

Sustainable Futures

How “Sustainable Futures” apply to FSD Africa’s projects and how FSD Africa seeks to measure change

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The future of Africa

is highly dependent on the use and allocation of resources. Economies and livelihoods in Africa are linked to the environment and natural resource use, and on how benefits are distributed.

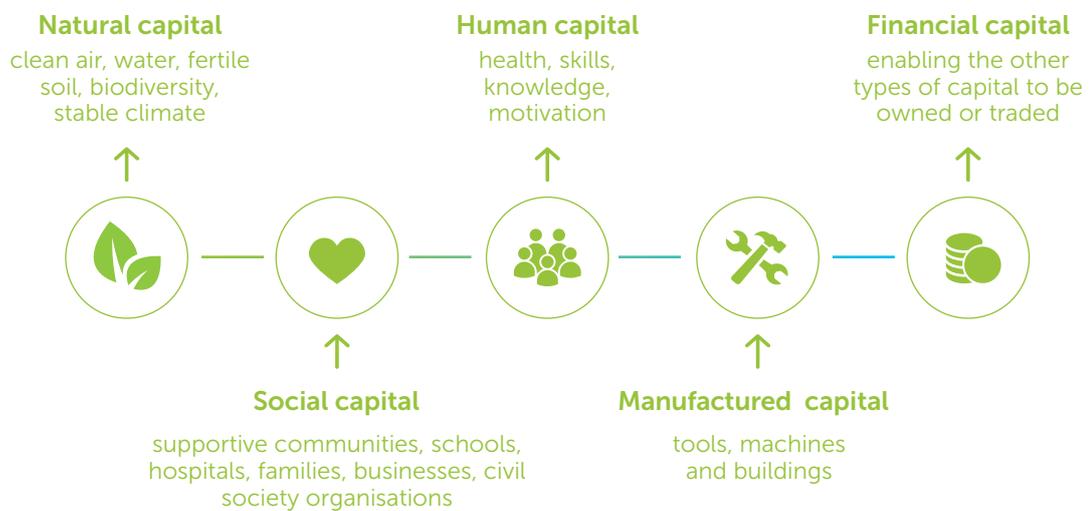
This affects not only the current generation but also future generations. It is, therefore, important to create sustainable development processes that can drive equity and fairness for individuals and communities and sustain these benefits over time.

In 2020, **Impact Value** in collaboration with **FSD Africa** defined 'sustainable futures' and explored the various ways that this concept applies to FSD Africa's projects and how FSD Africa seeks to measure change.

Sustainable Futures: what are the elements to consider

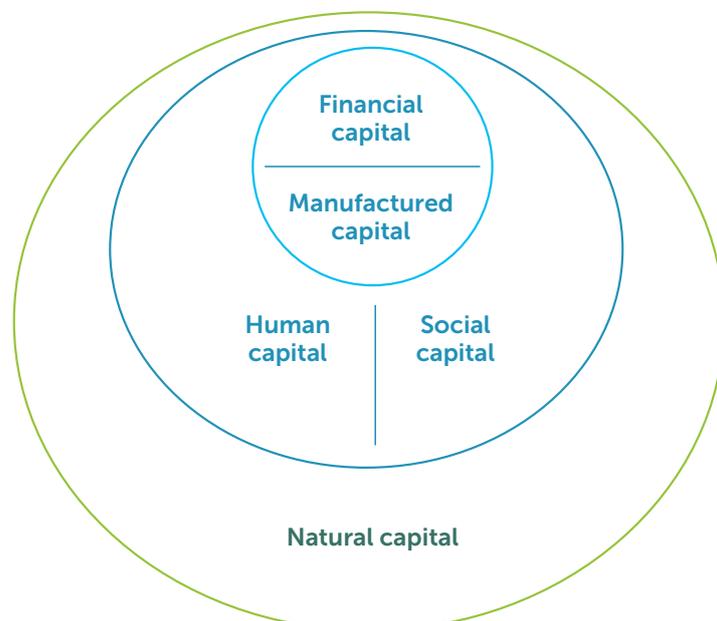
Enabling a sustainable future requires that interventions designed to meet the current needs of one group of people do not adversely affect the ability of other people to meet their own needs, now and in the future. Equally, enabling a sustainable future requires that interventions designed to achieve critical environmental outcomes (such as net-zero carbon emissions or halting biodiversity loss) take account of the people who will be most affected: a just transition. It also requires interventions to build, protect or improve critical networks and institutions that promote economic justice and environmental protection, including advocating for others to do the same.

