



An impact investing and blended finance framework for foundations to leverage impact capital

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Glossary of terms

Acronyms

ASISA	Association for Savings and Investment in South Africa
B-BBEE	Broad-Based Black Economic Empowerment
CSI	Corporate Social Investment
DFI	Development Finance Institution
ESG	Environmental, Social and Governance Factors
FSCA	Financial Sector Conduct Authority (South Africa)
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution Programme
GIIN	The Global Impact Investing Network
GNI	Gross National Income
IFRS	International Financial Reporting Standards
IPASA	Independent Philanthropy Association of South Africa
IPS	Investment Policy Statement
IRS	Internal Revenue Service (United States)
IRIS	Impact Reporting and Investment Standards
LSM	Living Standard Measure
MPT	Modern Portfolio Theory
MRI	Mission Related Investing
NPO	Not for Profit Organisation
ODA	Official Development Assistance
PBA	Public Benefit Activity
PBO	Public Benefit Organisation
PRI	Programme Related Investing
RDP	Reconstruction and Development Programme
RI	Responsible Investment
SARS	South African Revenue Services
SIB	Social Impact Bond
SMME	Small, Micro and Medium Enterprises
SRI	Socially Responsible Investment
TPM	Total Portfolio Management
UNPRI	United Nations Principles of Responsible Investment

Definitions

Asset class	A group of assets that will display the same characteristics (risk profile and volatility) in the market and are typically covered by the same regulation and law. The three main asset classes are equities, fixed income and cash or equivalents.
Blended finance	The strategic mingling of development capital, endowment capital and/or philanthropic capital to leverage private or fiduciary capital to flow to emerging markets or impact investing strategies for the purposes of achieving positive returns for both investors and communities impacted by the investment.
Capital stack	A way to describe the total capital invested in a project or a structure by multiple investors. Typically, the highest risk is positioned at the top of the stack moving down the stack to the least risk at the bottom. The stack can be a combination pure debt, hybrid debt and equity, or just one of these asset classes. Higher positions in the stack expect higher returns for their capital because of the higher risk. Investors are often highly sensitive to their position in the stack as this will often determine the order which investor will receive their return on investment. Senior positions typically receive their principle back ahead of more junior holders. This can become critical when in a stressed situation, the investee is not able to repay the investment capital.
Charity	Often a synonym for philanthropy. Typically refers to the act of donating (even small amounts) money, food, or other kinds of assistance to people who are poor, sick, or marginalised by society. For the purposes of this paper, the term ‘philanthropy’ is used throughout.
Development capital	Funds provided to sovereign states, usually in the developing economies by development finance institutions in the developed nations. Examples include the United States’, USAID, the United Kingdom’s UKAID managed by The Department for International Development (DFID) and South Africa’s Development Bank of Southern Africa (DBSA).
Endowment capital	The portion of a philanthropic foundation's endowment that is typically invested to generate income to pay for the operations of the foundation and to make charitable grants.
Fiduciary capital	Capital that is held or managed by institutions (such as pension funds) and invested for maximum financial gain seldom without any consideration of the environmental or social impacts. In many jurisdictions, such investments are governed by regulators to conform to certain standards that typically protect the investors or owners of the capital and not those stakeholders that may be affected by investments.
Gini coefficient	A statistical measure of the degree of variation in income inequality (Orthofer, 2016). Shows the degree of variation in a set of values indicating the gap between the wealthiest and the least wealthy from perfectly equal (0 – no gap) to perfectly unequal (1 – the widest gap).

