Green Gains: How Gender-Smart Funds Drive Climate Action and Returns

A powerful investment paradigm on the African continent addresses global issues and presents a compelling business case for investors seeking returns and impact

2X Ignite Africa GP Sprint 2024 cohort

CAPE TOWN, SOUTH AFRICA, November 28, 2024 / EINPresswire.com/ -- In the face of mounting climate challenges and persistent gender inequalities, a powerful investment paradigm is gaining traction on the African continent: gender-smart climate investments. This approach addresses two pressing global issues while presenting a compelling business case for investors seeking both financial returns and positive impact.

Gender-smart climate finance can remove the silos between gender lens investing and climate finance, accelerating and amplifying the benefits of both.

The 2023 Project Catalyst report highlighted a significant trend: 61% of surveyed funds globally now target climate-responsive sectors and represent $5.8 billion in gender-smart capital. This nexus presents a unique opportunity for investors to drive climate action while enhancing their investment strategies.

We interviewed selected locally-led gender-diverse fund managers on the African continent to get their take on the role of fund managers in driving gender and climate action. Here's what we learned.

Diversification and Risk Management

Gender-responsive, climate-focused funds provide unique diversification by investing in often overlooked women-led companies, which research shows outperform those of their peers due to enhanced decision-making from diverse teams. Tackling climate change challenges with adaptation and mitigation strategies, further reduces investment risks.

In emerging markets like Ethiopia, Kazana Fund benefits significantly by effectively tapping opportunities in their nascent ecosystems. They invested in Kubik, a startup with the mission to transform plastic waste into affordable, eco-friendly building materials to address housing shortages and reduce environmental impact. Notably, Kubik's technology can reduce construction costs by up to 30% and decrease carbon emissions by 50%. In May 2024, Kubik became the first Ethiopian startup to receive a multi-million dollar investment in climate and sustainability.

wCap conducts Environmental, Social and Governance (ESG) assessments and requires regular reporting from portfolio companies to ensure high standards and demonstrate the positive impact of their investments. One such company is the Zambia-based Luano Food Company. The business supports honey production, collaborating with over 2000 small holder farmers, the majority of whom are women. Additionally, the business is boosting production by engaging over 1000 farmers in avocado processing initiatives.

Improvements in Financial Performance

Gender-responsive climate investments offer significant returns. A McKinsey & Company report found that companies with top-quartile gender diversity on executive teams were 25% more likely to be highly profitable.

Altree Capital finds that businesses with strong ESG and gender practices often demonstrate resilience in volatile markets, further reducing overall investment risk thus improving financial performance. One of their investees, a women-founded electric vehicle company providing last-mile delivery, not only reported reduced CO2 emissions of 272,761.08kgs, but also grew revenue by 120% year-to-date. The same investee is now selling carbon mitigation credits to Switzerland's KliK Foundation. Meanwhile, Nature's Nectar, with Altree's support, has secured organic certification and improved its processing facilities. These moves have already led to a 30% higher price point for its products, with revenues projected to double over the next year.

Leadership in Climate Change Mitigation and Adaptation

Gender-responsive climate investments leverage the unique perspectives and innovative solutions of women-led businesses, which are often undercapitalised. These investments improve decision-making and performance, implement effective climate strategies, reduce vulnerabilities and promote sustainable growth.

Sahara Impact Ventures invests in early and early growth stage tech-enabled businesses in Ghana and Nigeria that enable access to essential amenities and help the countries progress towards their climate commitments. One of their investees based in a remote area in Ghana works with a network of 130,000 smallholder shea nut farmers, 91% of whom are women. This investee has intentionally incorporated climate action into their efforts, establishing 30 community-based nurseries, raising 100,000 seedlings, and preserving 1500 acres of parklands with 27,000 trees planted. Meanwhile, the women farmers in the network also receive loans, skills development and financial literacy training. To date, the investee has connected over 18,000 women to international markets, generating a 22% income increase.

Women as Crucial Agents in Climate Action

Women are often at the forefront of managing natural resources and leading community-based climate initiatives, giving them unique perspectives necessary for effective climate action. Additionally, women are pivotal in disaster risk management, often implementing strategies that reduce vulnerability and enhance community resilience.

Agro Supply, a Ugandan startup in Catalyst Fund's portfolio, is transforming the lives of smallholder farmers and building climate resilience by providing a save-to-buy model for high-quality, drought-resistant seeds and organic fertilisers which addresses cash flow challenges and improves food production. The company has reached over 30,000 farmers, 40% of whom are women, increasing their crop yields by up to 50%. Additionally, Agro Supply offers area yield index insurance to protect farmers from unforeseen shocks. Women's access to finance has boosted household resilience, as these women typically reinvest earnings into family welfare and nutrition. Agro Supply shows how investing with a gender lens can amplify climate resilience outcomes, while strengthening communities.

The OECD estimates that $6.5 trillion is needed annually worldwide to meet climate and development goals, presenting many opportunities for investors. Investing in climate resilience can prevent up to 22% of GDP losses by 2100, which highlights the importance and potential of gender-responsive climate investments.

Financial incentives, technical support and capacity-building programmes can encourage such investment. Partnerships between public and private sectors, NGOs, and international organisations can deploy pooled resources and share risks. A good example is the Climate Gender Equity Fund (CGEF), led by USAID and managed by 2X Global. CGEF seeks to increase access to climate finance for gender-responsive, women-led and women-benefiting organisations and has supported eight grantees so far.

Advocating for supportive policies and regulations can create a favourable environment for these investments. It is essential that frameworks like The New Collective Quantified Goal (NCQG) on climate finance guarantees gender-responsive flow of multilateral and bilateral finance into climate action. Governments developing and implementing their respective Nationally Determined Contributions (NDCs) and National Adaptation Plans (NAPs) must prioritise projects that empower women and promote gender equality.

Investors who recognise this potential early stand to benefit from financial returns and position themselves as leaders in the transition to a sustainable and equitable future.

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