People's ability to meet their own needs (and therefore long-term poverty reduction) depends on their access to five different types of capital:



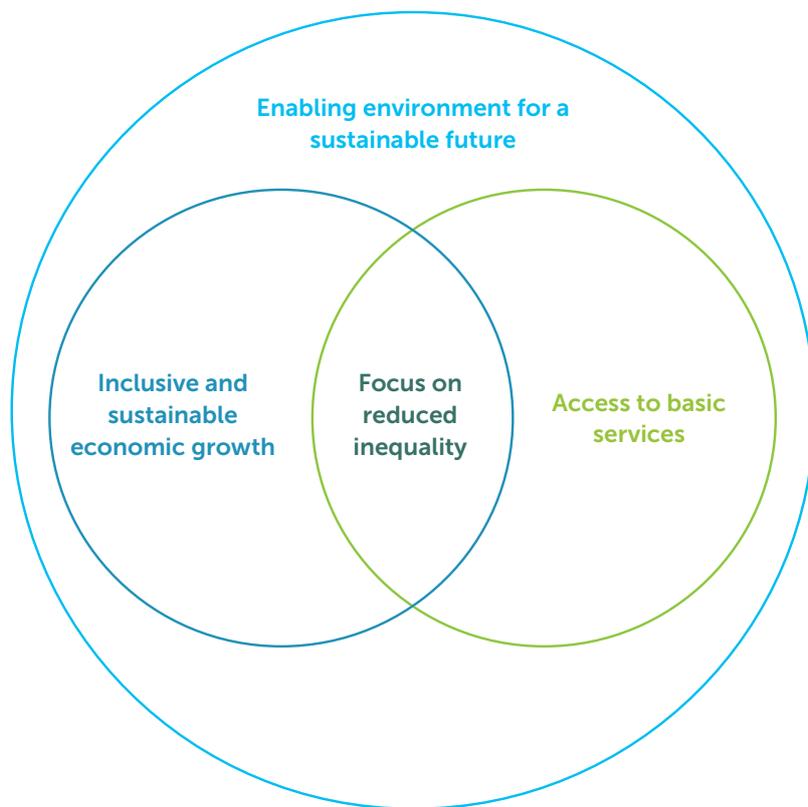
There may be trade-offs between these different types of capital, but all must be considered in delivering a sustainable future.

The five capitals can be visualised in this way:



How does each FSD Africa project relate to the 'sustainable futures' outcome?

The diagram below shows how sustainable futures relate to FSD Africa activities. It shows the overarching enabling environment of strong natural and social capital which makes it possible to pursue inclusive and sustainable economic growth and access to basic services for all. It also shows a specific focus on reduced inequality (human capital) which ensures that no-one is left behind. FSD Africa's 'sustainable futures' projects can work on support for the enabling environment or can focus on the area where reduced inequality will drive greater equity and fairness for the future.



Enabling environment for a sustainable future

Characterised by strong natural and social capital:

- Sustainable cities and communities/ A safe and supportive living and working environment (SDG 11)
- A stable climate (SDG 13)
- A stable and supportive ecosystem (SDG 14,15)
- Peace, justice and strong institutions (SDG 16)
- Partnerships (SDG 17)

Inclusive and sustainable economic growth

Characterised by:

- Decent work (SDG 8)
- Zero hunger (SDG 2)
- Industry, innovation and infrastructure (SDG 9)
- Responsible consumption and production (SDG 12)

Access to basic services

Including:

- Good health and well-being (SDG 3)
- Quality education (SDG 4)
- Clean water and sanitation (SDG 6)
- Affordable and clean energy (SDG 7)
- Housing
- Digital technologies

Focus on reduced inequality

Leave no-one behind:

- Investments in human capital leading to lasting human development for all (SDG 1, 5, 10)

What does this mean for the way that FSD Africa considers its interventions?