Gross Domestic Product	The main indicator used to assess the health of a country's economy. It represents a value of all goods and services produced within that country for a period of time (normally a year) to represent the size of the economy from one year to the next.
Gross National Income	Measures the income a nation receives from all the producers in the country as well any income received from abroad (normally employee compensation and property income). In many cases the GNI can be similar to GDP unless there are foreign owned companies based in the country that are repatriating profits. According to the World Bank (2017), South Africa's GNI is \$5,480 per capita per annum for 2016 and GDP is \$294.8 billion per annum.
Growth, Employment and Redistribution Programme	A macro-economic programme implemented by the South African government in 1996 to focus on privatization, the removal of exchange controls and new laws/programmes (such as B-BBEE) designed to build a more inclusive economy for the marginalised majority.
Impact investment	A sub-set of Responsible Investment, that encompasses investments made into companies, organisations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.
Indigenous philanthropy	The African tradition of community members helping or giving to each other. Increasingly, this practice is applied by black African diaspora that send money home to communities of their birth, as well as well-off black Africans. They may be despised if they do not follow the practice of contributing to the development of the communities of their birth (Jarrett, 2013). Not a prevalent practice among white Africans who tend to follow European philanthropic practices even if Africa is the continent of their birth.
Investing for impact	A way to describe a range of investment strategies that incorporate SRI, RI and impact investing. These strategies include: examining a portfolio to determine if what is owned is aligned to mission; considering ESG factors in a portfolio; investor engagement to align management practices to mission; screening to either screen in or out investments for mission alignment; thematic investment; and impact investment where the intention of a measurable impact outcome aligned to mission is envisaged prior to the investment.
Investment Policy Statement	A statement setting out what the asset owner wants to achieve with their capital. This assists the asset manager to appreciate what a foundation may seek to achieve with their endowment capital. For foundations, this can be an important tool to clearly apply a mission lens to the endowment capital investment strategy and can describe what parameters should be achieved both in terms of risk tolerance, performance targets and draw-down rates to be achieved, but also include investing for impact parameters too.
Living Standard Measure	A South African marketing segmentation tool used to discern standards of living and disposable income. It divides the population into 10 groups with 10 being the highest, therefore having the most disposable income and 1 the lowest with the least disposable income.

Mission Related Investment	Often a tool used to achieve social impact, Mission Related Investment is the alignment of the investment mandate normally embodied in an Investment Policy Statement for fiduciary or endowment capital to the social or environmental mission of the organisation.
Modern Portfolio Theory	An investment theory originally developed by Harry Markowitz in 1952 based on the notion that an element of risk is a natural part of achieving a positive return (Fabozzi, Gupta, & Markowitz, 2002). However, this risk can be managed by constructing a portfolio of investments that maximise return for the least risk. A mean variance analysis is conducted to build an efficiency frontier to provide a portfolio manager with an optimal risk/return position.
Philanthropic capital	The portion of a philanthropic foundation's capital that is used to support its mission typically through the use of charitable grants or with a financial return characteristic of minus 100%.
Philanthropy	An individual or organisation's desire to contribute to the welfare of others. For the most part, expressed by the generosity of giving money to good causes. The rationale for giving and how it is done is very much influenced by culture and geography.
Positive/Negative screening	Used by an investor to either systematically screen in (positive screening) to a portfolio of investments holdings that are good examples of companies that follow good social, ethical and/or environmental practices to a certain standard or screen out (negative screening) investments that cause harm to the social context and/or environment. Investors may also negatively screen investments if they consider it to be reputationally damaging to hold them in their portfolio.
Private capital	Capital that is privately held and typically not regulated and is invested for maximum financial gain seldom without any consideration of the environmental or social impacts.
Programme Related Investment	With reference to United States based foundations these are investments made by philanthropic foundations using philanthropic capital to augment their programmatic work and as such are exempt from excise tax that other investments attract. These investments typically have the potential of a financial return that ranges from sub-optimal to the return of principle and in some cases positive returns. Time frames for returns can be very long term (patient capital). The reason for a foundation to deploy Programme Related Investments would be to further their mission in their grant making activities and to more effectively recycle their philanthropic capital.
Reconstruction and Development Programme	The South African socio-economic policy framework implemented by the first democratically elected government in 1994 to rebuild and redress the social and economic challenges left after Apartheid.
Responsible Investment	An active investment strategy which aims to generate both financial and sustainable value. It consists of a set of investment approaches (or sub strategies, impact investing being one) that integrate environmental, social and governance (ESG) and ethical issues into financial analysis and decision-making.

Social Impact Bonds	A pay-for-success blended finance model. It is not, as the name suggests, a bond. It is a complex funding model that attracts traditional investors (foundations can be included in the capital stack to reduce the cost of funding) into a funding vehicle that includes social impact providers (either social enterprises or not for profit organisations) committed to on the ground delivery of an outcome that can be measured, independent evaluators and capital providers (normally government, DFI's or a foundation). Capital providers repay the investor on delivery of independently evaluated impact outcomes that the impact provider delivers.
Socially Responsible Investment	Also known as social investment, socially conscious, green or ethical investment which seeks to avoid harm (a passive investment approach) and by so doing, bring about social good over and above a financial return. Often used, mistakenly so, interchangeably with RI.
Total Portfolio Management	Foundation investors and their advisors have typically managed their programmatic work using philanthropic capital entirely separately from the financial investments of their endowment. Total Portfolio Management is an approach that suggests that the entire portfolio of philanthropic capital as well as endowment capital can together be used more effectively for mission if the full portfolio is aligned through the lens of the mission.
Ubuntu	Often difficult to translate into English, Ubuntu is a complex word from the Nguni language. Best known as an African humanist philosophy embodied in a Nguni proverb of 'A person is a person through other people' (Gade, 2012). The word (as a philosophy) gained wider currency in South Africa given that it underpinned the approach followed in the post-Apartheid Truth and Reconciliation Commission (TRC). Bongani Finca, a TRC commissioner defines Ubuntu to mean: "You are what you are because of other people" (Gade, 2012, p. 493).

