>2</sup> <https://www.bloomberg.com/news/articles/2021-03-30/south-africa-speeds-up-plans-to-reduce-carbon-emissions>

<sup>3</sup> Climate Transparency Report 2022: South Africa, available at <https://www.climate-transparency.org/wp-content/uploads/2022/10/CT2022-South-Africa-Web.pdf>



Within this daunting context, Redefine remains inspired by our 10-year moon-shot vision – in this decade, to deliver the smartest and most sustainable spaces the world has ever known. We are committed to evolving our business model and decarbonising our value chain to deliver sustainable spaces that support long-term value creation. This includes implementing projects that reduce our energy consumption and replace carbon-intensive energy sources with renewable options.

Solar energy is currently one of the cheapest and most sustainable ways to generate electricity, while providing favourable financial returns. Solar-powered installations also relieve pressure on a severely strained power grid by reducing our reliance on the communal power supply. Our solar photovoltaic (PV) programme remains a critical enabler in our long-term journey to achieve net-zero carbon status for our portfolio. Landlords play a vital role in supplying tenants with alternative energy

**SOLAR ENERGY IS CURRENTLY ONE OF THE CHEAPEST AND MOST SUSTAINABLE WAYS TO GENERATE ELECTRICITY, WHILE PROVIDING FAVOURABLE FINANCIAL**

sources, as it is often impractical for tenants to source their own solar-powered renewable energy for use in their spaces, particularly if the building is multi-tenanted. As an example, if the landlord prefers to use its roof space for other purposes, or if the lease is not long term, it is often not viable (or possible) for tenants to install their own rooftop solar panels for the duration of their lease.



Getting a return on doing the right thing

Currently, we are the real estate investment trust (REIT) with the largest installed rooftop solar PV fleet, which is capable of powering almost 8 000 South African households and covers 12% of our local portfolio's consumption. This has resulted in a dramatic reduction in our carbon footprint, while also delivering a 19% return on investment for the 2022 financial year. We expect our solar PV fleet to generate savings of approximately R105.7 million in 2022/23. To date, we have invested R314.5 million in solar PV, and R241.6 million is earmarked for expansion projects. Although we have focused primarily on retail properties, where consumption and production patterns are best aligned, rooftop solar PV installations have also been rolled out across various office and industrial properties.

We recognise that there are limits to what we can achieve through rooftop solar installations that supply energy directly to our properties. For instance, office building roofs are often too narrow to support large-scale solar PV installations. Industrial buildings, on the other hand, often have ample roof space but very restricted loads, making it impractical to generate excess energy without identifying offsite energy offtakers (buyers). We therefore explore opportunities in the wheeling and energy trading space to increase potential revenue streams, while reducing our carbon emissions and securing renewable energy sources for our buildings at more affordable rates. Wheeling is a financial transaction representing third-party electrical energy transportation over the municipal or Eskom distribution network. It allows a third-party supplier to sell electrical energy to customers or offtakers at their supply points.

We are pleased to be participating in the City of Cape Town's wheeling pilot project, entailing the construction of a 6.3MWp solar PV plant on the Massmart Brackengate roof. The City of Cape Town approved 5MWp for wheeling purposes and the tenant installed and funded an additional 1MWp plant to power its operations. The scale of the installation will meet the tenant's energy requirements and enable renewable energy wheeling to selected offtaker sites in Cape Town owned by Redefine. This will constitute the largest rooftop solar PV plant in Africa, covering approximately 32 000m<sup>2</sup> with over 11 000 solar PV modules installed. The system will produce over 9 900MWh of energy annually, offsetting over 25% of the combined shopping centres' energy consumption. This renewable energy production is the equivalent of powering 2 500 average households for a year and will offset 10 200tCO<sub>2</sub> annually. The construction of the solar PV plant will take an anticipated eight months to complete and provide over 28 000 working hours to the South African labour force. The



Mall of the South, Johannesburg, one of the top 10 largest solar PV installations



Centurion Lifestyle Centre, Pretoria, one of Redefine's largest solar PV installations

OUR SOLAR PHOTOVOLTAIC PROGRAMME REMAINS A CRITICAL ENABLER IN OUR LONG-TERM JOURNEY TO ACHIEVE NET-ZERO CARBON STATUS FOR OUR PORTFOLIO.



scale of this project has been facilitated by the intellectual capital gained through our early uptake of solar as an energy solution, as well as our focus on efficiency measures that have enabled access to reliable consumption data that will inform any benefit-sharing models in the future.

AFRICA'S LARGEST ROOFTOP SOLAR PV PLANT PLANNED FOR BRACKENGATE



Brackengate, Massmart, Western Cape



11 000  
solar PV modules  
32



9  
2 500  
average households' power equivalent annually



10 200  
tonnes of CO<sub>2</sub> annually

Evolving beyond being landlords

These innovations point to an exciting future where shared benefit models will reshape traditional landlord and tenant relationships to support the sustainability of both parties – within a context of rising operating costs and heightened business constraints. Property owners will evolve beyond being landlords, but success will hinge on multi-stakeholder collaboration. Going forward, cooperation between landlords and municipalities will be paramount to the scalability of these endeavours, and it is encouraging to see the City of Cape Town explore wheeling initiatives to help address supply constraints. Overcoming infrastructure reliability issues must, however, become a focal point of discussion to secure a future where clean energy is readily available to everyone.

We will continue to engage with all our stakeholders to progress a just transition to a low-carbon economy that supports thriving and resilient businesses and communities. The evolution of the property sector will play a tangible role in the future of the built environment that optimises energy security for the benefit of key stakeholders and broader society. Green buildings are only the beginning of this evolution.

As a purpose-driven REIT operating in a long-term asset class, Redefine is driven to look beyond today's crises and find ways to prevent future value erosion while capturing the opportunities in the transition to a low-carbon economy. The responsibility to address broader environmental and societal challenges in the property sector and beyond is therefore not simply corporate responsibility – a good thing to do – but strategic thinking that safeguards value creation in the short, medium and long term.



# INVESTING FOR A FUTURE WORTH RETIRING IN



TREVOR ABROMOWITZ



DWAYNE KLOPPERS

**TREVOR ABROMOWITZ** heads up Old Mutual Investment Group’s Liability Driven Investments (LDI) team. Over and above running the business, he is a member of the LDI Credit Committee and also involved in portfolio management and strategy. **DWAYNE KLOPPERS** is a strategist in the Liability Driven Investments team. He has 14 years of experience in LDI, derivative structuring and asset-liability modelling.

## KEY TAKEOUTS

- A comfortable retirement requires a sustainable income in a world worth retiring into.
- Retirement-driven investing (RDI) focuses on both retirement income and environmental, societal and economic considerations.
- RDI has an explicit decarbonisation and just transition framework for fixed-income investments.
- Insufficient retirement income shifts the financial burden to Government and family members.

We all dream of a retirement where we have a stable and sufficiently large income to last our lifetime. Increasingly, investors are also concerned about what the world will look like when they retire, especially if factors like climate change and economic inequality go unchecked. Retirees without a sustainable retirement income can become a financial burden on the state and informal support networks around them, while environmental and economic risks threaten the stability of our social and financial systems.

This article considers an investment strategy for defined contribution funds that addresses the two ideals of a sustainable retirement income for members and a sustainable world in which they can retire. The strategy is called retirement-driven investment.

Retirement-driven investment (RDI) balances the growth and risk of retirement income and enhances the environmental, societal and economic sustainability of our tomorrow.



## Why are sustainability ideals important in the South African context?

Investing for a sustainable retirement income is a direct act of social sustainability. This is because insufficient retirement income means that the financial cost of supporting elderly South Africans shifts to:

1. Government, in the form of the “old age grant”. This crowds out scarce developmental and social spending that could have been used to provide education, nutrition, healthcare, labour skills training, housing and policing.
2. Families (for instance, siblings and children) and communities (neighbours, church groups, friends etc.). This displaces wealth accumulation and education spending for future generations.

Resources available for these competing needs are particularly strained in South Africa, in part due to decades of structural

RETIREMENT-DRIVEN INVESTMENT (RDI) BALANCES THE GROWTH AND RISK OF RETIREMENT INCOME AND ENHANCES THE ENVIRONMENTAL, SOCIETAL AND ECONOMIC SUSTAINABILITY OF OUR TOMORROW.

deprivation. We will later show how the regulator has entrenched this interpretation (sustainable



income as sustainable investment) in a best practice guidance notice to retirement funds.

The risks to an environment, a society and an economy worth retiring in are becoming increasingly obvious. The sustainability of all three of these systems is necessary to create a world in which we want to spend our retirement years. We have recently witnessed the KwaZulu-Natal floods that saw over 400 deaths, more than 8 000 homes destroyed and approximately R25 billion worth of damages to infrastructure. Aside from the tragic human cost, the consequences of damaged infrastructure also have longer-term social implications – as discussed above, government resources get diverted from other social needs.

According to the World Weather Attribution group, the probability of flooding in eastern South Africa is now twice as common, given the impact of increased greenhouse gas emissions on the planet’s temperature.

How does RDI address retirement income sustainability?

Our regulator, the Financial Sector Conduct Authority, offers retirement fund trustees guidance on how to pursue sustainable investment, via Guidance Notice 1 of 2019 of the Pension Funds Act. This sustainability notice endorses a “liability-driven investment philosophy”. We regard a liability-driven investment as one that relies on investment choices being directly linked to the financial goal of the investor.

RDI applies a liability-driven investment philosophy and sets our baseline asset allocation after considering the impact this has on the level and variability of future retirement income. Before choosing a baseline asset allocation, we use mathematical and actuarial techniques to project:



The timing and size of members’ contributions



How their salary is likely to change over time



The impact of inflation



When they are likely to retire



How long they are likely to live after retirement



How their assets will grow under different market conditions, accounting for the variables listed here

Retirement investment is a multi-decade problem, sometimes involving over 80 years of cash flows interacting with market performance. RDI incorporates this information-rich structure, which is fundamental to addressing retirement income sustainability.

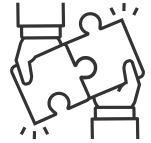
THE PROBABILITY OF FLOODING IN EASTERN SOUTH AFRICA IS NOW TWICE AS COMMON, GIVEN THE IMPACT OF INCREASED GREENHOUSE GAS EMISSIONS ON THE PLANET’S TEMPERATURE.



Assets that enhance sustainability

Our RDI approach to responsible investing is built on Old Mutual’s Responsible Investment Guidelines and incorporates Old Mutual Investment Group’s ESG integration and stewardship capabilities. The RDI exposure to world and emerging markets tracks the MSCI ESG Leaders Indices, which target companies with the highest environmental, social and governance rated performance in each sector.

In addition to our general responsible investment policies, RDI has an explicit Decarbonisation and Just Transition Framework for fixed-income investments. The following principles are important in this investment framework, and helped shape our own policy:

|                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|    | <p><b>FAIRNESS</b></p> <p>To achieve fairness, we consider the positive and negative consequences of investments on all stakeholders. Balancing these needs is challenging. Wherever possible, we prefer relying on partial or full consensus across nation states, and across societal sectors within South Africa, based on scientific evidence.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|   | <p><b>COORDINATED, COLLABORATIVE ACTION</b></p> <p>The policy strives to work with, not in parallel with, other sectors of society and global cooperative frameworks. This creates space for incorporating contributions from the United Nations, the Paris Agreement signatories, the South African government, industry, labour, academia and civil society. We treat existing, formal, binding framework commitments by the South African government and other Paris Agreement-aligned states as a starting point. We consider justifiable, sustainable changes to these formal policies, rather than non-aligned efforts with no reference to these global, collaborative frameworks. We are constantly guided by the objective of a 1.5°C cap to global temperature increases over pre-industrial levels and aim to clearly reconcile changes from existing frameworks with this goal.</p> |
|  | <p><b>EVIDENCE-BASED DECISION-MAKING</b></p> <p>We aim to balance:</p> <ul style="list-style-type: none"><li>• Prioritising science-based decision-making</li><li>• Timely decisions that recognise the urgent need to address climate change; and</li><li>• Getting buy-in from stakeholders to help galvanise change.</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

Improving our chances of a more sustainable tomorrow

The consequences of an insufficient and unsustainable retirement income are dire, both for individuals and for society at large – as support needs to be extended at the cost of other important developmental and social spending initiatives.

A sustainable investment strategy for defined contribution funds must target a sustainable retirement income, in addition to using the more familiar ESG principles that ensure assets purchased and sold contribute to a sustainable environment, society and economy.

The only way that these challenges can be met is if we all take a multi-decade view and work together in a coherent and an urgent manner in managing members’ retirement capital. Ultimately, members want a comfortable retirement above all else. This requires a world worth retiring into and sustainable retirement income.



# THE ROLE OF TRUSTEES IN DRIVING ACTIVE OWNERSHIP



FAGMEEDAH  
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FAGMEEDAH PETERSEN-COOK is an actuary with extensive experience in the pension and investment industries. She currently serves on the boards of Bankmed, Pepkor, Absa Financial Services, Absa Pension Fund and Famous Brands. Fagmeedah holds a Certificate in Climate Change and Sustainability from the Institute and Faculty of Actuaries.