FSD Africa considers the sustainable futures strand in 2 ways:

Impact	Dependency
All projects – whether focused on inclusive economic growth or on access to basic services – have an impact on natural, social or human capital and can promote or undermine them	The success of each project in the long-term might be dependent on natural, social or human capital.

These two perspectives – impact and dependency – are considered below.

How does FSD Africa consider the impact of its interventions on natural, social and human capital?

When FSD Africa is supporting job creation, improved livelihoods and resilience, the economic activities will have an impact on natural, social and human capital.

Relevant questions are:

	Is the company that is creating the jobs engaged in activities that harm the environment?
	Is the company giving its workers skills that will be valuable into the future?
	Is the company protecting local communities?
	Is the company strengthening or undermining institutions such as trade unions or civil society organisations?
	What is the current and likely future impact of the economic activity on inequality in a community?

When FSD Africa is supporting access to basic services, the provision of that service to meet the needs of the current user may have an impact on the ability of other communities or future generations to meet their own needs.

Relevant questions are:

	Are subsidies for energy or social housing creating government debt which will need to be repaid in the future, affecting the livelihoods of future generations?
	Are the energy projects affordable into the future?

	Do energy projects have a positive impact on climate change and on the environment?
	Is the subsidy for fertilisers or pesticides leading to soil degradation which will have an impact on future yields and the sustainability of the land, as well as the health of the population?
	Are agricultural practices creating problems for water quality or availability which affects other users or will affect future users?
	Are affordable housing projects being built using sustainable materials and enabling efficient use of energy and water when built?
	Are affordable housing projects being built with the long-term needs of cohesive communities in mind?

When FSD Africa is supporting the development of financial services products to help people to meet their current needs, consideration must also be given to how financial services products (savings, pensions, insurance) have an impact on people's ability to be resilient and meet their future needs, particularly in response to shocks (such as a global pandemic).

Relevant questions are:

	Does the financial product meet current needs (for example, for consumption) but without sufficient consideration of future needs?
	How does this financial product help to protect the consumer against future shocks?

How does FSD Africa consider the dependency of its activities on environmental, social and human capital?

The successful long-term continuation (sustainability) of interventions to promote inclusive economic growth and access to basic services will be dependent on some of the factors underpinning a sustainable future.

For example:

		
Inclusive economic growth will not be achieved without strong governance and institutions	Economic growth cannot continue into the future if it increases climate change or depletes natural resources	Where economic growth or access or basic services are unequal, this may generate conflict which damages lives and livelihoods.

How does FSD Africa embed 'sustainable futures' thinking into its approach?

The Sustainable Development Goal (SDG) outcomes have been allocated to the 3 strands of the strategy, as shown below:

Multi-dimensional Poverty Reduction



Taking each relevant SDG to FSD Africa's strategy in turn, the table below considers their relevance for sustainable futures and how they might be implemented in FSD Africa's strategy:

	Relevance for sustainable futures	Implementation in FSD Africa strategy
<p>1 NO POVERTY</p>	<ul style="list-style-type: none"> Enable people to save for future shocks, including droughts, floods and other factors linked to climate change. Reduce the likelihood of parts of society being left behind 	<ul style="list-style-type: none"> FSD Africa promotes financial products (savings, pensions, insurance) which support resilience by transferring assets from now to the future
<p>5 GENDER EQUALITY</p>	<ul style="list-style-type: none"> Enable improvements in the health and skills of communities through supporting women, especially mothers. Empower women economically, giving them a voice to help shape a more sustainable future. 	<ul style="list-style-type: none"> FSD Africa supports projects delivering access to basic services that include women in governance, design and delivery
<p>10 REDUCED INEQUALITIES</p>	<ul style="list-style-type: none"> Make it more likely that improvements in human development will be sustained into the future because underpinned by strong governance systems Try to ensure that subsidies do not simply pass the burden to other communities or to the next generation 	<ul style="list-style-type: none"> FSD Africa supports projects which drive change in the systems of governance which underpin inequality (land ownership, collateral, credit scoring etc) FSD Africa does not support projects which use excessive subsidies, creating a burden on other communities or the next generation
<p>11 SUSTAINABLE CITIES AND COMMUNITIES</p>	<ul style="list-style-type: none"> Equip workers with skills for the future Ensure that the technologies of the future are accessible to all Ensure that jobs are sustainable into the future (not unsafe, not insecure) 	<ul style="list-style-type: none"> FSD Africa supports institutions which enable people to keep learning and developing their skills, especially resilience FSD Africa promotes technologies that offer ways for the underserved to access capital and information