Declaration of authorship

I, Geraldine Mary Hand declare that this thesis:

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and the work presented in it are my own and has been generated by me as the result of my own original research. Further, I declare:

1. I am presenting this dissertation in full fulfilment of the requirements for my degree;
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Signed:

Signed by candidate

Date: 31 August 2018

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Abstract

With the right tools, South Africa's endowed philanthropic foundations can use their full asset base to leverage traditional capital pools toward market-based solutions. These solutions address key socio-economic challenges of inequality, unemployment and poverty using investing for impact strategies and blending models. However, this is an opportunity not yet exploited in South Africa despite traction abroad.

By developing case studies of six international foundations that have deployed impact investment and structuring strategies, this study formed an understanding of how key enablers to adoption of these strategies were utilised. Thereafter, the leaders of fourteen local foundations were interviewed to expose current practices and barriers to adoption. Subsequent focus groups were conducted to examine the outcome of the previous data collection process.

Findings reveal that chief among the barriers is the lack of appreciation of Total Portfolio Management as an asset management strategy for foundations. The reasons advanced being, the role of investment advisors, application of fiduciary duty, and an understanding of the tax dispensation for foundations. Another barrier is the limited use of innovative blended funding models to leverage traditional investors who have a greater pool of financial resources to potentially finance solutions. The reasons advanced are leadership vision and structuring skills within foundations.

This study contributes to theory and practice by providing an initial attempt as a toolkit for South African foundations to enable them to be more effective in catalysing much needed financial resources to alleviate the Country's triple constraint (inequality, unemployment and poverty). In so doing, adding to the growing body of impact investing knowledge in South Africa.

Chapter 1 – Introduction

1.1 Research area

“We must appreciate that all over the world, right down the centuries, there have been great religions that have encouraged the idea of giving – of fighting poverty and of promoting the equality of human beings – whatever their background, whatever their political beliefs. That spirit has lived not only in the world but in South Africa as well.”
Nelson Mandela (Kuljian, 2013, n.p.)

“When we want to help the poor, we usually offer them charity. Most often we use charity to avoid recognising the problem and finding the solution for it. Charity becomes a way to shrug off our responsibility.

Charity is no solution to poverty. Charity only perpetuates poverty by taking the initiative away from the poor. Charity allows us to go ahead with our own lives without worrying about those of other people. Our conscience is adequately appeased by charity.”
Muhammed Yunus (Yunus & Jolis, 1998, p. 283)

The idea of giving and taking care of one’s neighbour is long entrenched in the South African culture, an idea that is welcome in a context where South Africa carries a significant legacy of pressing social and economic challenges. Neither government nor civil society can provide the resources that are required to address these challenges.

Despite slippage in the past year, South Africa has a relatively strong financial sector, a high standard of commercial infrastructure with well-formulated frameworks to regulate investment, as well as an innovative business community compared to the rest of the world (WEF, 2017). Within the cultural context of *ubuntu*, South Africa has a good number of philanthropic foundations that, with the right framework and tools, could leverage commercial investment toward market-based solutions that address some of the Country’s socio-economic challenges. Increasingly, South African corporates and savings funds have an inclination to invest in

initiatives that offer both a positive financial and social impact return (Dhlamini, Giamporcaro, & Makhabane, 2017). But what may be required is the stimulus to cross the line from traditional investment products to those that offer this dual return. Endowed philanthropic foundations are potentially well-placed to advance this leverage through impact investing strategies and blending models (Alijani & Karyotis, 2018). This is an opportunity that has not been exploited to date in South Africa despite traction in other countries. Furthermore, there is limited research in the area of impact investment and blended finance structuring instruments (Höchstädter & Scheck, 2015; Roundy, Holzhauser, & Dai, 2017).