## KEY TAKEOUTS

- Active ownership is a long game of diplomacy and constructive engagement.
- Data is key and sustainability disclosure guidelines are needed for both listed equity and issuers of debt.
- Pension fund trustees are currently not compelled to enforce responsible investment principles in mandates.
- Trustees need appropriate legislation to better judge the scope of active ownership by their asset manager.

Active ownership is about taking accountability for the investments that an investor decides to make, and is consistent with exercising the fiduciary duty a trustee has towards a fund. The Regulator for Pension Funds’ Guidance Notice 1 of 2019 (GN1/2019 PFA) makes it clear that retirement funds are expected to have a policy around “sustainability” or what the industry has come to characterise as ESG (environment, social and governance) matters. The guidance note is an excellent guide of the issues that a retirement fund should consider on the subject of sustainability. Unfortunately, the guidance falls short of compulsion and also gives no indication as to the level of effort required from trustees.



It is clear that by engaging on sustainability issues impacting investments, you are being a prudent investor – since the process safeguards against loss of value of investments in the long term by compelling companies to consider emerging risks. In addition to active ownership, the other pillars to a comprehensive sustainability strategy are:

- Negative screening – although this is a blunt tool in a small investment universe like South Africa. It involves, for instance, screening out retailers who procure from companies that employ child labour (a social issue).
- Targeted investments that are value accretive to sustainability, such as a fund that builds schools in rural areas.

THROUGH IMPROVEMENTS IN THE DISCLOSURE STANDARDS, ALONG WITH MATURING ENGAGEMENT CYCLES, ACTIVE OWNERSHIP SHOULD START TO YIELD MORE VISIBLE RESULTS...





## THREE PILLARS OF A SUSTAINABILITY STRATEGY



### ACTIVE OWNERSHIP

Shareholders positively influence investee companies' strategies and activities



### NEGATIVE SCREENING

Investors exclude companies/ industries based on poor ESG activities



### SUSTAINABLE INVESTING

Investments that achieve both financial and environmental/social returns over time

Of the three approaches (or pillars), active ownership is most effective in creating broader value for an investor, because it is applied across an entire asset class in a consistent manner. As such, it has an impact on a larger proportion of a fund's investments.

The imperative for active ownership is undoubtedly being driven by climate change, since a dire risk to the planet and humanity has been identified. As a result, climate change is the catalyst of many active ownership initiatives, like Climate Action 100+ and the Net Zero Asset Managers initiative. However, the activities of active ownership can equally be applied to other environmental issues, as well as social and governance issues. In South Africa, active ownership has been very evident in company annual general meeting (AGM) voting on the governance issue of remuneration policies and remuneration implementation reports.

### Active ownership depends on reliable data

A key ingredient to successfully implementing an active ownership strategy is for an asset manager or active ownership agent to have access to relevant and reliable investee company data. The JSE recently produced guidelines to listed companies for both climate change and sustainability disclosure. Depending on the pace of adoption, this should improve the ability of asset owners to actively engage investee companies.

One of the characteristics of active ownership is that it is a long game, through an engagement cycle of corporate diplomacy and constructive engagement, often taking a few years and AGMs to achieve significant policy or strategy change on the part of an investee company. Through improvements in the

## A KEY INGREDIENT TO SUCCESSFULLY IMPLEMENTING AN ACTIVE OWNERSHIP STRATEGY IS FOR AN ASSET MANAGER OR ACTIVE OWNERSHIP AGENT TO HAVE ACCESS TO RELEVANT AND RELIABLE INVESTEE COMPANY DATA.

disclosure standards, along with maturing engagement cycles, active ownership should start to yield more visible results, which should encourage those managers who are not yet active owners to sit up and be counted. Unfortunately, while we have good policies and frameworks in South Africa, there has not been much action, and little collaboration.

Active ownership has historically been associated with equity investments, although application to other asset classes, such as sovereign debt and corporate credit, has been growing. Active engagement on corporate credit, to the extent that it is issued by listed companies, should be as easy to achieve as listed equity. However, there is currently very little standardised non-financial data available for sovereigns and many South African investment managers appear loath to engage government entities or representatives on non-financial matters, with a few noteworthy exceptions.

### Trustees' role in driving sustainable



### behaviour

Retirement funds lend themselves well to the active ownership model, since the generally longer timeframe typical of active ownership coincides with the longer time horizons of retirement fund investments.

Every fund should have a sustainability policy, which recognises the importance of fostering improving sustainable behaviour on the part of investee companies. Each fund should have a strategy on how it chooses to implement the measures to improve this behaviour. A fund may choose to leave these activities to its asset managers, in which case it is imperative that the investment mandate with the asset manager recognise the need to:

- Assess the sustainability risks
- Identify the mechanisms for intervention and engagement with management, including escalation of activities if concerns are not resolved; and
- Vote at shareholder meetings of investee companies.

### If a mandate does not reflect these needs, how is a manager to know that this is important to its clients?

Alternatively, a fund may choose to appoint an engagement specialist. This has the advantage of ensuring that the investor presents a consistent view to an investee company across mandates with multiple asset managers. However, these services are typically available at a cost and economies of scale are relevant. The third option is for funds to invest in products that have meaningful ESG engagement as a hallmark. These products are often tracker funds, and so offer meaningful value for money.

### How is active ownership likely to unfold?

There is much-needed change required in South Africa, given escalating inequality (and the risk of social uprising), the lack of action on the part of Government to facilitate a just transition to renewables, the energy crisis and the physical risks of climate change. As more asset managers factor these risks into their financial models, the need for engagement to facilitate change will become more apparent, and likely more asset owners will demand active engagement on the part of their investments, regardless of the choice of mechanism. The imperative to change on these national crisis issues is likely to be driven by investors. National Treasury has established a foundation in publishing the Green Taxonomy (a classification system that governs what financial instruments and activities can be called "green").

However, there is currently a significant gap in the delivery of investment management services to retirement funds, because there is no objective measure by which an asset owner can assess the extent of active ownership, and broader consideration of ESG issues, by an asset manager. In the European Union (EU), such legislation exists in the form of SFDR (Sustainable Finance Disclosure Regulation) and it would be desirable for the Financial Sector Conduct Authority (FSCA) to issue similar legislation in South Africa, to help trustees judge the quality of sustainability engagement on the part of their asset managers.

**DISCLAIMER:** The views expressed in this article are my own and are not the official viewpoint of the organisations with which I am involved.



# ARTIFICIAL INTELLIGENCE: THE NEW FRONTIER IN ESG?



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## KEY TAKEOUTS

- AI is particularly useful to asset managers for finding patterns in data.
- Natural language processing (NLP) helps us monitor rapidly evolving market events, including sentiment analysis.
- AI risks exacerbating inequality within and between countries.
- Responsible AI aims to incorporate ethical principles.

Over the past decade, investing through an ESG lens has been catapulted to the forefront of the investment industry. This has led to a boom in new ESG data providers offering different methodologies and views of their optimal approach to assess a company’s ESG/idiosyncratic risk factors. There are thousands of ESG factors/metrics from each of these providers.

At Old Mutual Investment Group, we have conducted extensive quantitative research on ESG data, assessing various ESG data providers. Through this research we have developed a robust understanding of the strengths and weaknesses of the various offerings available.



THE EXPLOSION IN THE VOLUME OF ESG DATA HAS PUT SIGNIFICANT PRESSURE ON ASSET MANAGERS TO ENSURE THEY ARE USING THE APPROPRIATE DATA, EXTRACTING THE OPTIMAL VALUE FROM IT AND MAKING THE BEST USE OF THESE FACTORS ACROSS THEIR VARIOUS INVESTMENT STRATEGIES.



The explosion in the volume of ESG data has put significant pressure on asset managers to ensure they are using the appropriate data, extracting the optimal value from it and making the best use of these factors across their various investment strategies. Fortunately, with the aid of artificial intelligence (AI), asset managers have the tools to quantitatively and objectively assess this volume of ESG data to find value. AI is particularly good at finding patterns in data, whether it be alpha signals from linear and non-linear combinations of thousands of data inputs or correlations that asset managers need to be aware of when making strategic investment decisions. We have found AI a particularly useful tool to optimise weightings for enhancing our proprietary ESG signal.

### What are you talking about?

The application of AI algorithms is constantly evolving. It is now even possible to connect existing live camera feeds, geolocation data, satellite images and sensors to measure ESG factors on a real-time basis!

One area of AI that we expect will relieve significant pressure on asset managers in the processing of the volumes of big data is natural language processing (NLP). NLP allows a fund manager to feed in financial reports and ESG audit reports to get concise summaries. Furthermore, NLP can link to news feeds and warn analysts of topics that are currently “hot” versus topics that do not relate to key subjects. This is

especially relevant in tracking ESG events or activities that could potentially impact the profits of a listed company. NLP can even take live online broadcasts in foreign languages, convert them into the language of your choice, rank the tone of the broadcast on sentiment, extract the key themes and summarise the content while also monitoring comments on live feeds from chat groups and social media.

### Keeping it responsible

It would be naive to believe that AI is the solution to mankind’s ESG problems. Unfortunately, it brings with it ESG risks. This matter is so important that it has a dedicated name in the AI community and is referred to as “responsible artificial intelligence”. Effectively, it helps incorporate the ethical principles set forth by organisations and governments and ensures they are correctly embedded into AI algorithms.

In January 2015, AI experts – including Stephen Hawking, Elon Musk, Google DeepMind’s chief executive Demis Hassabis, Apple co-founder Steve Wozniak and the godfather of AI Geoffrey Hinton, to name a few – signed an open letter calling for research on the societal impacts of AI. The letter affirmed that mankind could reap great potential benefits from artificial intelligence, but pointed out the risks. One such risk is, for instance, autonomous weapons that select and engage targets without human intervention.

Furthermore, to run these artificial intelligence algorithms requires a substantial amount of computing power, which in itself is an environmental risk. The good news is that we could use AI to help minimise its own environmental impact, such as managing data centre cooling, optimising supply chains and minimising ESG risk factors.

### No humans needed

Much of the AI concerns revolve around the social impact to nations. Countries that have a low unemployment rate and struggle to employ people to do mundane and repeatable tasks will benefit from the AI revolution. “Bots” already exist in our daily work and home life, automating tasks in a fraction of the time. The problem is that access to AI is not evenly available. The consequence is that large organisations can use AI equipment to automate the repetitive production of goods without the need for human intervention (e.g. car

ONE THING IS FOR SURE – WITHOUT THE USE OF AI, THE EFFECTIVE MANAGEMENT OF ESG RISKS WOULD BE PRACTICALLY AND OPERATIONALLY IMPOSSIBLE.

manufacturing), perform dangerous tasks, such as in mining, or replace people for mundane tasks like crop picking for farmers. In addition, autonomous vehicles will no longer require human drivers and electric cars will reduce the need for filling stations. The question must be asked: What are all these people going to do to make a living in the “new” world?

In light of this, it can be argued that AI could exacerbate inequality within a country and between wealthy and poor nations. Logically, we would need to train up people so that we can replace these “lost” jobs with new ones. This would require more skills using technology, which is again skewed to benefit wealthier and more educated nations.

All of these issues have to be kept in mind when rolling out AI. Implementing responsible AI is by no means an easy task, as it requires balancing the gains in productivity and profits, and the automation of mundane, repetitive and dangerous tasks with the overall societal impact of job losses. One thing is for sure – without the use of AI, the effective management of ESG risks would be practically and operationally impossible. While we can’t afford to be left behind in the AI revolution, as a country with high inequality and unemployment levels, we can implement AI responsibly and be mindful of its ESG implications.



# STEWARDSHIP AND INVESTING FOR REGENERATION



ROB LEWENSON



NICOLE MARTENS



GOMOLEMO SEETE

Old Mutual Investment Group’s stewardship team is responsible for driving active ownership throughout the business. This includes actively voting on proxies, engaging with company leaders on material ESG issues and addressing key public policy issues to build marketplace resilience. **ROB LEWENSON** is Head of Responsible Investment, **NICOLE MARTENS** is Head of Stewardship and **GOMOLEMO SEETE** is an ESG analyst.

## KEY TAKEOUTS

- The drive for “wealth creation at all costs” has intensified socioeconomic, geopolitical and environmental crises.
- As protectors of clients’ best interests, the investment industry needs to focus beyond financial returns.
- A reformative approach to investment requires collaboration at an unprecedented scale.

“No man is an island.” John Donne penned these words in 1624. In what could be interpreted as an act of direct contradiction to this principle, in that same year, Louis XIII built his palace in Versailles – a literal island to separate himself from his countrymen.

Four hundred years later, echoes of these diametrically opposed approaches to understanding one’s place and role in the grand scheme of things are clearly reverberating across the divided world in which we find ourselves – and the investment industry has not been immune from this influence.



Since the advent of Modern Portfolio Theory, investment managers have argued that their role is limited to the maximisation of returns for their clients at all costs. This myopic view of the role of investment has succeeded in generating significant wealth on the one hand, but at the same time, it has exacerbated a world characterised by persistent socioeconomic, geopolitical and environmental crises. The net effect of wealth creation at all costs for short-term gain has resulted in a world where long-term sustainability and resilience are at material risk. Operating as if our investment decisions are somehow isolated from the real impact on the world around us only perpetuates this negative cycle.

WE ARE ELEVATING OUR APPROACH TO ENGAGEMENT ON THE JUST TRANSITION TO MORE SUSTAINABLE AND INCLUSIVE ECONOMIES.