	Relevance for sustainable futures	Implementation in FSD Africa strategy
 <p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	<ul style="list-style-type: none"> Avoid support for high carbon projects that cause climate change and for unsustainable extraction of resources¹ Protect future farmers from degraded soil or water depletion Increase the efficiency of resource use in manufacturing processes 	<ul style="list-style-type: none"> FSD Africa excludes some sectors (for example, coal, oil, gas) from interventions focusing on job creation FSD Africa has safeguarding processes in place to ensure that it only supports activities where natural resources are used responsibly
 <p>13 CLIMATE ACTION</p>	<ul style="list-style-type: none"> Enable people to adapt to climate change Avoid high carbon growth, protecting the environment for future generations 	<ul style="list-style-type: none"> FSD Africa supports activities that enable adaptation to climate change – e.g. flood defences, drought resistant crops, irrigation, resilient infrastructure FSD Africa supports renewable energy projects
 <p>15 LIFE ON LAND</p>	<ul style="list-style-type: none"> Help to mitigate climate change by enabling carbon sinks Enhance or protect ecosystems to support future generations 	<ul style="list-style-type: none"> FSD Africa supports investment in forests, biodiversity protection schemes FSD Africa ensures that all projects manage the risk of ecosystem degradation
 <p>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</p>	<ul style="list-style-type: none"> Prevent corruption which would reduce the resources available for current and future generations Combat illicit financial and arms flows 	<ul style="list-style-type: none"> FSD Africa promotes measures that reduce corruption FSD Africa supports projects that reduce illicit financial flows and strengthen the recovery and return of stolen assets

What are some examples of FSD Africa’s work on sustainable futures?

This shows that there are many dimensions to the work that FSD Africa can do, and is doing, to support a sustainable future. FSD Africa’s work on climate change responses, gender equity and good governance provide an illustration of FSD Africa’s current interventions.

Climate change is the most significant challenge to achieving a sustainable future. Africa is expected to be one of the continents that will suffer the most from climate change effects, with increased droughts, storms, floods that could drive millions of Africans into extreme poverty. FSD Africa has supported activities that reduce carbon emissions, help to sequester carbon from the atmosphere and enable adaptation. FSD Africa has facilitated the issue of more than £100m of Sovereign and Corporate Green Bonds in Nigeria, with the proceeds to be used in solar energy, afforestation and infrastructure. In Kenya, FSD Africa supported the first green bond which raised £35.3million to build environmentally-friendly student accommodation.

Addressing current gender imbalances is also critical for overcoming poverty and delivering a sustainable future. As well as being a basic human right, gender equity is the foundation for a future in which individuals can thrive and be resilient.

¹ Many mines have finite resources and the important element is to consider how the benefit of these resources can be shared with future generations – for example, through a sovereign wealth fund established with the government royalties from extraction.

However, the current status is far from equitable. According to the Global Findex report, more than 1 billion women still do not use or have access to financial services. FSD Africa is committed to narrowing the gap in women's access to finance. As of March 2020, FSD Africa had reached over 1.5 million women with financial services.

There are various elements of good governance that are important for a sustainable future in Africa and a particular focus is on capital flows, both in terms of reducing illicit financial flows and in terms of supporting financial markets that drive capital to the places that need it most. There is growing evidence that more developed financial markets create more stable economies, mobilising domestic resources through national savings and enabling companies to raise finance for activities that support the SDGs. In addition, financial products can increase the resilience of individuals in the face of future uncertainties: for example, in Ghana, a study found that insured farmers spent \$266 more, and their post-harvest assets were \$531 higher.

How does FSD Africa measure its contribution to a sustainable future?

With all of these elements in mind, what is the best way to measure FSD Africa's contribution to sustainable futures?

Measures to help people mitigate and adapt to climate change and ecosystems pressures are an urgent and critical part of delivering a sustainable future. Initial thinking was that the primary metric could be 'Green finance mobilised' or 'Number of green finance projects initiated'. However, given the importance of social capital (equality, peace, justice, strong institutions, reduced inequalities and a safe and supportive living and working environment), the metrics for sustainable futures must try to measure contribution to social capital as well as natural capital.