This research sets out a rationale and method to develop a framework for South African philanthropic foundations to use, such that they may engage in impact investing strategies or blend their own capital with that of commercial interests to do more for their mission. At its essence, a foundation could either develop an impact investing strategy for its endowment such that it is aligned to their social or environmental objectives, or it could utilise blended finance strategies to innovatively co-fund their programmatic work, alternatively deploy both opportunities. In this way, the foundation has an opportunity to do much more with the capital available to them to solve for the societal challenges they seek to address. The resulting thesis will present one way to realise what Kuljian (2013) understood to be the Mandela dream of alleviating poverty and inequality as well as appeasing the Yunus (1998) contention that philanthropy alone is insufficient in addressing the real problems that the poor face.

1.2 Research aims and objectives

This study seeks to demonstrate how foundations can leverage capital from the private sector through the use of impact investing strategies and blended finance structuring to address South Africa's triple constraint (inequality, unemployment and poverty).

The following diagram (Figure 1) sets out the framework that can be used to summarise the key concepts used in this research. As a starting point, South Africa has significant social and environmental challenges to solve. In isolation of each other, the South African government; civil society charity and philanthropy; and commerce and industry cannot solve for these challenges. However, by understanding what drives philanthropic foundations and responsible

investors as well as what challenges them to use impact investing and blended finance strategies, the possibility exists to leverage capital for the greater good of South Africa's development agenda. Together, these two sectors (philanthropic foundations and responsible investors) could more effectively use the continuum of asset classes available to them to do more to address the triple constraint.

It should be said that philanthropic foundations are not the only entities that could utilise impact investing and blended finance strategies for the benefit of society at large. Other capital owners such as pension funds, collective investment schemes, insurance funds, corporates and high net worth individuals, have the capacity to follow these strategies (Raliphada & Horne, 2017). However, the objective of this study is to specifically consider the role of foundations in South Africa. Given the fact that their mission is to clearly address the social and environmental challenges the Country faces and that their fiduciary duty is primarily to their mission, endowed foundations can therefore play an innovative role to include more capital for greater impact, more so than other capital owners (Christoph Courth, 2016; Edmiston & Nicholls, 2018).

Following from this narrative, the question then becomes: What can be done to leverage endowment capital and fiduciary capital for the greater good of South African society? More specifically, what is preventing philanthropic foundations using their endowment and philanthropic capital to influence traditional or fiduciary capital to impact investing strategies? Understanding the hurdles that foundations face, what could be done to overcome them using case studies in order to develop a framework that guides South African based philanthropic foundations to leverage their own and fiduciary capital for a far greater impact than their grant making alone would allow.

This research aims to address the following question:

What are the key drivers or constraints that foster or limit the adoption of blended finance structuring and impact investing strategies by philanthropic foundations in South Africa?