IT REQUIRES A PRINCIPAL REAFFIRMATION OF OUR INVESTMENT RESPONSIBILITY – ONE THAT FOCUSES ON OUR ROLE AS PROTECTORS OF OUR CLIENTS’ BEST INTERESTS.



The severity and scale of these impacts have now reached a point that necessitates urgent action. Change is needed. Now. At scale.

Taking a holistic approach

Addressing the impacts of our investment decisions and achieving the associated objectives is no small feat. There is a lot of work to do – incorporating efforts in remediation, mitigation and adaptation. To be successful, this requires an approach to investment that is fundamentally different to our starting point.

It requires a principal reaffirmation of our investment responsibility – one that focuses on our role as protectors of our clients’ best interests, premised on an appreciation of the fact that, by and large, these extend beyond return and include a vast range of infinitely complex and interconnected issues that may have a positive or negative impact on the world. Acknowledging a broader responsible investment imperative enables a far more holistic view of our investment decisions which incorporates context, empowering us to identify, monitor and manage the real-world implications of our decisions. It opens the door to not only identify and capitalise on opportunity, but also proactively create it.

Further, the success of this reformative approach to investment requires collaboration at an unprecedented scale. It often requires us to leave our inherently competitive egos at the door and work together with our investee companies, our peers, our regulators, our communities and the broader society on achieving value-adding outcomes with respect to issues of systemic importance.

For Old Mutual Investment Group, this takes the form of increasingly considered, structured, collaborative stewardship efforts aimed at achieving real-world impact. We use the sustainable development goals (SDGs) as a framework for the nature of the problems we face and the objectives we need to achieve to correct an age of investing premised on island building. We are elevating our approach to engagement on the just transition to more sustainable and inclusive economies. Our engagements on these issues are predicated on an understanding of the bidirectional relationship that exists between our investment decisions and the world around us. Our objective always is to foster sustainability, stability and resilience.

ONE OF THE CURRENT PROJECTS WE HAVE INVESTED TIME INTO IS RESEARCHING CONSTITUENT COMPANIES OF THE MID- & SMALL CAP GROUP LISTED ON THE JSE.



As such, the future for stewardship for us is centred on the concept of regeneration. We are working with our stakeholders to pinpoint critical challenges that present notable risk to achieving our shared objectives, as well as potential opportunities that might exist for achieving progress on these goals. One of the current projects we have invested time into is researching constituent companies of the mid- & small cap group listed on the JSE. From this work, we will be able to identify the risks and opportunities for companies to adopt and implement a strategy towards a just transition away from fossil fuels. This research will address issues on water usage, energy usage, diversity pay gaps, and diversity and transformation. We look forward to how our stewardship practices can be the fundamental driver to seeing change in the abovementioned areas for the companies we will be focused on.

We are leveraging our experience in responsible investment to develop appropriate mechanisms for assessing and measuring progress on key themes, including identifying specific targets and metrics around material ESG issues, like energy production and sourcing, net job creation and retention and transformation. We are engaging our peers on opportunities for impactful partnerships and are continuously investing in our capacity to add value to every engagement in which we are involved. We are aware of our place as being only one part of the whole, inherently and indivisibly connected to every other part. We acknowledge our role as not only enablers but also leaders of regeneration, and are continuously ratcheting up our ambitions for impact. We take up this baton, committed to pursue this mission with unrelenting dedication.

All this because, when we look to tomorrow, it is clear to us that, as long-term investors and stewards of our clients’ interests and future, we are in the business of building bridges – not islands.



# NAMIBIA ARTICLES



**INVESTMENT GROUP**  
DO GREAT THINGS EVERY DAY



# IS ESG RELEVANT



NICOLE MARTENS

NICOLE MARTENS is Head of Stewardship at Old Mutual Investment Group

## KEY TAKEOUTS

- OMIG prioritizes responsible investment with dedicated ESG strategies.
- ESG’s crucial role in emerging markets, notably Africa, is emphasized in light of climate urgency.
- Arguments against integration are addressed: fairness and necessity.
- OMIG acknowledges ESG’s financial significance, regulatory impact, and client demand.
- Responsible investment is imperative, not optional, for emerging markets, unlocking substantial opportunities in the transition.

As OMIG, there is no question that we take great pride in our status as a leader in responsible investment. There’s also no question regarding the ‘who’, the ‘when’ or the ‘how’ of our approach to responsible investment – we have a dedicated ESG team, we have a 2050 net zero target, and we have a deliberate strategy for ESG integration and solutions-focused stewardship. A question does tend to crop up, however, with respect to the ‘why’ of it all. Why are we doing all of this?

The question of whether emerging markets, in general, and African markets, in particular, should be expected to participate in the global ESG movement has been around since the inception of the concept and is gaining greater momentum as the expectations for urgent action on climate change become more demanding and actors claiming to be responding are placed under ever more scrutiny.

Under this mounting pressure and amidst the uncertainty plaguing global markets, it can be tempting to throw up our hands and just let someone else do the heavy lifting when it comes to responsible investment. Arguably though, that would be far from the best move for us – strategically speaking. Let’s unpack this position, by taking a look at the two most commonly cited arguments against ESG integration.



## 1. “It’s not fair”

One of the most passionately argued positions against sustainable finance strategies is centred on the concept of climate justice. The rhetoric usually goes something like this: today’s developed markets caused the problem; they should be responsible for fixing it. Specifically, these markets caused the climate crisis by burning fossil fuels for energy that they used to develop, and it’s unfair to expect that emerging markets

AND YES, TO LIMIT GLOBAL TEMPERATURE INCREASES TO THE POINT WHERE WE AVOID THE WORST OF THE NEGATIVE IMPACTS, THERE IS AN URGENT NEED TO CEASE THIS DESTRUCTIVE BEHAVIOUR



should be denied the same opportunity (to burn fossil fuels in order to develop). Not an insignificant point. Yes, the crisis exists because we (the global we) have been engaging in a system of production and consumption that has caused significant damage to the biophysical world. Yes, today's developed nations were the source of the lion's share of that production and consumption. And yes, to limit global temperature increases to the point where we avoid the worst of the negative impacts, there is an urgent need to cease this destructive behaviour – which puts pressure on all markets (including emerging ones) to emit fewer emissions. All of this is unfair if we hold a few specific assumptions:

- i) that emerging markets have not contributed to the emissions;
- ii) that the use of fossil fuels always leads to economic growth and socioeconomic development;
- iii) that fossil fuels are the only source of energy for economic activity, and;
- iv) that adopting an alternative approach to development would have a net negative impact on emerging markets.

LET'S EXPLORE THESE

i) According to the World Economic Forum, emerging and developing economies (EMDEs) accounted for over 95% of the increase in greenhouse gas (GHG) emissions during the past decade. What is more, our share is projected to increase because EMDEs are expected to account for 98% of global population growth and over 90% of new middle-class households in this decade, which will significantly drive energy demand. For a statistic even closer to home, consider that South Africa is one of the top 15 emitters of greenhouse gases globally, due to our reliance on coal-powered energy. Sounds like it's time for a collective "mea culpa".

ii) Recent studies by the World Bank clearly show that access to and use of fossil fuels is in no way a guarantee of economic growth . Further, economic growth does not automatically lead to improvements in socioeconomic development. Case in point: the African continent is simultaneously home both to some of the world's most fossil-fuel rich economies, as well as some of the world's fastest growing markets, but also to some of the world's most unequal countries (with South Africa and Namibia taking first and second spot, respectively ). Clearly then, it is possible to have access to fossil fuels, without that guaranteeing economic growth, and to have economic growth without generating a corresponding improvement in development.

iii) There is no denying that energy is necessary for economic growth. The source of that energy, however, could arguably be anything. Despite the legacy that exists in many emerging markets of a reliance on fossil fuels, mounting evidence is showing that this particular energy source is becoming increasingly uncompetitive, with investment in renewable energy correlated with greater improvement in economic growth than comparative investment in non-renewable sources . And the costs of fossil-fuel based strategies are growing by the day. In South Africa, for example, load shedding has cost the economy more than R1.2 trillion (equivalent to about 25% of total GDP), and the estimated total cost of air pollution from fossil fuels in South Africa is a staggering R94.7 billion every year . And this excludes the potential impact of increasingly stringent regulations imposed by trading partners, with latest estimates projecting a loss to the African continent of roughly 30% of exports and a corresponding decrease in continental GDP of around 1% .

iv) Africa is among the most vulnerable parts of the world in the face of climate change, and is already experiencing an increase in devastating flood- and drought-related food

2. "It's a nice to have"

There is a misconception amongst some stakeholders in the investment industry that integrating ESG into our investment approach (as a responsible investor) is somehow an add-on to 'proper' investment management – something not directly relevant to the core of our function. But let's consider:

- i) That ESG is financially material. It has been empirically proven that companies which effectively integrate material ESG factors into business strategies will tend to outperform those that don't. Studies in this regard are plentiful – and growing . Further, the opportunity for return that is presented by the transition is substantial (in Africa, we're talking in the trillions of USD) .
- ii) If the ESG opportunity for return is significant, then not including an assessment of ESG performance and of companies' strategies for the transition as a variable in your risk-adjusted return calculations would mean you were introducing a range of unnecessary risk into your portfolio, which would be counter to your fiduciary duty to your clients.
- iii) Which is why, we see increasingly interventionist policy and regulation mandating that investors not only consider ESG in their decisions, but that we disclose detail on our approach and the outcomes thereof.
- iv) Demand for transparency is coupled with pressure from customers to provide ESG-linked products that deliver real-world impact as clients increasingly demand financial return delivered alongside positive environmental and social impact.
- v) Of course, this impact matters far beyond our portfolios, as it contributes to the systemic well-being of the market not only locally, but globally, where the fact of the matter is that we, as stewards of capital, are expected to contribute to the international agenda (see point 1 of this article).

At Old Mutual Investment Group we understand the points set out above and so we are doing everything that we can to effectively harness the winds of change and propel ourselves and our clients forward into the new world. To us, debunking the underpinning assumption clarifies that responsible investment is in every way relevant to emerging markets in general – and Africa specifically. It's not an optional extra; it's a necessity. And right now, the thing about the transition

that is the most unfair, is the fact that the current hesitation to take greater, more urgent action may actually mean that we're robbing ourselves of the ability to take advantage of the substantial opportunity that it presents.

1.<https://www.weforum.org/agenda/2022/06/3-actions-to-accelerate-emerging-market-climate-transition/#:~:text=Emerging%20market%20and%20developing%20economies,while%20meeting%20rising%20energy%20needs.>

2.[https://blogs.worldbank.org/energy/how-much-do-we-know-about-development-impacts-energy-infrastructure#:~:text=Energy%20is%20tightly%20linked%20to,affordability%20\(see%20Figure%20I\).](https://blogs.worldbank.org/energy/how-much-do-we-know-about-development-impacts-energy-infrastructure#:~:text=Energy%20is%20tightly%20linked%20to,affordability%20(see%20Figure%20I).)

3.<https://worldpopulationreview.com/country-rankings/gini-coefficient-by-country>

4.<https://www.jstor.org/stable/27107166>

5.<https://www.iol.co.za/pretoria-news/news/load-shedding-has-cost-sa-economy-more-than-r12-trillion-court-hears-7abb9434-5459-4f62-ad95-74b0e55c71e7#:~:text=Pretoria%20%2D%20Load%20shedding%20has%20cost,loss%20endured%20by%20the%20country.>

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7.Thomson Reuters, 2022 (<https://www.thomsonreuters.com/en-us/posts/investigation-fraud-and-risk/financial-materiality-esg/#:~:text=It%20has%20been%20empirically%20validated,performance%20and%20underlying%20financial%20metrics.>)

8.<https://www.stern.nyu.edu/experience-stern/about/departments-centers-initiatives/centers-of-research/center-sustainable-business/research/research-initiatives/esg-and-financial-performance>

9.<https://www.wits.ac.za/news/latest-news/opinion/2021/2021-12/its-time-for-green-investment-in-africa.html>

10.<https://www.tcfhub.org/Downloads/pdfs/E06%20-%20Climate%20related%20risks%20and%20opportunities.pdf>

11.<https://fossilfreeza.org.za/wp-content/uploads/2020/02/Fiduciary-duty-Rose-Hunter-Fasken-Tracey-Davies-Just-Share.pdf>

12.<https://www.fsca.co.za/Regulatory%20Frameworks/Temp/FSCA%20sustainable%20finance%20statement%20Final%20March%202023.pdf>

13.<https://www.pwc.com/gx/en/news-room/press-releases/2022/awm-revolution-2022-report.html#:~:text=Demand%20for%20ESG%20investment%20products%20is%20outstripping%20supply&text=Nearly%20nine%20in%20ten%2C%2088,to%20launch%20new%20ESG%20funds.>

14.<https://www.riscura.com/wp-content/uploads/2022/05/African-Investing-for-Impact-Barometer.pdf>

15.<https://unfccc.int/climate-action/race-to-zero-campaign#:~:text=Race%20To%20Zero%20is%20a,and%20unlocks%20inclusive%2C%20sustainable%20growth>



# NAMIBIA ECONOMIC OVERVIEW



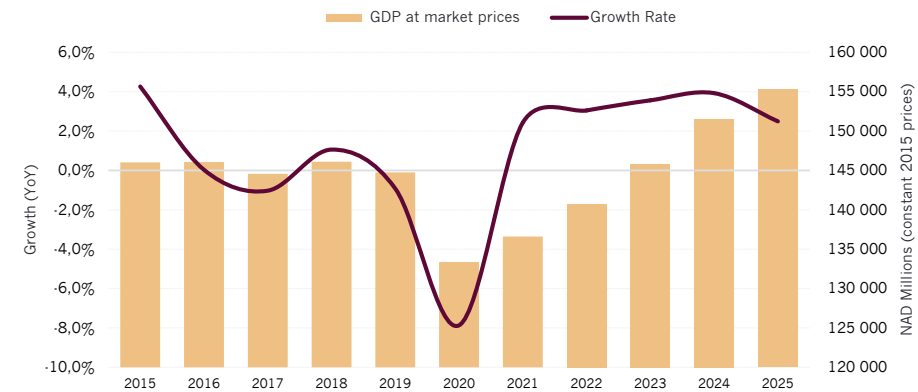
CIRRUS CAPITAL

CIRRUS CAPITAL is a leading Namibian financial advisory firm driving strategic investment solutions co-founded by Rowland Brown.