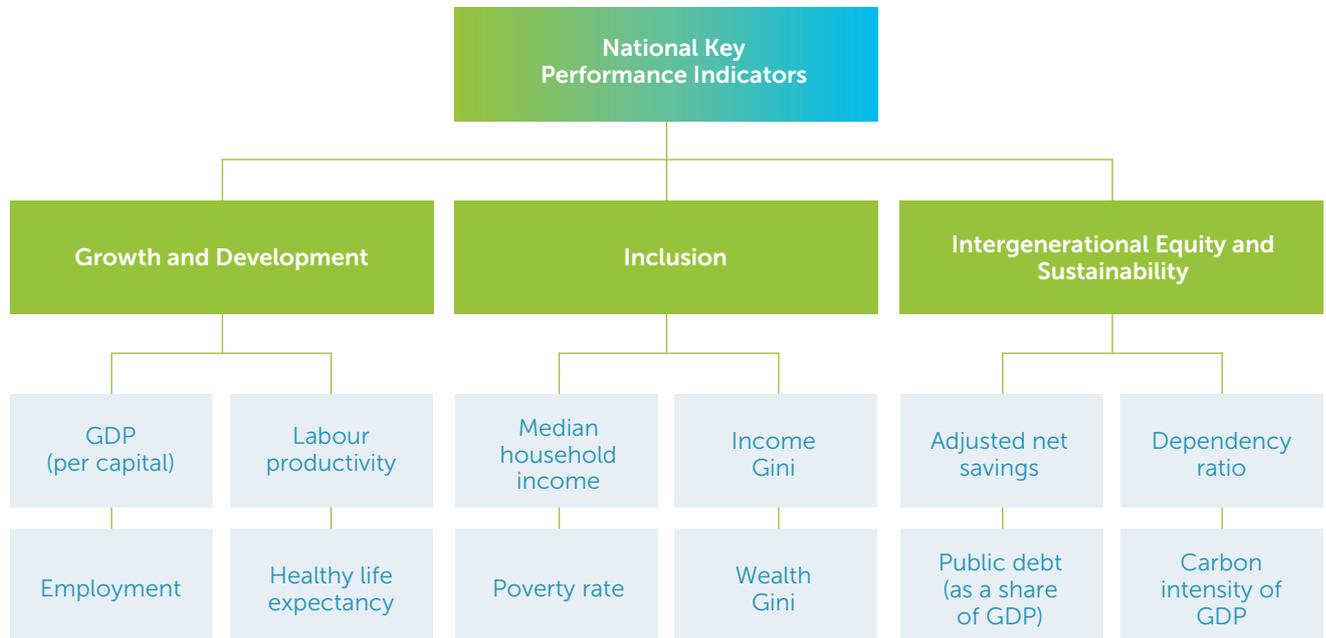
One of the obvious challenges of sustainable futures metrics is that the actual impact of projects designed to deliver a sustainable future will not by definition be known for some time. Another challenge is the difficulty of measuring soft outcomes like the strength of institutions and governance, the degree of peace or equality, or the supportiveness of living and working environments. On top of this, there are many external factors that impact these indicators beyond FSD Africa's work, in essence, the direct impact of FSD Africa's work is hard to capture.

The metrics for FSD Africa's sustainable futures work include the following:

Country Macro-level Indicators (Human Development Impact Indicators)

A 	B 	C 	D 
Change in the Gender Inequity Index (GII) in each FSD Africa supported country	Change in the Transparency International Corruption Perception Index in each FSD Africa supported country	Change in the Gini Index of equity in each FSD Africa supported country, but the data is not updated regularly	World Economic Forum's Inclusive Development Index in each country

The framework for this index identifies 15 areas of structural economic policy and institutional strength that have the potential to contribute simultaneously to higher growth and wider social participation in the process and benefits of such growth, as shown in the diagram below.



Source: World Economic Forum, The Inclusive Growth and Development Report 2017

Social Impact Indicators

E

Gender ratio of individuals accessing basic services through FSD Africa support

The proportion of males to females that have accessed basic services due to FSD Africa support. Usually expressed as the number of men per 100 females.