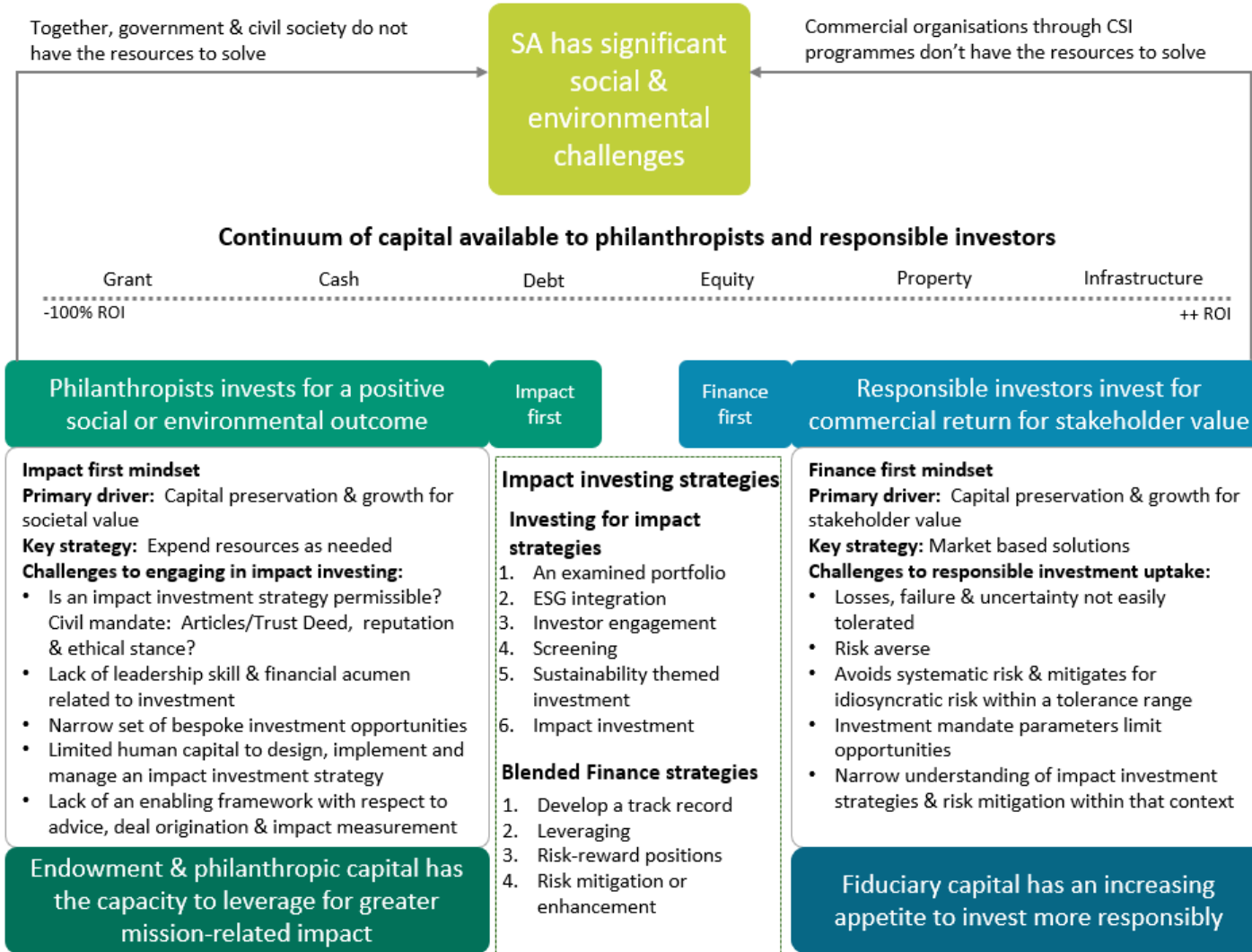


Figure 1: Research conceptual framework. Adapted from Charlton, Donald, Ormiston and Seymour (2014), Business & Sustainable Development Commission and Convergence (2017), Miller (2012) and Dhlamini Giamporcaro and Makhubane (2017)

Addressing this question may assist in understanding how philanthropic foundations could use impact investing strategies and blended finance models to leverage their limited resources more effectively as well as the potential to leverage traditional capital. Further, an initial attempt at a practical toolkit is offered to provide trustees of endowment capital with a practical framework for implementation and concern mitigation. The framework endeavours to assist foundations to visualise the potential for them to be “more than the sum of the investment and philanthropic parts” (Trelstad, 2016, p. 5).

Chapter 2 – Literature review

2.1 Introduction

The literature review will first provide context for social transformation in South Africa and explains why there is a need to provide capital to address social challenges. This will be done through the lens of the historical context of Apartheid that shaped an unequal society resulting in the developmental challenges that the Country faces today.

Secondly, this review will consider the role of business and its capacity to address South Africa's development agenda. It considers the literature that informs the evolving view that business is increasingly acting with a stronger social intention and explores what informs their responsibility in this regard. Within this context, consideration is given to the corporate social investment (CSI) initiatives in place to facilitate support of the Country's social development. Further, highlighting the notion that fiduciary capital asset owners (notably pension funds) are increasingly wanting to invest responsibly and deploy impact investing strategies, but are presumptive, risk averse and conservative despite the investment logic in favour of adopting these strategies.

Thirdly, the role of civil society to address the development challenges in South Africa since the demise of Apartheid will be discussed. In particular the capacity of foundations and their philanthropic capital, to deliver on their philanthropic mission. The view considers whether civil society philanthropy has the resources to solve for all these challenges. It will be posited that while it is difficult to ascertain the exact size of philanthropic foundations' asset base, this asset base has grown as a consequence of the Broad-Based Black Economic Empowerment (B-BBEE) legislation and practices, and therefore has a stronger capacity to allocate (and leverage) resources toward addressing societal challenges.