## KEY TAKEOUTS

- Namibia's economy rebounded with 4.6% growth in 2022, led by primary industries.
- Real GDP reached NAD144.1 billion, nearing pre-COVID levels.
- Oil reserves discovery fuels economic potential; agriculture faces rainfall challenges.
- Manufacturing rebounds; construction sector outlook challenging.
- Improved water levels benefit electricity generation; water supply remains a concern.
- Tertiary industries, including tourism and financial services, show moderate growth.
- Inflation driven by imported goods; policy risks and resource nationalization pose considerations.

Growth forecast



Namibia posted a strong growth recovery of 4.6% in 2022, well above initial estimates, after revised estimates of 3.5% for 2021. The primary industries (particularly mining and quarrying) led growth in both years, while the secondary industries recovered from the contraction in 2021 and growth accelerated marginally in the tertiary industries. This puts real GDP at NAD144.1 billion, just 0.5% below the pre-COVID level (2019: NAD144.9 billion) and 1.4% below the peak in 2018. Nominal GDP increased 12.1% to NAD206.2 billion, well above estimates and causing material improvement in many fiscal and other metrics (such as debt-to-GDP).

The primary industries posted real growth of 12.9% in 2022, which was mostly driven by diamond mining, up 45.1% thanks to the Benguela Gem's contribution to Debmarine Namibia's production. Gold and uranium output were hit by production challenges – uranium due to ongoing water constraints and gold due to delays in B2Gold's underground expansion. We anticipate some improvement going forward, particularly given the base effect, exchange rate weakness, and spot market prices.

The recent discovery of oil off the Namibian coast holds the potential to generate strong economic growth even before the wells

THE 2022/23 RAIN SEASON AND LIKELIHOOD OF EL NIÑO FROM MID-2023 POSE SERIOUS CHALLENGES.



THE ELECTRICITY AND WATER SHOULD SEE BENEFIT OF INCREASED WATER LEVELS AT RUACANA, AFTER A RECORD LOW SEASON LAST YEAR.



are fully developed. The anticipation of future revenue stimulates exploration and appraisal activities and generates direct and indirect employment opportunities. While the full development of the oil wells will take time and face challenges, the initial discovery (and commercial investment decision, if made) will set the stage for strong economic growth in Namibia.

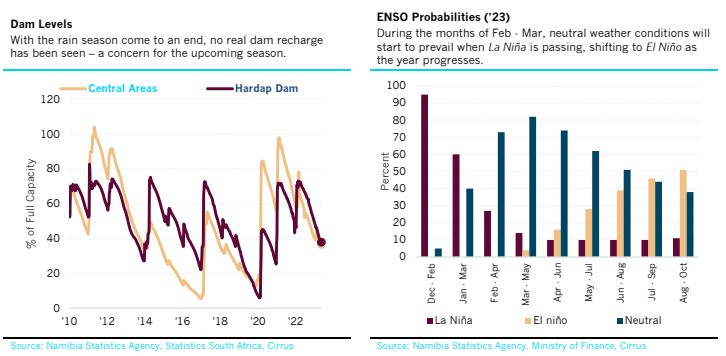
The outlook for agriculture is less optimistic, as erratic rainfall during the 2022/23 rain season and likelihood of El Niño from mid-2023 pose serious challenges.

Although there have been improvements in crop harvests and restocking of livestock due to better rainfall in recent seasons, the risk of below-average rainfall in the upcoming seasons raises concerns for both crop and livestock farmers.

The secondary industries present a mixed picture. Manufacturing has shown a broad recovery, driven by increased demand for staple foods, improved livestock processing, recovery in beverage manufacturing, and higher diamond output benefiting diamond processing. However, the construction sector is expected to face another challenging year, with limited major projects in the pipeline beyond ongoing road construction.

The electricity and water should see benefit of increased water levels at Ruacana, after a record low season last year. This will have materially increased Namibia’s generation compared to the prior year, reducing the need for imports. While the regional generation challenges pose a threat, we do not foresee this as too material a risk for Namibia, particularly over the long-term. Namibia’s Power Purchase Agreements are firm, and each individual agreement is relatively small compared to the deficits in the respective generating countries. Additionally, NamPower maintains a healthy balance sheet, and has several planned generation projects, while there is also substantial promise around the nascent oil and gas discoveries.

Water supply remains a major concern, as the central areas of Namibia heavily rely on aging dam infrastructure with limited additional capacity built in the past three decades. As rainfall this past season has not been in many of the core catchment areas, it will likely necessitate water restrictions from mid-2023 for the central areas. Water challenges will pose a more material challenge in the short and medium term than energy challenges.



Namibia's tertiary industries experienced moderate growth in 2022, with key sectors such as hotels, transport, storage, and financial services playing a significant role. The tourism sector has shown a robust recovery, although it has not yet fully reached pre-pandemic levels due to supply-side disruptions - the weakening of the rand is expected to boost international arrivals in the future. The financial services industry also saw moderate growth, the first since 2019, and is expected to improve further as the broader economic recovery continues. Private sector credit extension is anticipated to increase as economic conditions improve and interest rates stabilize, supported by positive factors such as government employment and wage increases. Additionally, the property market is stabilizing, but the hawkish stance of the South African Reserve Bank poses some moderation to lending conditions.

Inflation and Interest Rates

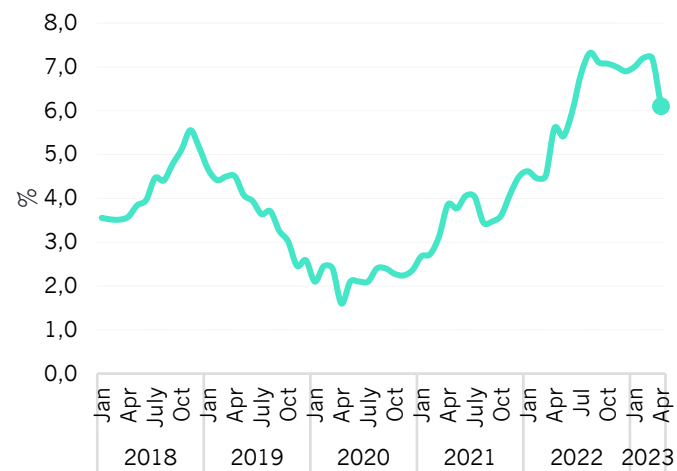
In March 2023, the South African Reserve Bank (SARB) increased its repo rate by 50 basis points to 7.75%, the highest rate since May 2009. This decision was made in response to the weakening rand and persistent inflation in South Africa. However, the impact of these rate hikes on exchange rate weakness caused by political events is expected to be limited. The high interest rates may negatively affect economic growth, which is already impacted by rolling blackouts, and increase non-performing loans in the banking sector.

The Bank of Namibia's Monetary Policy Committee has taken a less aggressive approach, opting for a smaller rate hike compared to the SARB. This deviation from the SARB's stance is the first significant deviation for Namibia since 2008/09. In the short term, Namibia can sustain this deviation due to sufficient international reserves, inflows from the Southern African Customs Union (SACU), diamond receipts, and improving inward investment.



### Namibia Annual Inflation

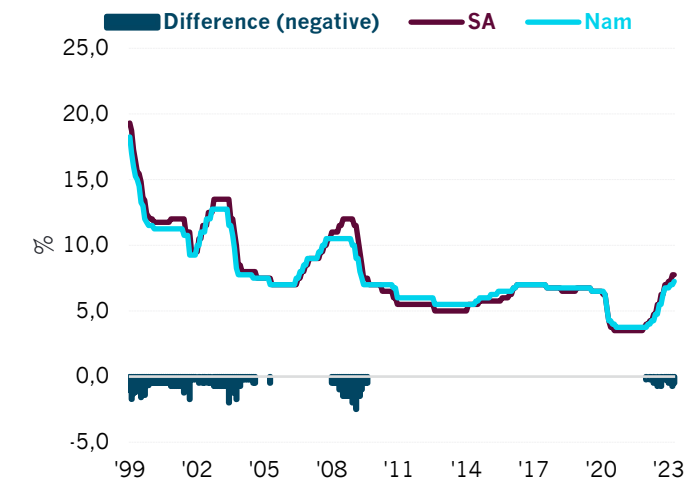
Annual inflation came at 6.1% in April 2023, up from 5.6% recorded in April 2022 and 7.2% in March 2023.



Source: Namibia Statistics Agency

### Repo Rates

This is the first time since '09 that Namibia has elected to maintain a sizable and sustained lower repo rate.



Source: Namibia Statistics Agency, Statistics South Africa

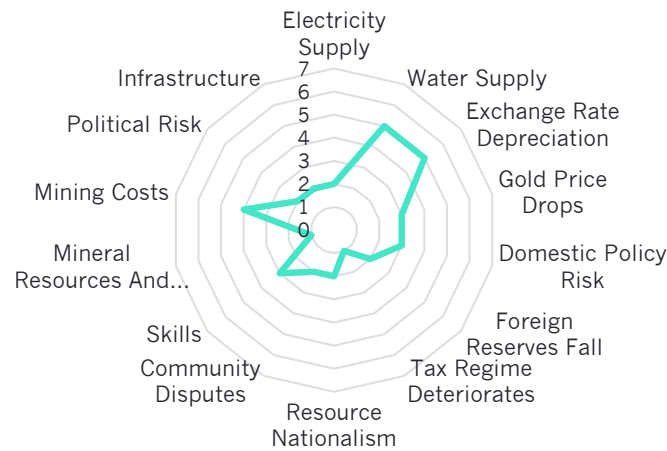
Namibia's inflation is largely driven by imported goods, such as food and fuel inflation. Services inflation, which is largely domestic, has remained subdued. Inflation is expected to average around 6.1% for 2023, and further moderate in 2023, however rand weakness will reduce the anticipated moderation.

### Risk factors

Namibia's reliance on South Africa for energy imports may be perceived as a significant risk, but NamPower has taken steps to reduce this dependence on Eskom. Therefore, we do not anticipate significant risks to Namibia's energy supply in the medium to long term. However, the water supply poses a more substantial concern. As a semi-arid country, Namibia heavily relies on aging dam infrastructure in the central areas, which has limited additional capacity built over the past three decades. While there are some efforts to abstract water from aquifers in the central regions and desalinate seawater along the coast, the prospect of low rainfall presents a significant risk to sustained water supply in the medium term.

#### Risk

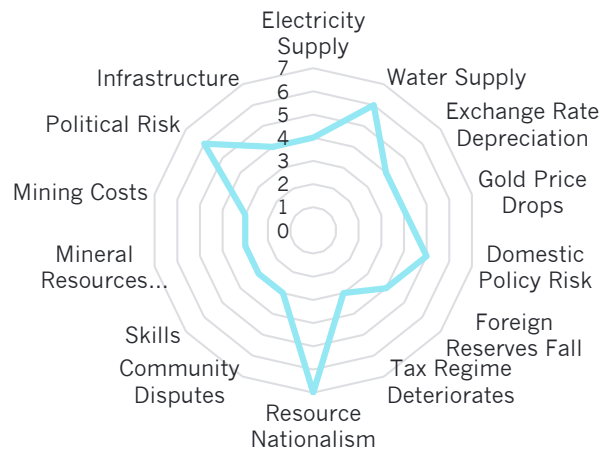
Annual inflation came at 6.1% in April 2023, up from 5.6% recorded in April 2022 and 7.2% in March 2023.



Source: Namibia Statistics Agency

#### Impact

This is the first time since '09 that Namibia has elected to maintain a sizable and sustained lower repo rate.



Source: Namibia Statistics Agency, Statistics South Africa

The weakening of the rand, while beneficial for exporters, has negative consequences for domestic inflation and increases costs for businesses that rely on imports for inputs (such as mine construction and operations). Continued rand devaluation is likely due to challenges in neighboring South Africa, both on macroeconomic and political fronts.

Some material risks lie around growing resource nationalization and continued uncertainty around some domestic policy (such as the Investment Promotion and Facilitation Bill and the New Equitable Economic Empowerment Framework). Resource nationalization is more likely to take the form of pushing for mineral beneficiation domestically, although further scope for this is limited. While the probability of these risks occurring is relatively low, their impacts would be material.



