1. Introduction to *Sustainable and Responsible Investment in Developing Markets*

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INTRODUCTION

Sustainable and responsible investment (SRI) refers to investment strategies and philosophies that attempt to incorporate environmental, social and governance (ESG) concerns into investment decision-making. It focuses on how to integrate ESG issues into investment portfolios. There are a number of different motivations for SRI, including personal values and goals, institutional mission, and the demands of clients, constituents or plan participants. Sustainable and responsible investors focus on financial performance, but they also believe in using these investments to promote ESG practices. They may engage in investments in areas such as development loan funds or clean technology, which can provide important societal or environmental benefits. Some investors adopt sustainable investment strategies to manage risk and fulfil fiduciary duties. Such investors review ESG criteria when assessing the quality of management and the likely resilience of their portfolio companies to addressing future challenges. Others also seek financial outperformance over the long-term horizon.

Many terms have been used over the years to describe the idea of incorporating ESG issues in investment fund management, including community investing, ethical investment, socially responsible investment, responsible investment, green investment, impact investing and values-based investing. The specific meanings of these concepts tend to overlap, and many have specific significance for different industry players. The UK Social Investment Forum (UKSIF) defines SRI as ‘investment which combines investors’ financial objectives with their commitment to social justice, economic development, peace or a healthy environment’ (SRIConnect, 2022, n.p.). The European Social Investment Forum (Eurosif) also defines SRI as ‘investment which combines investors’ financial objectives with their concerns about social, environmental and ethical (SEE) issues’ (ibid.). In the view of the SRIConnect network, SRI is ‘investment which meets the needs of the current generation without compromising the ability of future generations to meet their own needs’ (ibid.). This latter definition aligns SRI closely with the concept of sustainable development (SD) as defined by the Brundtland Commission in 1987 (World Commission

The field of SRI seems to be growing so fast that such a broad-based term may best be understood in terms of how it is currently being applied. SRI is seen as an approach to investment that clearly recognizes the importance of ESG factors, as well as the long-term health and stability of the market as a whole. It recognizes that generating long-term sustainable returns depends on stable, well-functioning and well-governed social, environmental and economic systems. SRI is also regarded as an investment discipline that applies ESG criteria to generate long-term competitive financial returns and positive societal impact. In summary, SRI can be described as investment that creates long-term social, environmental and economic (sustainable) value. That is, it is investment that combines financial and non-financial value creation, or that appropriately prices social, environmental and economic risk (Ziolo and Sergi, 2019). Clearly, there is no single approach to SRI, and therefore, as indicated earlier, there is no single term to describe it.

PURPOSE OF THE BOOK

The subject of SRI is gaining much importance, but scant material has been documented in the area. In fact, very few books on the area exist. To the best of the editor’s knowledge, no book on SRI exists that focuses on developing markets like Africa. The essence of this edited volume, therefore, is to provide a comprehensive review and discussion of the subject. It will be a valuable resource for students, researchers and governments/policymakers interested in promoting and regulating SRI activities. Practitioners working in impact investing, banks, investment firms, fund management, and firms interested in SRI will also find this book very useful.

This companion brings together scholars working on developing countries to look at various aspects of SRI. The issues covered in the book include the evolution, principles and concepts of SRI; challenges and impact of SRI; impact investing; long-term responsible investment (RI) and corporate social responsibility (CSR); corporate governance and sustainability ethics; the rise of fiduciary capitalism; sustainable development (SD); sustainable financing; climate finance; sustainable banking; sustainable risk financing and insurance; sustainable private equity and venture capital; crowdfunding and sustainable enterprises; sustainable and responsible tourism; sustainable real estate development; sustainable and responsible agricultural investment; sustainable and responsible mining investment; sustainable and responsible energy investment; SRI portfolio construction and asset selection; valuation of sustainable investments; COVID-19 pandemic and SRI; and regulation of SRI. The book will be a valuable resource and serve as a reference material for students, researchers and practitioners.
AN OVERVIEW OF THE CHAPTERS

Part II: Evolution, Principles and Impact

In Chapter 2, Joshua Yindenaba Abor, Benjamin Agyeman and Mary Wamaitha discuss the evolution, principles and concepts of SRI. The chapter takes a look at what SRI is all about by identifying its various forms, including ethical investing; socially responsible investing; ESG; sustainable investing; green investment; impact investing; and shareholder engagement. It discusses the evolution and principles of SRI, including the launch of the Principles for Responsible Investment in 2006, to which signatories committed themselves. The chapter also covers SRI strategies, value creation of RI, determining the size of the SRI market and SRI in emerging markets.