Fourthly, a review of the literature is considered in order to link these seemingly disparate pools of capital (private sector funding through the use of fiduciary capital via Responsible Investment (RI) strategies and philanthropic capital in impact investing strategies and blended finance structuring) to meet the demand of the development agenda, sometimes off the back of public sector leverage through government incentives. In essence, the idea of converging philanthropic

capital with regulated investment capital (what will be referred to as ‘fiduciary capital’) to do what public finance, private sector finance and civil society philanthropy cannot do alone, is discussed.

The final section of this literature review considers these impact investing and blended finance strategies, to consider models in other geographies that could exhibit what could be used in South Africa.

2.2 Context of social transformation in South Africa

The legacy of Apartheid has left South Africa with significant social and environmental challenges that need to be resolved, to build a functioning, just and prosperous society (Gous, 2018; Schotte, Zizzamia, & Leibbrandt, 2017; The World Bank, 2018). Such where people have access to education, shelter, healthcare, security, nutrition, clean water and jobs so that they can be responsible contributing citizens for the benefit of present and future generations (Marock & Harrison-Train, 2018; Shankar, Cooper, & Koh, 2016; The World Bank, 2018). Government alone cannot solve for all these challenges via the use of traditional development assistance, macro-economic programmes and legislative incentives to garner investment in key transformational areas (Chitiga, Mabugu, Maisonnave, & Robichaud, 2016; Ewing & Guliwe, 2005; Lawrence & Prior, 2015; Swilling, van Breda, van Zyl, & Khan, 2004; The World Bank, 2018). Currently, the South African government faces a number of systemic challenges that further dampen its capacity to address: a low growth economy; the lack of skills within government to execute social programmes and economic transformation; growing unemployment that places an increasing burden on the social welfare infrastructure; and rampant corruption rendering state owned enterprises dysfunctional, placing further demands on government to provide bail outs when there are limited resources (Bhorat et al., 2017; Jansen, Moses, Mujuta, & Yu, 2015; Statistics South Africa, 2017b; Swilling et al., 2004).

At present, for many South Africans it is hard to commemorate Freedom Day and Youth Day when historically disadvantaged black South Africans, particularly the youth, bear the brunt of social exclusion regardless of what measure of poverty is used (Equal Education, 2017; Jansen et al., 2015; Marock & Harrison-Train, 2018; Shankar et al., 2016). South Africa’s decades of

systematic social exclusion under the Apartheid regime still have a significant impact today in that the Country experiences significant income gaps (Mbewe & Woolard, 2016; Orthofer, 2016; The World Bank, 2018).

2.2.1 The context of Apartheid and inequality

South Africa set about the systematic alienation (both overtly or covertly) and disenfranchisement of one group of people (using race as a parameter) from basic human rights, societal benefits, opportunities and resources fundamental to social integration of all races, and made them widely available to white people (Bhorat, van der Westhuizen, & Jacobs, 2009; Carter & May, 1999). The regimes that emanated from the post-colonial Union of South Africa in 1910 and the Nationalist South African republic in 1948, led to the embedded separation of “black people” (defined as people of African Black, Coloured and Indian decent) from the resources that they chose to or needed to consume for advancement (Posel, 2010). This included exclusion from: education, housing, employment, healthcare, civic engagement, democratic participation, and due process. Furthermore, the inability to acquire or own valuable tangible assets (such as land, property and equity) deepened poverty especially for marginalised black people (Carter & May, 1999; Jarrett, 2013).

The reality of social exclusion under Apartheid cost South Africans dearly, but never more so than the economic and financial cost that the Country bears today, decades after the end of the system in 1994. The brunt is seen in the income inequality experienced by black people as measured by a Gini co-efficient of between 0.660 to 0.696 (Bhorat, 2015; Chitiga, Sekyere, & Tsoanamatsie, 2014; Wilkinson-Maposa, Fowler, Oliver-Evans, & Mulenga, 2005). The Gini coefficient is a statistical measure of the degree of variation between those that draw the most income in a given economy and those that draw the least income, and is consequently referenced as either a ‘wealth gap’ or an ‘income gap’ (Orthofer, 2016). The top 10% of wage earners in South Africa harnessed 65% of all income earned, whereas the in comparison to South Africa’s economic peers, in Brazil and India the top 10% of earners only make up about half of the national income (Facundo, Chancel, Piketty, Saez, & Zucman, 2018). South Africa’s income gap is a significant contributor to inequality. In 2012, it would have taken lowest paid salaried employee 267 years to earn what the average CEO earned in the same year (Francis & Massie,

2018). This illustrates the vast level of inequality that is perpetuated by exorbitant executive remuneration (Mcgregor, 2018). Francis and Massie (2018) suggest it is impossible to overcome this gap without specific intervention to narrow it and in so doing reduce inequality.