# SDG 6 “CLEAN WATER AND SANITATION”,(WASH) THE CINDERELLA OF INFRASTRUCTURE DEVELOPMENT



SARA MEZUI ENGO

SARA MEZUI ENGO is Head of Alternative Investments at GIPF

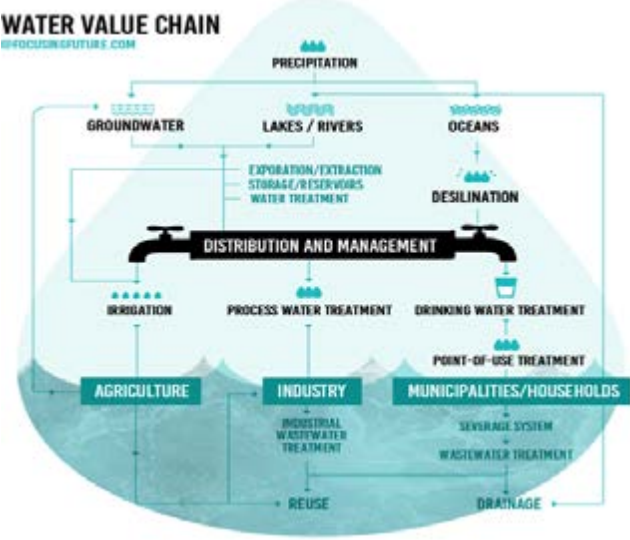
### KEY TAKEOUTS

- **SDG 6 Goal:** Achieve universal clean water and sanitation by 2030.
- **Challenges:** Cost, complexity, and political pressures in water infrastructure.
- **Economic Impact:** Vital for agriculture, industry, and green energy.
- **Innovations:** Green bonds, PPPs, and tech enhance financing and conservation.
- **Action Needed:** Collective efforts for sustainable water management.

Sustainable Development Goal 6 (SDG 6) aims to ensure access to clean water and sanitation for all by 2030. Achieving this goal is critical as clean water and sanitation are essential for public health, economic growth, and environmental sustainability. However, the achievement of SDG 6 requires significant investments in infrastructure, technologies, and behaviour change.

The goal is a reaction to the fact that climate change is exacerbating the global water crisis as depicted below.

THE WATER VALUE CHAIN REFERS TO THE ENTIRE PROCESS INVOLVED IN THE MANAGEMENT AND DELIVERY OF WATER, FROM ITS EXTRACTION OR COLLECTION TO ITS ULTIMATE USE OR DISPOSAL.

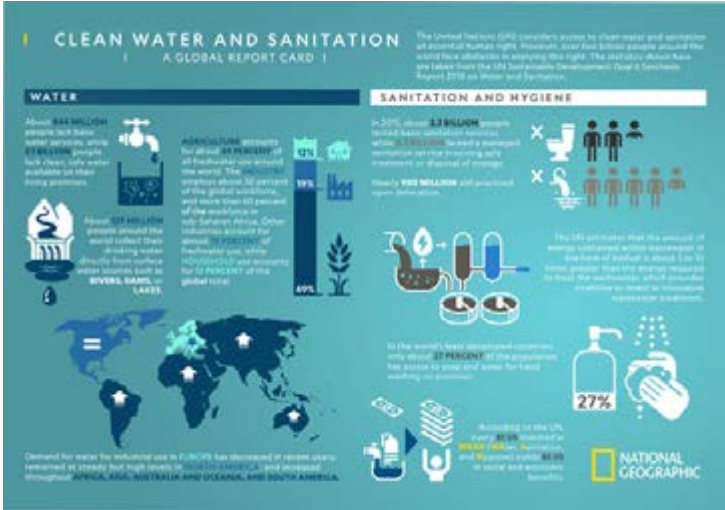


The water value chain refers to the entire process involved in the management and delivery of water, from its extraction or collection to its ultimate use or disposal. It encompasses various stages and activities that ensure the availability, quality, and efficient utilization of water resources. The key components and stages within the water value chain are Water Sources; Water Treatment; Water Distribution; Water Use; Wastewater Management; Water Conservation and Efficiency and Monitoring & Management.

### THE SDG 6 TARGETS SET ARE AS FOLLOWS:

- By 2030, achieve universal and equitable access to safe and affordable drinking water for all.
- By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations.
- By 2030, improve water quality.
- By 2030, substantially increase water-use efficiency across all sectors.
- By 2030, implement integrated water resources management at all levels.
- By 2020, protect and restore water-related ecosystems.
- By 2030, expand international cooperation and capacity-building support to developing countries.
- Support and strengthen the participation of local communities.

Dissecting the water value chain is critical to assess where interventions can have a catalytic impact.





Responsible Investing to accelerate change

Institutional Investors have a critical role to play in achieving SDG 6 through their investment decisions. Responsible investing, also known as Environmental, Social, and Governance (ESG) investing, is an approach that considers the impact of investments on society and the environment, in addition to financial returns. By investing in projects and companies that support SDG 6, pension funds can contribute to the achievement of this goal while generating returns for their beneficiaries.

One option is to invest in water infrastructure projects, such as the construction of pipelines, treatment plants, and storage facilities. For instance, the Dutch pension fund PFZW has invested in the construction of water treatment plants in South Africa, providing clean water to thousands of people. Such co-investment through FDI of institutional investors encourages scaling the available pool of capital, as local pension funds match foreign contributions.

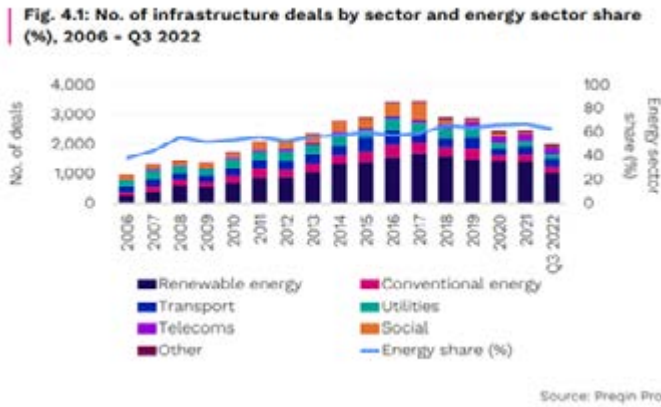
Another way is by investing in companies that produce water and sanitation technologies. Investments in innovative technologies such as water filtration systems, water-efficient toilets, and wastewater treatment plants can help improve access to clean water and sanitation services, especially in low-income countries. For example, CalPERS, the largest public pension fund in the US, has invested in companies producing water treatment technologies.

Finally, pension funds can encourage companies to improve their sustainability practices by investing in those that have strong ESG performance. Companies that prioritize sustainability are likely to have a positive impact on society and the environment and support SDG 6. Pension funds must use their influence as investors to encourage companies to adopt more sustainable practices and disclose their ESG performance.

During 2017, the Government Institutions Pension Fund of Namibia (GIPF) operationalized an extension of its responsible investment policy towards fund allocation by decisively targeting 5% of AuM to fund developmental investments within Namibia. This impact investments strategy has a strong emphasis on infrastructure development of which social infrastructure would comprise 30%.

Later in 2021 a decision was made to allocate 3% of AuM towards listed infrastructure in offshore markets. Throughout these allocations, totaling more than N\$6.89B committed capital, not a single investment has been made in the WASH sector. This situation is not unique to GIPF, it appears to be a global trend. In fact, Preqin's Global Infrastructure report for 2020 states that while infrastructure investments have grown by 350% in the last decade, only 1.9% of commercial financing went toward water and sanitation infrastructure specifically. Today the situation is no better, as depicted below. A large share of deals is concentrated on Energy and Telecoms.

ANOTHER CHALLENGE IS THAT WATER INFRASTRUCTURE PROJECTS ARE OFTEN SUBJECT TO LONG LEAD TIMES FROM CONCEPTION TO COMPLETION.



Preqin Global Report on Infrastructure 2023

Challenges in financing water

One of the major challenges in financing water infrastructure is the significant cost of building and maintaining water systems, including dams, pipelines, treatment plants, and other infrastructure. The costs of constructing these projects can be enormous and can often run into billions of dollars. Furthermore, since water infrastructure is often public, it can be subject to political, social, and environmental pressures that can make it difficult to secure financing.

Another challenge is that water infrastructure projects are often subject to long lead times from conception to completion. As a result, financing these projects can be challenging as investors may be hesitant to commit to long-term investments. Governments may prioritize other areas of investment, at the expense of water infrastructure.

Finally, financing water infrastructure can be challenging because of the complex nature of water systems. Water systems involve multiple stakeholders, including government agencies, private companies, and citizens, all of whom may have different priorities and interests. This can make it difficult to coordinate financing and to ensure that all stakeholders are adequately represented in the financing decision-making process.



# Economic importance of financing water infrastructure

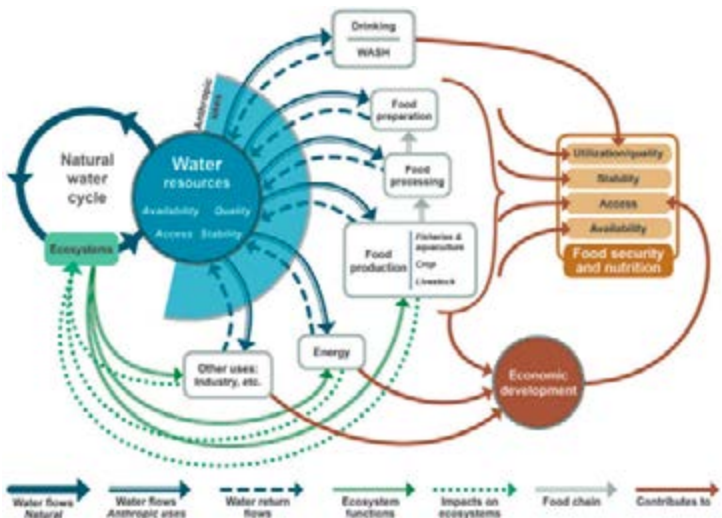


Figure 5 Online: [https://knowledge4policy.ec.europa.eu/publication/water-food-systems-nutrition\\_en](https://knowledge4policy.ec.europa.eu/publication/water-food-systems-nutrition_en)

One major reason water infrastructure is economically important is that it plays a pivotal role in the agriculture sector. However, without proper irrigation and access to water, crop yields reduce significantly, resulting in decreased revenue and economic growth. Thus, the development of a robust water infrastructure system is essential for farmers to access the necessary quantity of water for irrigation, consequently increasing productivity and revenue.

Another benefit is its impact on industry and manufacturing. It is used for heating, cooling, processing, and cleaning in several sectors and plays a central role in nearly all manufacturing activities. The availability of clean and consistent water supply is critical to the smooth operation of many companies, and any disruption to the provision of water can lead to halted production, lost revenues, and negatively impact the broader economy.

Additionally, water infrastructure projects require a diverse range of skilled professionals, from engineers and planners responsible for design and construction to technicians and workers responsible for maintenance and operation, thereby creating jobs.



**Much has been written about Africa’s role in the green hydrogen revolution, yet this sector requires significant amounts of pure water.** Countries such as Namibia, RSA and Egypt that benefit from high solar irradiance and land mass for renewable energy are spearheading green hydrogen, however these very countries, face significant water challenges.

Green hydrogen is produced using a process called electrolysis, which involves splitting water molecules into hydrogen and oxygen using an electrical current. This means that water is a key input to produce green hydrogen, and the availability and quality of water can affect the efficiency and cost of the process. In addition, the water used in the process must be of sufficient quality to prevent contamination of the hydrogen produced.

## Case studies Demonstrating the economic and social drawbacks of water and sanitation crisis

### Cape Town, RSA case study

We can all recall the water rationing and restrictions within Cape Town during 2015-2016. One of the main challenges within Cape Town is the limited availability of water resources, with the city’s main water source being dams that are dependent on rainfall. The prolonged drought that hit the region since 2015 has significantly reduced the dam levels to below 20%, leading to severe water shortages.

The city has thus implemented several measures to conserve water, which has helped manage the crisis, but they have also highlighted deep-rooted inequality as poorer communities are disproportionately affected by water restrictions and tariff hikes.

Another significant issue is the aging infrastructure and inadequate management of water systems. This has resulted in high levels of water losses, estimated to be around 37% of total water demand. In addition, the sanitation and wastewater treatment systems are also under pressure, leading to pollution and health hazards, especially in low-income areas.

Overall, Cape Town’s water challenges demonstrate the urgent need for proactive and sustainable water management strategies that consider climate change and social equity.



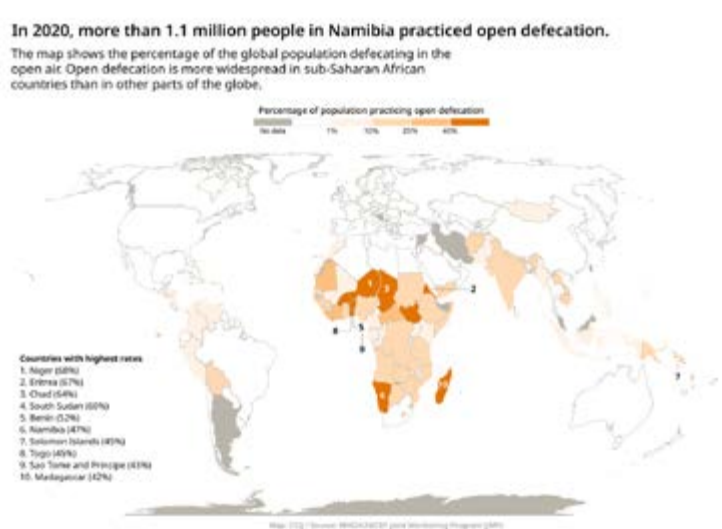
**Zambia case study**

Zambia heavily relies on hydropower generation and has faced challenges due to water shortages and droughts. Its main source of electricity comes from the Kariba Dam, which is shared with Zimbabwe and depends on water from the Zambezi River. In recent years, the country has faced severe water shortages due to erratic rainfall patterns caused by climate change. This has led to reduced water levels in the Kariba Dam, resulting in decreased power generation.