Chapter 3 presents an overview of the drivers and challenges of SRI in developing economies. In this chapter, Lordina Amoah, Dennis Venunye Hehetror, Richard Kotey and Olagunju Ashimolowo seek to examine the key drivers propelling the growth of SRI in developing countries. In addition, they discuss some challenges that confront SRI growth and proffer some recommendations for policy attention aimed at promoting SRI. Generally, they indicate that SRI not only facilitates the transition to a greener and more resilient economy grounded in social justice and inclusivity, but also enhances the financial benefits to individuals and firms by making investments and businesses more sustainable. However, while developed economies have made significant strides in the SRI space, the same cannot be said for developing economies. This may be attributed to the series of financial crises, natural catastrophes and social issues, and the launching of Sustainable Development Goals (SDGs).

In Chapter 4, Zubeiru Salifu, Joshua Yindenaba Abor, Mabouba Diagne and Elizabeth Muthuma focus on impact investing from a developing markets perspective. They present an overview of the financial return spectrum, sources of capital, investment instruments and structures, and the impact investment activity spectrum. The chapter introduces readers to the main actors in the impact investing ecosystem, social impact measurement and tracking, as well as the opportunities and challenges of impact investing in developing markets such as Sub-Saharan Africa (SSA). The chapter concludes with recommendations for both impact-first and finance-first investors to work jointly in the allocation of capital to achieve scale in delivering sustainable financial return while addressing social and environmental issues in SSA.

Chapter 5 by Xolisa Dhlamini and Stephanie Giamporcaro presents the latest results of the African Investing for Impact Barometer (AIFIB) research project. They provide insights into market trends on investing for impact investment strategies in Southern Africa, West Africa and East Africa. These investment strategies, which are usually classified under the umbrella of sustainable and/or responsible investing, and amount to ESG integration, investor engagement, screening, sustainability-themed investment and impact investing, have blossomed in the past 20 years in Europe and North America. Conversely, the AIFIB research project shows the African continent’s vitality and potential for these new investment practices from 2013 onwards.
In addition, the authors show that, through its barometer tool, the AIFIB research project helps to provide some answers to the complex question of how to measure the positive impact of these investment strategies on the well-being of society.

**Part III: Long-term Responsible Investment, Governance, Fiduciary Capitalism and Sustainable Development**

In Chapter 6, Paul Terna Gbahabo, Lwanga Elizabeth Nanziri and Tendayi Chapoto provide conceptual insights into long-term RI and CSR. The authors find some interesting results between the two concepts. For instance, they show that while CSR takes several forms, ranging from charitable contributions to social investment projects and collaborative social initiatives with partner organizations, RI takes the form of ESG integration, shareholder activism, screening, and socially directed investments. In terms of the normative and the business case, while a moral imperative can motivate CSR and RI initiatives, a strategic incentive can drive corporate organizations and investment funds to pursue a double bottom line of shareholders’ wealth maximization and good corporate citizenship.

In Chapter 7, George Nana Agyekum Donkor, Daniel Ofori-Sasu, Thakom Arun and Joshua Yindenaba Abor shed light on corporate governance and sustainability ethics by providing a theoretical and systematic review of the extant literature and exploring how both concepts aim to promote the corporate, social and economic environments. Despite the existing ambiguity surrounding coordination issues between corporate governance and sustainable ethics, some argue that corporate governance alone does not help to achieve the SDGs in developing economies. Hence, sustainable ethics is needed to supplement corporate governance in achieving better SD.

Chapter 8 presents an overview of the rise of fiduciary capitalism in developing countries. Michelle Filson and Joshua Yindenaba Abor examine the emergence of fiduciary capitalism and look at fiduciary duties, including the duty of care, the duty of loyalty, and the duty of honesty and disclosure. In addition, they look at whether fiduciary duty is a hindrance to SRI and discuss the new definition of fiduciary duty. The authors found that the duty of fiduciaries is to think about the environmental, social and economic implications of their actions to investors, society and beneficiaries as a whole. Thus, fiduciaries should take into consideration how ESG variables influence both risks and opportunities, and they should be aware of the legal impacts of their actions. Large institutional investors, including pension funds, mutual funds, endowments, sovereign wealth funds and insurance companies, are commonly recognized as universal owners.

Chapter 9 provides conceptual and theoretical insights into SD in the Global South. Asaah Sumaila Mohammed, Dede Woade Gafa and Raymond Aitibasa Atanga find that many developing countries have taken significant steps towards completing the initial stages of aligning the global framework with the national policy framework. Yet, there has been limited progress on prioritization, effective planning, and policy monitoring and evaluation. As the COVID-19 pandemic has slowed the global progress on the SDGs, stronger recovery would require governments in the Global South
to strengthen institutional frameworks, leverage domestic and external financing for
development, and integrate the economic, environmental and social dimensions of
SD in their internal policy design and implementation processes.