Wealth gaps such as these are considered to be one of the biggest challenges facing the development of nations in the world today in that unequal societies struggle to prosper economically (Jarrett, 2013; Wood, 2016). A country's inequality gap can be a gauge of the potential societal instability that creates greater investment risk and volatility for its citizens, but therein lies an opportunity (Wood, 2016). When a sovereign state is able to develop policies and interventions that support those citizens at the lower end of the income scale, quality of life improves and income gaps can be reduced. Consequently, a more politically and economically stable society can result.

South Africa's social grant system was implemented after 1994, following South Africa's transition to democracy to support those that earn the least or are not earning at all and therefore the most vulnerable. The social grant system has over time, positively skewed measures for lower Living Standard Measure (LSM) groups (Bhorat et al., 2009). Despite this support as well as the macro-economic programmes of the Reconstruction and Development Programme (RDP) and Growth Employment and Redistribution Programme (GEAR) implemented after South Africa's transition from Apartheid, the wealth gap is still high (Bhorat, 2015; Chitiga et al., 2014; Facundo et al., 2018; Mbewe & Woolard, 2016).

By virtue of South Africa's Gini coefficient, it is one of the most unequal societies in the world such that the Country is exposed to the risk of civil strife (Bhorat, 2015; Chitiga et al., 2014; Orthofer, 2016). Other nations may have reached such levels of inequality at one time or another over the past few decades, but there is normally a specific reason for such spikes (for example, civil war or widespread natural disaster) (Bhorat, 2015). In South Africa's case, a concerning feature of its Gini coefficient is its consistency over time and the fact that it has worsened since independence (Bhorat et al., 2009; Bhorat, 2015; Facundo et al., 2018; Mbewe & Woolard, 2016).

Interestingly Brazil's Gini coefficient was similarly as high as South Africa's in 1994. Investment in Brazil's high school and tertiary education systems, supporting increased

graduation rates while still maintaining quality of education has seen Brazil's Gini fall (Bhorat, 2015). South Africa has significant challenges if it is to follow Brazil's example to reduce the gap. About 40% of children that enter Grade 1 in South Africa do not finish secondary school (Equal Education, 2017). Youth unemployment remains alarmingly high with 38.8% of 15 to 34 year olds (defined as 'youth') and 11.9% of young graduates unemployed (Equal Education, 2017; Marock & Harrison-Train, 2018; Shankar et al., 2016; Statistics South Africa, 2018). The emerging 'Fees Must Fall' movement highlights the struggle of many black university students to fund either remaining in tertiary institutions or graduate or to be heard on how challenging it is to acquire tertiary education at all (Bhorat et al., 2017; Marock & Harrison-Train, 2018; Shankar et al., 2016). Key to Brazil and even India's narrowing of the equality gap has been the backdrop of strong economic growth, a worrying facet given that South Africa is in the grip of negligible economic growth and a contracting economy in technical recession (Bhorat, 2015; Donaldson, 2017; Jammine, 2017).

In contrast, Chitiga et al. (2014) argue that the Gini coefficient does not adequately encapsulate specific features of South Africa's hybrid economy and therefore indications it provides should be viewed with caution. Firstly, it does not consider the informal nature of employment and business ventures that allow people to subsist. The nature of the informal economy is that household or personal income is not recorded (via a tax system for example) which may mean that people are more included in the economic net than the formal records indicate (Bhorat et al., 2009; Facundo et al., 2018). Secondly the impact of the of social grant system designed to alleviate poverty at the base of the economic pyramid positively skews average income for people at lower LSM levels and misses people who fall out of the social grant net, but do not earn enough to accumulate savings, assets and wealth – in this instance the so-called 'missing middle' (The World Bank, 2018). Finally, the Gini coefficient does not incorporate the impact of other non-income related elements such as basic services (such as access to clean water and electricity) that the South African government has implemented to alleviate poverty (Bhorat, 2015; Chitiga et al., 2014). Despite this refute of the Gini and what it may suggest about South Africa's stability, if other measures are deployed to assess the extent to which a country facilitates an inclusive society, the Country nevertheless does not rank well.