To address this challenge, Zambia has turned to alternative sources of energy such as solar power and coal-fired power plants. However, these sources are not enough to meet the country's electricity needs, and hydropower remains the primary source of energy. Zambia has also implemented measures to conserve water, such as promoting water-saving technologies in agriculture and industries and encouraging the use of energy-efficient appliances in households.



**Namibia case study**



According to the World Health Organization and UNICEF's Joint Monitoring Programme (JMP) 2020 data, Namibia ranks sixth for highest rates of open defecation in the world at 47 per cent. Less than half of the country's 2.5 million citizens use facilities that safely separate waste from human contact, while some 5% use inadequate facilities such as open pits, buckets and hanging latrines.

In a country where almost a third of citizens worry about where their next meal will come from, many can scarcely afford the 16,000 liters of extra water it costs to flush a toilet per person each year. The 2012 UN report on the rights to water and sanitation urged Namibia to promote dry toilets and warned on the misleading perception of dry toilets as being inferior. The report advised that communities should choose which sanitation technology suits their needs best.

The UN report further states that Namibia's sanitation deficit was not a lack of finances but a "lack of common vision", "prioritization", and an "absence of effective coordination among the different ministries and between central and local government". In 2023, these are still the biggest obstacles to improving sanitation. Urbanization and climate change are pushing back, escalating a crisis that threatens more death, disease, and contamination in the next decade. A lack of community involvement and participation or sanitation hygiene promotion activities is further reducing adoption rates.

AMONGST THE 66 DEATHS, 27 WERE MATERNAL DEATHS.



**Share of population practicing open defecation in Namibia compared to Botswana between 2000 and 2020.**

While Namibia's open defecation rates have seen a small decrease in rural areas, they have risen in urban areas.

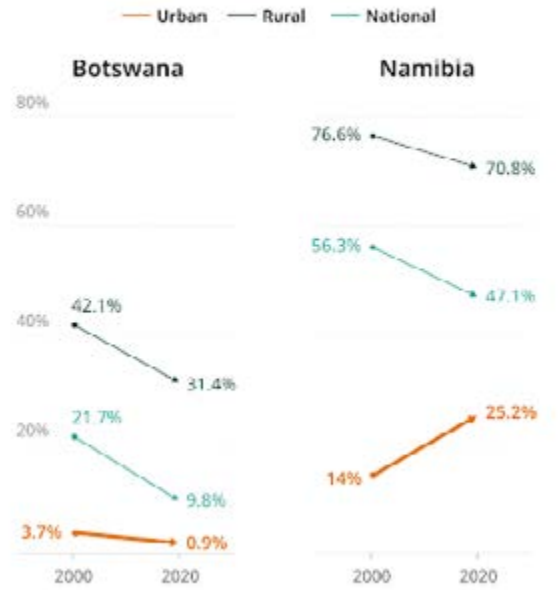


Chart: CCI / Source: WHO/UNICEF Joint Monitoring Programme (JMP)

These conditions put Namibians, especially children, at risk of deadly fecal-oral diseases and infections that cause diarrhoea, the second biggest killer of under-fives in the country, while sanitation-related deficiencies such as malnutrition and stunted growth are also prevalent. Let us not forget the 4-year long outbreak of Hepatitis E Virus (HEV) which affected 13 of the 14 political regions mainly in informal settlements and areas with poor hygiene and sanitation. According to WHO a cumulative total of 8 092 Hepatitis E cases were reported nationally as of 30 January 2022, of which a total of 66 HEV deaths have been reported nationally. Amongst the 66 deaths, 27 were maternal deaths. Education, dignity, and safety are in jeopardy, too. Girls' inability to manage their menstrual health on school premises that lack adequate sanitation leads to increased absenteeism, while Namibians risk rape, robberies and even wildlife attacks as they are forced to seek the privacy of the bush.

**Water reclamation, a Namibian example that should be replicated globally.**

All is not lost in Namibia, as Namibia is a shining example of water re use. Very few countries reuse water for safe drinking. Countries, such as Singapore and Namibia, are one of only 6 globally, who have implemented large-scale

recycling programs that supply a significant portion of their drinking water needs. Others, such as the United States, have limited reuse programs that supply only a small portion of their municipal water needs. Additionally, many countries do not reuse municipal wastewater for drinking purposes at all, relying instead on freshwater sources or desalination technology to meet their needs.

The Plant uses a multi-stage treatment process that includes physical, chemical, and biological methods and provides a reliable source of drinking water that is not dependent on rainfall or surface water sources. This is critical in a region that is prone to droughts and water scarcity. Secondly, the plant reduces the discharge of untreated wastewater into the environment, which can lead to water pollution and health hazards. Thirdly, the plant saves energy by using recycled water for industrial and agricultural purposes instead of relying on freshwater sources.

This model should be replicated across the country and adopted by other countries with similar water management challenges.





# INNOVATIVE MEANS TO FINANCE WATER INFRASTRUCTURE

The investment needs for financing water infrastructure across the water value chain are substantial. According to the United Nations, the world needs to invest \$114 billion per year to achieve universal access to safe drinking water and sanitation by 2030. Innovative financing can play a significant role in mobilizing the necessary resources and accelerating progress towards achieving sustainable water infrastructure.

Innovative financing can increase access to financing by attracting new sources of capital, reducing risks, and improving the efficiency of investments.

- 1 Green bonds are fixed-income securities that finance projects with environmental benefits, such as water conservation, management, and treatment. Green bonds are attractive to investors seeking to align their investments with environmental sustainability goals while generating a financial return.
- 2 PPPs bring innovative financing and management expertise, risk-sharing, and efficiency gains to public infrastructure projects. In water infrastructure, PPPs can improve the quality, reliability, and affordability of services, increase access to water, and reduce losses and inefficiencies in water supply and distribution systems.
- 3 Blended finance is another innovative financing mechanism that combines public and private funding sources to support water infrastructure projects. Blended finance structures can leverage the strengths of different financing actors to increase the scale and impact of projects. For example, blending grant funding with commercial loans reduces the risks associated with investing in water infrastructure projects and increases their attractiveness to private investors.
- 4 Water funds are financial mechanisms that pool resources from public and private investors to finance water conservation and infrastructure projects.
- 5 Microfinance institutions can provide small loans to households and small businesses to finance their water infrastructure needs, such as installing rainwater harvesting systems or water-efficient appliances.
- 6 Results-based financing is a financing mechanism that rewards outcomes or achievements rather than inputs or outputs and aligns financial incentives with environmental and social outcomes. It can be used to incentivize behavior change, such as reducing water use or improving water quality by targeting specific results.





## Technology

Technology can play several crucial roles in overcoming barriers to implementing innovative financing solutions for water infrastructure:

1. Mobile payment systems can create new opportunities for financially underserved populations to participate in water infrastructure projects. They provide a means to securely transfer funds, even in remote regions where traditional banking services are limited.
2. Blockchain technology can be used to provide secure and transparent transaction records for water infrastructure investments. It can help reduce the risks associated with fraud, corruption, and mismanagement.
3. Internet of Things (IoT) sensors can be used to monitor water use, detect leaks, and optimize the use of water resources. This technology can help reduce wastage and improve water conservation, which can lead to cost savings and increased access to financing.
4. Artificial intelligence (AI) algorithms can simulate and model different financing scenarios, enabling stakeholders to make strategic decisions about investments in water infrastructure. AI can also be used to analyze user data, identify patterns, and predict trends, which can help lenders and policymakers manage risks more effectively.

Technology can also drive efficiency; sufficiency and sustainability by integrating innovative technologies such as sensors; smart water metering; information systems; data acquisition and decision support systems.

## Collective Action by All

“Water footprinting” is becoming a popular way of understanding the total water input to consumer products such as beverages, food, and clothes. Just as the carbon footprint concept has assisted businesses and consumers in understanding the level of greenhouse gas emissions created by their activities, so water footprinting is creating awareness of how and where this precious resource is used. Organisations like SAB Miller and WWF are pioneers in this space. **I believe water footprinting to be the quest for the missing shoe that changed Cinderella’s life from rags to riches. This indicator is a yardstick for reducing water use and may crowd in private sector funding due to opportunities such as water tax offsets.** Guilty corporations may offset their footprints by funding water initiatives elsewhere.

## Asset Managers

WaterEquity is one of the first asset managers exclusively focused on solving the global water and sanitation crisis. They provide debt capital to financial institutions in emerging markets to help scale their water and sanitation microloan portfolios. These microloans then enable low-income consumers to install water and sanitation solutions in their homes, such as a water connection or toilet, leading to improved health outcomes, educational opportunities, and economic security.

Economists estimate that there is a \$1 trillion market opportunity for providing water and sanitation services to all people worldwide by 2030. Among emerging consumers, the market potential is \$18 billion, with at least 600 million people lacking access to safe water and sanitation ready to be reached if microloans were available. (Online: [waterequity.org](http://waterequity.org)) There’s a huge gap for water and sanitation enterprises, too, with up to two-thirds of small and medium-sized enterprises in emerging markets either unserved or underserved by financial institutions.

## Emerging independent water producers

During 2015 GIPF hosted an investment forum on water with various investment bankers in attendance to assess the infrastructure needs of Namwater. Fast forward 8 years later, after interventions to ensure a transaction advisor is appointed for guidance in the use of a PPP approach for funding a water desalination plant at the coast, we have yet to hear the outcomes of the feasibility study. It is therefore not enough to rely on large-scale infrastructure. Interventions at the level of growth companies to address non-revenue at local authorities due to leakages will go a long way.

A 2022 study by the Water Research Commission (WRC) of South Africa advocates that an alternative approach would be to develop a single off-taker with sovereign guarantees to purchase water on behalf of waterboards and Water Service Authorities from Independent Water Producers at scale, for distribution into the networks and free up water upstream in the value chain. This would require institutional restructuring at a national level. These considerations into the decentralization of the water sector are critical to unlock the scale of innovative financing and technology adoption.



## Going forward

Fortunately, at GIPF, we are finally seeing deal pipelines addressing this sector and better yet, within the private equity mandates there have been allocations to growth companies operating along the water grid value chain.

Water, a precious resource, has for far too long been treated with the same disregard that the Ugly Sisters and their Wicked Stepmother reserved for Cinderella, that needs to change, and it starts with accelerating the implementation of the SDG 6 targets. We must all foster collective action from all stakeholders applying good governance; innovative financing; technology; community participation and political will.



# IMPACT INVESTING AND SUSTAINABLE DEVELOPMENT AT OLD MUTUAL INVESTMENT GROUP NAMIBIA (PTY) LTD



TOMMY K. MBUNDU

**TOMMY K. MBUNDU** is a fixed income Portfolio Manager at Old Mutual Investment Group Namibia.

## KEY TAKEOUTS

- Global temperatures may increase to more than 1.5 degrees in the next 5 years
- As a Group, we adhere to the Old Mutual Group Responsible Investing (RI) Policy
- the Walvis Bay Joint Residents' Association (WBJRA) indicating that the coastal town is suffering from severe water shortages

The World Meteorological Organization (WMO) recently issued a report stating that heat-trapping greenhouse gases and a naturally occurring El Niño event may increase Global temperatures to record levels in the next five years and exceed the 1.5°C limit that was set by the Paris Agreement, with the goal to prevent global climate crises.

Research has also shown that the Caspian Sea and Lake Titicaca has been evaporating at a rate of 17 times more than that of the largest reservoir in the US, Lake Mead. The linchpin to this loss in water levels was cited to come mainly from unsustainable human use, changes in rainfall and run-off, sedimentation, and rising temperatures. According to the Engineering News, around 53% of lakes showed a decline between 1992 and 2020, affecting nearly two billion people.

Bringing it back home, we also saw the Walvis Bay Joint Residents' Association (WBJRA) indicating that the coastal town is suffering from severe water shortages because of technical issues and the growing water demand from the local mines, with the 2021 NamWater integrated report citing that their water consumption has already far exceeds the sustainable limit of the Kuiseb aquifer.

The prelude above show that sustainability issues are not only a global phenomenon, but ones that are also relevant to our beautiful country. This article serves to demonstrate how Old Mutual incorporates its investments processes and philosophy around Impact Investing and Sustainable Development as well as how our beliefs around this matter benefit our clients.

As a Group, we adhere to the Old Mutual Group Responsible Investing (RI) Policy which draws on the principles of the Code for Responsible Investing in terms of the United Nations backed Principles for Responsible Investment (UNPRI).