Part IV: Finance and Sustainability

In Chapter 10, Mumbi Maria Wachira, Khadijah Iddrisu, Gifty Abban and Joshua
Yindenaba Abor explore sustainable financing in developing economies. They
discuss the origin, development, core principles and categories of sustainable
finance. They uncover the history of sustainable finance and challenges of integrating
sustainability into finance. They also identify the principles of sustainable finance,
including comprehensiveness, connectivity, equity and prudence, and in turn, iden-
tify categories of sustainable finance to include green finance, socially responsible
investing, social business, social finance, climate finance and environmental finance.
Finally, they discuss sustainable finance initiatives in Africa using case studies to
elaborate on the continent’s progress so far in sustainable financing.

In Chapter 11, Mawuena Akosua Cudjoe, Joshua Yindenaba Abor and Jako
Volschenk present an overview of environmental and climate finance in developing
countries. The chapter examines the distinctions between environmental finance
and climate finance. Although environmental finance and climate finance are terms
loosely used as synonyms in the literature, they are distinct. The chapter specifically
discusses environmental finance and its importance, climate finance, and climate
finance strategies and development. It also looks at carbon finance, carbon finance
and climate change, carbon finance and SD, and the carbon market.

In Chapter 12, Janet Talata Abor, Joshua Yindenaba Abor and Ahmad Hassan
Ahmad investigate sustainable banking in developing economies. Specifically, the
chapter covers sustainable banking activities and the importance of sustainable
banking. It discusses the concept of the triple bottom line as well as the sustainable
banking principles, policies and practices in Africa. It highlights how implementing
sustainability practices in banking has been proven to boost banks’ corporate success.
Banks across the globe need to focus on offering sustainable banking services and
they can achieve sustainability if those activities have an impact on the entire busi-
ness chain. This entails fostering financial inclusion, improving brand value, and
lowering operating costs of banks, as well as helping banks to gain a sustainable
advantage and increase investor confidence. The chapter concludes that it is essential
to contemplate humanity’s future and act accordingly by incorporating sustainability
into banking culture.

Chapter 13 provides a general overview of sustainable risk financing and insur-
ance in developing markets. In this chapter, Joshua Yindenaba Abor, Margaret
Asare, Susana Yamoah, Gideon Ataraire and Abdul Latif Alhassan examine climate
change and the insurance industry, the linkage between sustainability and financial
risk, and sustainability and the insurance industry. They emphasize issues related to
underwriting and investment. They also discuss the principles of sustainable insur-
ance and the role of investment of insurance funds in a sustainability era. Given that
emerging risks impact insurance investments, the authors recommend that insurance companies should attain sustainability by incorporating ESG issues into their underwriting, investment, risk management and capital adequacy decisions.

In Chapter 14, Elikplimi Komla Agbloyor, Isaac Kofi Bekoe and Joshua Yindenaba Abor examine sustainable private equity (PE) and venture capital (VC) in developing economies. The authors find that in pursuing sustainable investments, PE and VC firms encounter a number of challenges. These challenges include measuring and comparing the impact of PE/VC investments; difficulty in mapping SDGs to investments in certain sectors; lower return of sustainable investments compared with traditional investments; potential longer maturities of sustainable PE/VC investments; and verifiability of reported sustainability measures and impact.

Chapter 15 by George Acheamppong, Alex Akpabli and Joshua Yindenaba Abor explores crowdfunding and sustainable enterprises in developing markets. It discusses the role crowdfunding plays in the emergence of sustainable enterprises in developing markets. The chapter examines the nature of crowdfunding and sustainable enterprises in developing markets. Sustainable enterprises are perceived as those businesses that move beyond economic value to include social value. Five main crowdfunding mechanisms are observed in developing markets: equity-based, debt-based, donation-based, reward-based and royalty-based. These are further integrated to achieve the objectives of this chapter. Stringent financing mechanisms force entrepreneurs to emphasize economic value over social value. Consequently, crowdfunding as an alternative financing arrangement enables entrepreneurs to integrate both economic and social value to create sustainable enterprises.

Part V: Sector-specific Sustainable and Responsible Investment

Chapter 16 by Kobby Mensah, Eunice Fay Amissah and Noel Nutsugah investigates sustainable tourism in Africa. The authors examine the increasing concerns surrounding sustainable tourism in Africa, emphasizing its influence on socio-economic progress and the well-being of the local communities that host tourist attractions. Additionally, they shed light on the important players involved in sustainable tourism, as well as the sector’s policies, challenges and prospects. They conclude that for tourism to be sustainable, national tourism organizations must adopt policies that balance the ambitions of present visitors with the protection and promotion of tourist destinations. Again, national tourism organizations must work to strengthen pricing control, improve Internet connection, security and safety, as well as enhance accessible transportation, since these are just some of the variables that might jeopardize Africa’s sustainable tourism.