F

Number of people supported to better adapt to the effects of climate change as a result of FSD Africa support

This indicator counts the number of people who have been reached by FSD Africa supported programmes or interventions by equipping them to adapt to the effects of climate change.

G

Evidence that FSD Africa interventions are leading to transformational change

For FSD Africa's interventions to have greater impact and be sustainable, the interventions need to be transformational. This means that FSD Africa can encourage others to replicate and scale-up successful activities and facilitate a market system change in the countries it is working in. This indicator recognises that "transformation" is multi-dimensional, and that it will not be able to capture everything that, in time, may contribute to impact. Rather, the objective is to capture enough evidence to form a reasonable qualitative picture of FSD Africa's effectiveness in this area.

H

Perceptions of citizens on whether they feel protected against shocks and equipped with the human, social and environmental capital they need for the future

This is a qualitative indicator based on surveys carried out on beneficiaries of some FSD Africa projects and more widely. The findings are not extrapolated across the portfolio, but individual surveys are expected to provide important insights to triangulate other data being collected.

Market System Change Indicators

I **Amount of finance mobilised for projects to underpin a sustainable future**

This can include the value of projects (including both FSD Africa and co-investors mobilised alongside) designed to:

- protect or enhance the natural environment
- increase the efficiency of manufacturing or building processes and end product use
- mitigate climate change
- enable adaptation to climate change
- improve the governance of critical institutions
- reduce the prevalence of corruption
- reduce the likelihood of parts of society being left behind in jobs or access to basic services (women, youth, people with disabilities)
- deliver skills that will increase resilience in the future
- enable people to save or insure to protect against shocks in the future.

In addition, FSD Africa reports on a sub-set of these projects that relate only to 'green finance' since this is potentially more recognisable in the market and easier to identify. These metrics are –

J **Green finance mobilised²**

- This is a sub-set of (i) above and can include projects designed to
- protect or enhance the natural environment
- increase the efficiency of manufacturing or building processes and end product use
- mitigate climate change
- enable adaptation to climate change

K **Number of people with [quality] insurance products³**

- This is included as a measure of resilience. However, it is only a proxy for impact.

L **Value of pay-outs by insurance programmes⁴**

- A higher value of insurance pay-outs may be the result of an increased number of events causing shocks, rather than being an effective measure of increased benefits to households and businesses. It is therefore not a perfect indicator on its own, but it is useful to track it.

Output Indicators

M **Number of projects initiated by FSD Africa to protect or enhance the natural, social and human capital needed for a sustainable future**

- This includes the number of projects initiated by FSD Africa that are designed to deliver outcomes on the issues in (i) above for sustainable (including green) finance.

N **Number of new financial products developed to address specific financial challenges associated with a sustainable future**

This includes projects designed to:

- provide insurance against damage caused by climate change
- allow more people to make long-term savings – for example into pensions
- allow more people to save for future education or health needs
- finance adaptation measures to prepare for future climate change.

² A list of eligible Green Projects can be found in ICMA's Green Bonds report.

³ This metric can only be used if this information is available. OECD has a database but it does not cover all FSD countries. This will be reviewed with FSD Africa insurance experts and changed if necessary.

⁴ ditto

FSD Africa seeks to identify how and whether each of their projects might have an impact on a sustainable future and how it might be dependent on the enabling environment for long-term sustainable outcomes for these projects. An additional indicator, more process-oriented indicator is therefore also tracked - (o) below.



% of projects initiated by FSD Africa which have assessed the impacts and dependencies relating to sustainable futures and applied these in their project design and implementation

Conclusion

FSD Africa's 'sustainable futures' efforts are designed to support the entire enabling environment for financial systems in order to reduce inequality and to drive greater equity and fairness for future generations. By pursuing inclusive and sustainable economic growth and access to basic services for all, FSD Africa intends to reduce inequality, enhance social systems and preserve natural capital to ensure that no-one is left behind.





FSD Africa, Nairobi, Kenya
info@fsdafrica.org
[@FSDAfrica](https://twitter.com/FSDAfrica)

www.fsdafrica.org



Foreign, Commonwealth
& Development Office, London, UK
[@FCDOgovUK](https://twitter.com/FCDOgovUK)

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