## OUR RI POLICY THEREFORE COMMITS US TO:

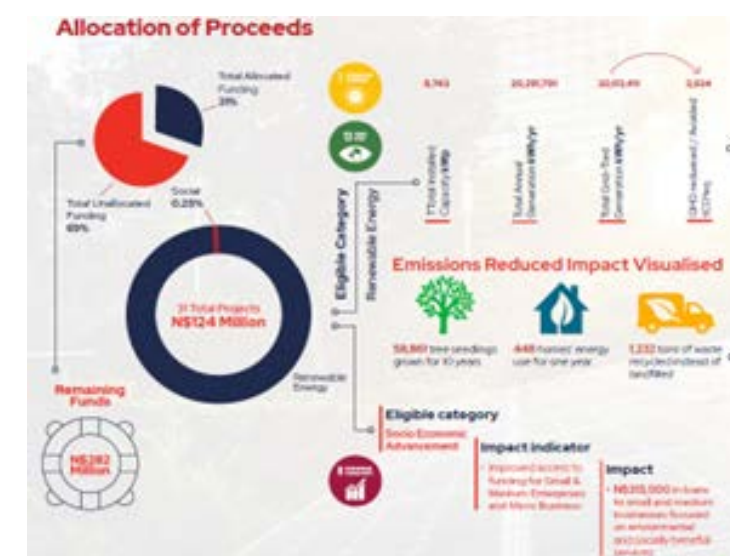
- 1 The consideration of material ESG issues when making investment and ownership decisions;
- 2 Responsible stewardship of clients' assets by engaging with investee companies on their ESG practices and voting at company meetings;
- 3 Supporting industry RI initiatives and contributing to RI thought leadership across the financial services sector and;
- 4 Public disclosure on our RI policies and practices

## THE OLD MUTUAL INVESTMENT GROUP NAMIBIA (PTY) LTD (OMIGNAM) CREDIT RISK COMMITTEE WORKS HAND IN HAND WITH OUR PORTFOLIO MANAGERS TO REVIEW PRE- AND POST- EXPOSURES, TO:

- 1 Assess and monitor material ESG risks across clients' portfolios;
- 2 Engage with companies on material ESG issues and;
- 3 Engage on key public policy issues to help build resilience in the marketplace.

Our active management disposition therefore helps us to identify and decide on RI and ESG factors. The investment team actively seeks to identify issues that may materially impact the long-term value of a company or sovereign and actively engage with management on these issues.

We have literally “put our money where our mouth is”, as is demonstrated by our recent investment in the Bank Windhoek Green and Sustainable bond. In this venture we managed to address issues on impact investing and sustainable development whilst also yielding attractive returns for our clients as we saw very attractive returns during the tenures on both exposures. Old Mutual understands that its stakeholders and their respective control environments are all subject to the confines of ESG principles and we thus try our best to invest accordingly.



Bank Windhoek sustainability Report 2022



Bank Windhoek sustainability Report 2022



# WHAT HARNESSING “THE POWER OF THE SUN” CAN MEAN FOR NAMIBIA, BY EXPLORING THE BENEFITS OF SOLAR IN NAMIBIA



CHRISTOFF  
BAUERNSCHMITT

CHRISTOFF BAUERNSCHMITT is Head of Alternative Investments, Old Mutual Investment Group Namibia

**KEY TAKEOUTS**

- Namibia is blessed with one of the highest solar irradiation levels in the world
- The solar sector in Namibia has become a catalyst for economic empowerment and job creation.
- By generating electricity from solar power, Namibia can stabilize its energy supply

Namibia is well known for its breathtaking landscapes and vast natural resources, whilst being blessed with an abundance of sunlight throughout the year. This gives way to its huge potential for shifting towards solar energy and adoption of other renewable energy sources that can be utilised in Namibia. As the world moves more and more towards renewable energy sources, this article explores the various benefits of solar power in Namibia, as well as highlighting how it has transformed the country’s energy landscape and contributed to sustainable development here to stay.

## 1. Abundant Solar Resource

Namibia is blessed with one of the highest solar irradiation levels in the world, receiving an approximate average of 3,600 hours of sunlight per year. This abundant solar resource provides an exceptional opportunity for harnessing renewable energy like solar. By leveraging this natural advantage, Namibia have started its journey to significantly reduce its dependence on fossil fuels, thus mitigating the impact of climate change and contributing to global efforts to combat greenhouse gas emissions. According to the Electricity Control Board (ECB) annual report of 2022, Capacity of the generation licenses for solar amount to approximately 164 (MW), thus representing 9% of the energy resource from solar and 23% from Hydro (Ruacana) of the total national electricity supply.

## 2. Energy Independence and Security

Namibia, like many countries in the region and African continent, heavily relies on fossil fuels to meet its energy demands. This dependency leaves the country vulnerable to fluctuating fuel prices and undermines energy security, as the majority of these fossil fuels needs to be imported. Solar energy offers a viable alternative by enabling Namibia to reduce its reliance on fossil fuel imports and thus achieve more energy independence. By generating electricity from solar power, Namibia can stabilize its energy supply, enhance grid resilience, and reduce vulnerability to geopolitical uncertainties, especially if correctly combined with Wind and Hydro power generation, within the foreseeable future.

## 3. Solar to act as an Economic Empowerment and Job Creation

The solar sector in Namibia has become a catalyst for economic empowerment and job creation. The list of current operational IPP’s (independent power producers) for solar were already 20 licensees, with the installed capacity of approximately 164 (MW). Through these constructions and maintenance of these solar power plants, along with associated industries such as manufacturing, other and pipeline installations, have created a significant number of employment opportunities. Local communities have benefited from these job creations, skills development, and increased economic activity, which lead to overall improved livelihoods in Namibia. Another very important point is, that the solar industry attracts foreign direct investment, driving economic growth as well as assisting to more diversification.

## 4. Rural Electrification and Energy Access

Namibia has a substantial rural population that lacks access to reliable electricity. This creates the opportunity of deploying solar power as an effective solution for rural electrification, as it can be deployed in off-grid and mini-grid systems. By installing such solar panels in remote areas, Namibia can extend electricity access to underserved communities, thus empowering them with better education, healthcare, and improve economic opportunities. This will also stem the tide of faster urbanisation as Solar then acts as a conduit as the supply of energy will assist to bridge the economic gap and fosters inclusive development across the country.

NAMIBIA IS BLESSED WITH ONE OF THE HIGHEST SOLAR IRRADIATION LEVELS IN THE WORLD, RECEIVING AN APPROXIMATE AVERAGE OF 3,600 HOURS OF SUNLIGHT PER YEAR.



## 5. Environmental Sustainability

As solar energy is a clean, renewable source of power that produces zero greenhouse gas emissions during operation. Thus, Namibia can significantly reduce its carbon footprint through the expansion of solar across the country, whilst being highly suited for such further development. The increased investment in solar will assist with the replacing of fossil fuel-based electricity generation, which will further contribute to the global climate goals, and open possible further selling opportunities of carbon credits or off-sets, for other countries, whilst ensuring stable power supply in Namibia. Furthermore, solar installations have minimal environmental impact and can be integrated into existing infrastructures, including buildings, without significant land use requirements, which is in abundance throughout Namibia. Through embracing solar energy Namibia’s aligns its development trajectory with sustainable practices, through promoting a greener and cleaner future, which again is a very topical point worldwide.

## 6. Conclusion

Namibia’s abundant solar potential as a “bankable” resource has now we believe paved the way for more sustainable energy revolution in the country. Solar power not only taps into Namibia’s natural ability, but also offers numerous benefits. From energy independence, economic development, empowerment and environmental sustainability, solar energy will play a vital role in shaping Namibia’s future. By capitalizing on power that solar power has, Namibia can diversify its energy mix, reduce carbon emissions, create jobs, and achieve sustainable development, setting an example for the region and becomes the pinnacle show case for the world.



# ESG MATTERS



MARTIN SCHURTZ

MARTIN SCHURTZ is an Equity Portfolio Manager at Old Mutual Investment Group

## KEY TAKEOUTS

- Our Proxy Voting Policy guides our approach
- At OMIGNAM we report on ESG ratings in our quarterly report
- We strive to incorporate tools in our investment decisions that support good practices which we believe are the cornerstone of long-term shareholder value.

For us all to have a sustainable future for many years to come as investors we need to do our part as well and encourage support for long term social and economic sustainability and responsible and ethical governance of entities we fund and invest.



AT OMIGNAM WE REPORT ON ESG RATINGS IN OUR QUARTERLY REPORT TO BE AS TRANSPARENT AS POSSIBLE AND OUR CLIENTS CAN SEE HOW THE FUND IS STRUCTURED IN TERMS OF ESG RATINGS EXPOSURE.



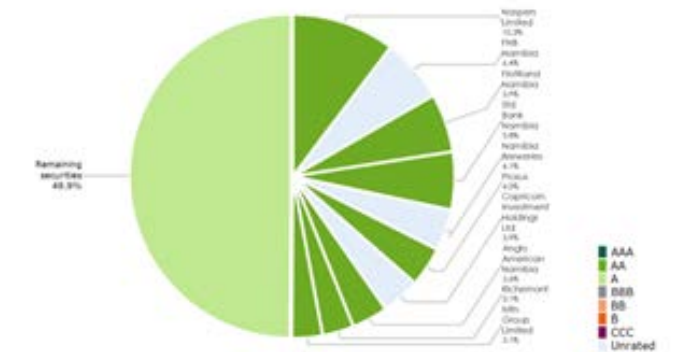
Through active proxy voting we can have an impact and help drive the companies to join this journey. Each listed equity share that is held in our portfolios will be voted on on behalf of clients with strict guidelines to ensure support for the Environmental, Social and Governance journey. Old Mutual Investment Group Namibia (OMIGNAM) abides to the Proxy Voting Policy contained in the Listed Equity Stewardship guidelines. At OMIGNAM, we see Listed Equity Stewardship as additive to our pursuit of superior risk-adjusted returns, central to our professional and fiduciary commitment to clients and part of our commitment to being a responsible investor.

Our Proxy Voting Policy guides our approach to proxy voting and sets out our expectation of the governance behaviour of investee companies. Therefore, we use proxy voting as a tool to support good ESG practices which we believe are the cornerstone of long-term shareholder value.

At OMIGNAM we report on ESG ratings in our quarterly report to be as transparent as possible and our clients can see how the fund is structured in terms of ESG ratings exposure.

We strive to incorporate tools in our investment decisions that support good practices which we believe are the cornerstone of long-term shareholder value. In addition, we are in contact with companies prior to voting, and if needed, we would also formally address concerns after casting our vote. This way we are helping to contribute towards a better future for all.

ESG SECURITY EXPOSURE





# THE CLIMATE IS CHANGING, AND SO IS THE WORLD BANK



JAMES SEWARD

**James Seward** is a Senior Financial Officer in the Capital Markets and Investments team of the World Bank Treasury.

## KEY TAKEOUTS

- **World Bank’s Climate Focus:** Long-term commitment to climate-resilient development.
- **Record Climate Finance:** Provided \$31.7 billion in FY2022, tripling investments in 6 years.
- **Green Economy Transition:** Emphasis on renewables, forestry, methane reduction, clean cooking, and more.
- **Innovative Finance:** Pioneering sustainability and wildlife bonds, creative capital market solutions.
- **Climate Risk Management:** Tools for screening, GHG accounting, shadow pricing for resilience.
- **CCDR Reports:** 25+ reports guide climate action worldwide.
- **Paris Alignment Priority:** Ensuring projects align with Paris Agreement goals since July 1, 2022.

The World Bank’s journey to integrate climate into its development programs began decades ago and has evolved to support developing countries dealing with climate change’s intensifying impacts. From phasing out fossil fuels to developing new diagnostics that drive climate action at the country level to issuing innovative sustainability bonds to ensuring operations are Paris-aligned, the Bank’s ambition is to meet the double test of being sharply focused on the core development mandate of poverty reduction and tackle at the same time the most pressing global challenges of which climate is perhaps the most prominent. This requires effective partnerships with the countries affected, the private sector, and development partners.

1.Article adapted from World Bank, Climate Change and Paris Alignment: “The Climate is Changing, and So Are We,” March 17, 2023, <https://blogs.worldbank.org/voices/climate-change-and-paris-alignment-climate-changing-and-so-are-we>.

2.The Evolution Roadmap, which was publicly disclosed in January 2023, and information about the Roadmap and the consultation process can be found at: <https://consultations.worldbank.org/en/consultations/detail/roadmap>

The World Bank is consistently scaling up our climate action: the World Bank – both IBRD and IDA - delivered a record \$31.7 billion in climate finance in fiscal year 2022 (July 1, 2021, to June 30, 2022). As the world’s leading provider of climate-related development finance, the Bank has more than tripled climate financing to clients over the past 6 years. With this finance, the Bank is moving from greening projects to greening entire economies, scaling up renewables, supporting fossil fuel subsidy reforms, investing in large-scale forest management programs, reducing methane in sanitation and waste, broadening access to clean cooking, fostering climate-smart agricultural practices, and helping clients to tap green value-chains. The Bank is helping to transform cities to be cleaner and infrastructure to be greener, strengthening coastal area resilience and supporting clients to green the financial system and tap growing carbon markets. In addition, the expansion of financing to sub-national borrowers, including national development banks, utilities, and others, is being explored as another avenue of the climate finance agenda. More innovations are yet to come through the Evolution Roadmap, which is a process to evolve the World Bank’s Vision and Mission, Operating Model, and Financial Capacity.