In Chapter 17, Frank K. Ametefe, Precious A. Brenni and François Viruly investigate the challenges and explore the opportunities associated with sustainable real estate investment and finance in developing economies. They primarily work within the ESG framework and utilize the NVivo software to systematically analyse a large volume of textual information. They show that debt instruments such as green bonds and sustainability bonds have huge growth potential in developing countries. Finally,
there is a growing realization that the ESG and sustainability debate should consider the specific socio-economic context of developing markets.

In Chapter 18, Haruna Issahaku, Paul Kwame Nkegbe and Jeremiah Ogaga Ejemeyovwi review the literature on sustainable and responsible agricultural investment (SRAI) principles, investor considerations, inclusiveness and incentives. They further discuss SRAI opportunities across asset classes and the challenges associated with SRAI. They find that the incentives that can boost SRAI may be financial, technical, fiscal and regulatory. However, various challenges may discourage SRAI, including the non-inclusion of sufficient youth and women in SRAI practice and the non-involvement of small-scale investors in policy interventions by governments in developing countries.

Chapter 19 by Benjamin Nii Ayi Aryee, Hudson Mtegha and Michael Sandow Ali provides an insight into sustainable and responsible mining investment in developing economies. They indicate that sustainable and responsible mining not only helps to improve financial and social returns of the mining sector but also contributes to building a strategic sustainability framework. Notably, sustainable and responsible mining investment is important for achieving the global SDGs through its managed impact, not only on the physical, but also on the social, economic and governance environment. The chapter concludes that the adoption of the approach has significant implications for mining companies, policymakers, entrepreneurs, regulators, international organizations and academics.

Chapter 20 by Benjamin Agyeman, Joshua Yindenaba Abor and Amin Karimu explores the concept of sustainable and responsible energy investment in developing economies. The authors provide a good understanding of sustainable and responsible energy investment; the role of ESG in energy investment in the new energy transition; financing the new energy for an inclusive green economy; creating an energy ESG index for energy industry analysis; and challenges and opportunities for SRI in the energy sector.

Part VI: Sustainable and Responsible Investment Portfolio Construction and Sustainable Valuation

Chapter 21 by William Coffie, Vera Ogeh Fiador and Abacha Isa provides an overview of portfolio management and discusses SRI portfolio management and SRI performance. SRI portfolio management involves selecting, prioritizing and controlling investments in conformance with environmentally sustainable, social and governance (ESG) standards and has been seen as an alternative to traditional portfolio management. The authors find that the academic literature is generally of the opinion that SRI reports positive financial performance. It was also found that sustainable indices favour short-term performance studies.

Chapter 22 by Emmanuel Acheampong-Bonsu, Jackie Wolgast and Teddy Ossei Kwakye provides an overview of SRI and discusses ESG and value creation. The general process of sustainable valuation is not so different from a traditional discounted cash flow (DCF) model. Thus, forecasts of economic benefit streams are
estimated and the future economic benefits are discounted by a factor that captures the risks associated with the entity being valued.

**Part VII: Emerging Trends and Regulation of Sustainable and Responsible Investment**

Chapter 23 by Michael Effah Asamoah, Emmanuel Joel Aikins Abakah and Lungile Ntsalaze explores the impact of the COVID-19 pandemic on SRI, and the emerging trends and issues in SRI. The authors look at how firms are incorporating ESG issues in their financing and investment decisions in the midst of the pandemic. They put forward some proposals for how to reform SRI post-pandemic and prevent another crisis.

Chapter 24 by Bright Kojo Tsikata, Lordinu Amoah and Joshua Ogwal looks at the regulation of SRI in developing countries. This chapter discusses what SRI entails as well as issues pertaining to its regulation, generally and within the context of SSA. The chapter further discusses the rationale for and challenges of SRI regulation. The need to introduce regulation that enhances the transparency, consistency and resilience of SRI performance and reporting metrics is also expatiated. Such tailored regulation formulation and implementation by key stakeholders and policymakers in developing countries is expected to ground the ethical imperatives of SRI in law and ultimately foster SD.

**CONCLUSION**

This chapter provided an overview of the concept of SRI in developing markets. We note that the investment community and corporate issuers in developing markets continue to see the use of sustainable investment criteria as important to the investors who provide funding. We also show that the practice of integrating ESG into investment decisions persists – and its perceived importance in a developing market context has increased over recent years. Although the investment community is aware of ESG issues, there are major challenges to deal with if sustainability factors are to become an everyday part of investing. In this regard, we show that confronting these challenges will require the action of key stakeholders including governments, corporations and communities. The chapter has identified key sustainability issues, as well as the attitudes of investors and the challenges that they face in adapting to the growing use of ESG investment criteria, and recommends initiatives to take advantage of recent trends. In addition, the chapter has established new sustainable investment practices that support the development of new tools and instruments that can help regional ESG equity research, helping market investors, as well as investor networks to make more informed decisions. The chapter has also provided an outline of the various chapters in the book.
REFERENCES