In addition to financial innovations, the World Bank transformed the investment approach. This shift resulted in new projects, such as recent loans to help close coal-fired plants like the Bank did with the Komati project in South Africa. In parallel, the Bank is championing the renewable agenda: renewable energy is always the World Bank’s first resort when considering energy investments. In the last few years, the World Bank has invested more than \$8 billion in clean energy, renewable energy access, and related infrastructure and catalyzed over \$20 billion in private investments in renewable energy generation capacity. Meanwhile, the Bank is helping around 48 million people to access cleaner, more efficient cooking and heating. The Bank assesses natural gas investments on a case-by-case basis, but investments have been rare and only where there is a compelling development case where cleaner options are not feasible to provide energy for homes, hospitals, and schools.

## IN ADDITION TO FINANCIAL INNOVATIONS, THE WORLD BANK TRANSFORMED THE INVESTMENT APPROACH.

As a borrower, the World Bank issued the world’s first green bond in 2008, creating a blueprint for sustainability across markets. Today, the Bank is the largest issuer of sustainability bonds globally, mobilizing over \$50 billion each year from private investors to finance activities supporting the Sustainable Development Goals (SDGs). The Bank continues with innovations in the capital markets, with the world’s first wildlife conservation bond in 2022, which connected





investors directly to wildlife protection outcomes in South Africa, and an emission reductions-linked bond in 2023, which helped finance water purifiers for schools in Vietnam. The Bank's catastrophe bonds provide insurance against natural disasters to boost financial resilience in countries like Chile, Jamaica, Mexico, and the Philippines. The Bank is also innovating to mobilize new sources of financing for clients to meet their ambitious climate investment targets. This work includes creating new blended finance structures and funds for climate, new financial products, such as performance-based financing and sustainability-linked loans, and new solutions to mitigate climate risks at project and country levels, including fast disbursing contingent financing products.

The Bank is working hard to sharpen the climate toolbox at the project level. The World Bank has a suite of Climate and Disaster Risk Screening Tools, which help to 'climate proof' every project by better accounting for future conditions so that the financing to countries remains resilient over time. The Bank does GHG accounting for all projects in relevant sectors, which helps to design lower-carbon projects and quantify the emissions from World Bank-financed operations. The Bank also measures the shadow price of carbon in the economic analyses of such projects to better understand the costs and benefits of investments and alternatives. Every day, hundreds of Bank staff around the world apply these tools to support clients in integrating climate and development on the ground. Through these efforts, the World Bank will remain at the frontier of knowledge and innovation as part of the global effort to tackle catastrophic climate change.

The most recent step in the World Bank's journey was the launch of the Country Climate and Development Reports – or CCDRs. Last year, the institution developed these new reports to bring together the latest data and analysis to prioritize the most impactful actions to deliver on development in a changing climate. CCDRs have been completed in more than 25 countries and are now used with clients to implement those recommendations. The IMF also uses these CCDRs as analytical underpinning from their own Resilience and Sustainability Trust lending, as are other development partners, demonstrating how CCDRs are already shaping climate action worldwide. A further 20 CCDRs are now ongoing in countries across the globe

The next step on this journey is Paris Alignment. The World Bank has long been committed to the goals of the Paris Agreement and, as agreed in the Climate Change Action Plan, as of July 1, 2022, every Bank operation will be vetted to ensure its alignment with the goals of the Paris Agreement. Paris Alignment is essential, as it keeps the focus on containing the warming of the earth to well below 2 degrees, and preferably 1.5 degrees Celsius, while achieving sustainable development and ending poverty. To do so, everybody, including the World Bank Group, has to align and do its share – and the large emitter countries have a special responsibility to step up their efforts to decarbonize. As part of this collective effort, the World Bank partnered with other multilateral development banks (MDBs) to develop a joint MDB Paris Alignment approach, which will be disclosed soon .

Paris Alignment must be lived, and as such, the World Bank sees this in a dynamic way of learning, adjusting, and improving all work and financing on climate and development. The climate is changing, and so is the World Bank.





# IMPACTING OUR COMMUNITIES, GROWING OUR CLIENTS' WEALTH



LIONEL KANNEMEYER

LIONEL KANNEMEYER is Managing Director at Old Mutual Investment Group Namibia

## KEY TAKEOUTS

- **SDG Financing Urgency:** OECD notes a \$4.2 trillion gap for SDGs by 2030.
- **Investment Opportunity in Africa:** Old Mutual focuses on infrastructure, education, healthcare, and agriculture in Namibia.
- **25 Years of Commitment:** Old Mutual addresses challenges through alternative investments with over N\$2.5 billion AUM.
- **Positive Outcomes Drive:** Aligning investments with SDGs, focusing on community impact and economic growth.
- **Strict Compliance:** Adherence to Namibian laws and international ESG standards in all investments.
- **Dual Objectives:** Generate long-term returns while contributing to Namibia's infrastructure and built environment.
- **Strategic Investments:** Infrastructure, commercial property, land servicing, and affordable housing, with a focus on local participation.
- **Measurable Impact:** Over 2,000 serviced erven, 1,000 houses built, and 26.5MW renewable energy generation capacity since 2004.

[www.oecd.org/dev/OECD-UNDP-Scoping-Note-Closing-SDG-Financing-Gap-COVID-19-era.pdf](https://www.oecd.org/dev/OECD-UNDP-Scoping-Note-Closing-SDG-Financing-Gap-COVID-19-era.pdf)

It's a race against time, as we are only seven years away from the 2030 target to achieve the Sustainable Development Goals (SDGs). According to the Organisation for Economic Co-operation and Development (OECD), there is a US\$4.2 trillion funding gap needed to achieve these goals. With over 80% of financial assets being held in advanced economies, the OECD estimates that "Shifting only 1.1% of global financial assets toward SDG financing needs in developing countries would be sufficient to fill the US\$ 4.2 trillion gap".

## OLD MUTUAL INVESTMENT GROUP HAS SPENT OVER 25 YEARS ADDRESSING THESE CHALLENGES THROUGH INVESTMENTS DIRECTED AT THE STRUCTURAL, SOCIAL AND ENVIRONMENTAL CHALLENGES IN AFRICA.



Given the urgency, and global commitment to meeting the SDGs, we anticipate increased investment in emerging markets, specifically in infrastructure, education, healthcare and agricultural development. Considering its rapidly growing and urbanising population, coupled with its resource wealth, we believe that Africa (and Namibia, in particular) presents a tremendous opportunity for investors. However, we appreciate the many challenges that come with these opportunities, including growing youth unemployment (exacerbated by skills gaps), housing shortages, and inadequate access to secure energy generation and sanitation.



Old Mutual Investment Group has spent over 25 years addressing these challenges through investments directed at the structural, social and environmental challenges in Africa. As the largest asset manager in Namibia, with over N\$50 billion in assets under management, our commitment and passion to bettering the lives of our people also led to us becoming one of the first alternative investment managers in the country – investing directly in infrastructure, private equity, commercial property and affordable housing. Since 2004, we have grown our alternative investments business to over N\$2.5 billion in assets under management.

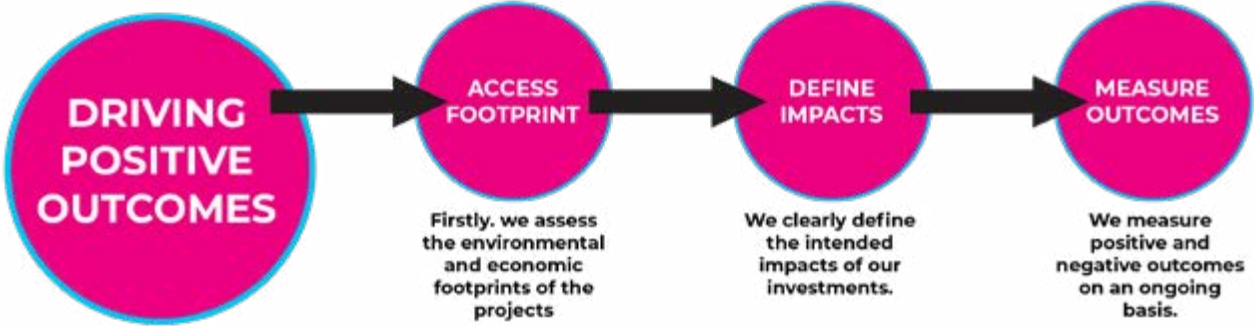
In allocating capital, we look for ways to make a meaningful economic and social impact through our investments, while ensuring our clients receive market-related returns. We do this through investments that contribute to an inclusive and equitable society, while improving economic opportunities (through job creation, community regeneration and developing economic nodes).

We believe if we are to make a real and lasting impact on Namibian communities and our investors, we need to collaborate with government, other investors and local communities through private & public sector partnerships. Together, we can achieve many of the goals that have been earmarked in our National Development Goals.



## Our approach to driving positive outcomes

Our commitment to being responsible investors is central to our investment objectives. We are driven by a desire to create positive futures for communities and deliver sustainable, superior risk-adjusted returns for our clients. We use the SDGs as a framework to drive positive outcomes.



All our investments are made in strict compliance with Namibian laws, including environmental laws. We also strive to implement international standards and best practices pertaining to environmental, social and governance (ESG) issues.

## Our objectives

Our funds generally have a dual objective of generating long-term commercial returns for investors, while making a tangible contribution to Namibia's infrastructure and built environment. Our view is that investment returns become more meaningful if the capital can be deployed in a way that improves the everyday lives of Namibians.

WE AIM TO DELIVER CONSISTENT, COMPETITIVE RETURNS TO INVESTORS AND CREATE LONG-TERM POSITIVE IMPACTS IN THE COMMUNITIES AND ENVIRONMENTS IN WHICH WE LIVE AND INVEST.

## Our investments

We deploy the capital in our funds to build the houses, schools and thriving businesses that our communities need, as well as to provide essential infrastructure. We focus our investments on areas where we believe we can have the biggest impact. This includes:

- INFRASTRUCTURE that focuses on energy generation and transmission, information and communications technology (ICT), access to water, education and healthcare.
- COMMERCIAL PROPERTY that provides essential services. For instance, shopping malls in regional nodes or rural centres and transport and logistics facilities.
- LAND SERVICING and affordable HOUSING.

Where possible, we seek to include local participation in our projects. This is done through community ownership, sourcing labour and materials locally, and providing upskilling opportunities.

Key focus areas in assessing and monitoring investments include:



## Our impact

We measure our investments against their expected impact, including in how they address certain of the United Nations Development Programme goals.

|  |                                                                                                                     |
|--|---------------------------------------------------------------------------------------------------------------------|
|  | <b>2000+</b><br>serviced erven                                                                                      |
|  | <b>1000+</b><br>houses built                                                                                        |
|  | <b>26.5 MW</b><br>renewable energy generation capacity (since 2004)                                                 |
|  | <b>EDUCATION FACILITIES</b><br>Walvis Bay, Windhoek, Nkurenkuru                                                     |
|  | <b>MEDICAL FACILITIES</b><br>Ongwediva, Rehoboth                                                                    |
|  | <b>SHOPPING MALLS</b><br>Arandis, Keetmanshoop, Rehoboth, Grootfontein, Windhoek, Ondangwa, Oshakati, and Oshikango |

Data from 2004 - 2023



**FOR MORE INFORMATION**  
PLEASE EMAIL YOUR DETAILS TO:

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or for existing customers,  
call the Old Mutual Call Centre on **061 239 513/522**

visit our website at  
**www.oldmutual.com.na**

Inquiries email address:  
**OMNAMTRANS@oldmutual.com**

**ALTERNATIVELY, YOU ARE WELCOME TO**  
**CONTACT YOUR FINANCIAL ADVISER**  
**OR ACCREDITED BROKER FOR FURTHER**  
**INFORMATION.**

### **IMPORTANT LINKS**

#### **Money Market Fund**

<https://www.oldmutual.com.na/om-docs/bltb9e5a6cf4417d05b/namibiamoneymarketfund.pdf>

#### **Corporate Fund**

<https://www.oldmutual.com.na/om-docs/blt52095f11f743fcb7/OldMutualNedNamibiaCorporateFund.pdf>

#### **Income Fund**

<https://www.oldmutual.com.na/om-docs/blt817758302e83ea0f/OldMutualNamibiaIncomeFund.pdf>

#### **Dynamic Floor Fund**

<https://www.oldmutual.com.na/om-docs/blt5aa5efdafc005949/OldMutualNamibiaDynamicFloorFund.pdf>

#### **Enhanced Income Fund**

<https://www.oldmutual.com.na/om-docs/bltab8923f9cbec4665/OldMutualNamibiaEnhancedFund.pdf>

#### **Managed Fund**

<https://www.oldmutual.com.na/om-docs/blt96bb9150285b7c98/OldMutualNamibiaManagedFund.pdf>

#### **Real Income Fund**

<https://www.oldmutual.com.na/om-docs/blt6edd09d6a18843cc/OldMutualNamibiaRealIncomeFund.pdf>

#### **Growth Fund**

<https://www.oldmutual.com.na/om-docs/bltdab7032ce3cb9f8b/OldMutualNamibiaGrowthFund.pdf>

#### **Property Fund**

<https://www.oldmutual.com.na/om-docs/blt2093c85fb5d25aed/OldMutualNamibiaPropertyFund.pdf>