A similar pattern emerges if consideration is given to how successful South Africa is relative to its peers in the analysis offered by the annual World Economic Forum's Global Competitiveness Report (WEF, 2016). In the 2016 – 2017 report, South Africa ranks 47th out of 138 countries (WEF, 2016). This seemingly strong position is boosted by the fact that South Africa ranks in the top 10 globally for the strength of its financial institutions, investment exchanges, audit protocols, and legal frameworks to protect human and business rights, and mitigated by its dismal performance on education, health and mortality (WEF, 2016). Yet it ranks as one of the worst countries when it comes to health and primary education (WEF, 2016). In the past year, for reasons that will be discussed in the next section, South Africa's global competitiveness has deteriorated.

In summary, South Africa's economic transformation challenges remain. Significant development challenges result from orchestrated socio-economic exclusion under Apartheid and can be represented by the wealth gap, and the Country's ability to compete with a global cohort. The government has invested significantly in infrastructure and macro-economic programmes to address growth and economic transformation so as to promote a more inclusive society (Kuljian, 2005; Swilling et al., 2004). As has been argued, South Africa's emerging economy peers (such as Brazil and India) have narrowed their wealth gaps by implementing strong education, employment and social support programmes. In contrast to South Africa's present context, key to their success has been the fact that such programmes are implemented against a backdrop of strong economic growth (Bhorat, 2015).

Thus, it is worth considering South Africa's developmental challenges and whether the Country has the capacity to effectively grow itself out of those challenges.

2.2.2 South Africa's capacity to address the triple constraint

Like many countries in the developing world, South Africa encounters multiple challenges, but three are predominant: inequality, unemployment and poverty (Chitiga et al., 2016). These three factors that most constrain South Africa's capacity to grow and develop as a nation are referred to as a triple constraint (Statistics South Africa, 2017b; The World Bank, 2018). Despite over 23 years of specific efforts of a democratically elected government to redress the past, these challenges persist. Further, because the South African economy remains exclusionary to the

black, previously disenfranchised population, poverty perpetuates as people are caught in an unending poverty trap (Jarrett, 2013; Kuljian, 2005; The World Bank, 2018).

South Africa's GDP is steadily contracting (-0.7% for the first quarter of 2017) effectively placing the economy in recession (Jammie, 2017; Statistics South Africa, 2017a). The prospect of economic growth of more than 1% seems improbable in a context where 3% is needed to spurn job creation (Donaldson, 2017; Fauconnier, Ramkhelawan-Bhana, Mandimika, & Gopaldas, 2017; Jammie, 2017; Statistics South Africa, 2018). In a low growth economic climate, South Africa faces burgeoning dependence on the social grant system, because more and more people are drawn into the social grant net. The poor growth prospects leave 27.2% of South Africans unemployed with 31.6% of those aged 15 – 34 not in education or employment and 55.5% of the population living below the poverty line (Statistics South Africa, 2017b, 2018). This pressure on the social grant net raises questions as to whether this dependence on the system can be sustained over the long term (Chitiga et al., 2016; Shankar et al., 2016).

Within this context, South Africa's National Development Plan (NDP) sets out a bold vision to aim for by 2030 with key priorities consisting of: increasing employment through faster economic growth; improving the quality of education, skills development and innovation; and building the capability of state departments to deliver on its developmental and transformative commitments (National Planning Commission, 2013). It is these objectives that aim to redress previously disadvantaged black people under Apartheid such that income gaps are narrowed allowing for a more inclusive economy, political strife is reduced, investment is attracted and economic growth may be possible (Wood, 2016).

An added complication which may sway the Country from its NDP, is the systemic corruption that has resulted from what Bhorat et al. (2017) refer to as “the political project” (Bhorat et al., 2017, p. 3) of economic transformation to redistribute the resources of state owned entities to an emerging black middle class. A constant stream of *prima facie* evidence highlighted by independent media in South Africa of questionable transactions, kick-backs and personal enrichment by political representatives, has left many South Africans, especially black South Africans, deeply disillusioned with the ruling party's mismanagement of the resources that were meant to address the challenges of poverty, unemployment and inequality (Bhorat et al., 2017).

Systemic corruption has left South Africa with decreased capacity to address the development agenda and its vision for an economically and socially transformed society as set out in the NDP (Bhorat et al., 2017). As a direct breakdown of corporate governance and corruption, South Africa has slipped from 47th to 61st place over the past year on the Global Competitiveness rankings (WEF, 2017). Swilling and van Breda (2004) argue further that there is sufficient capital to address the development agenda, but this is hampered by the lack of skills capacity to efficiently deploy, manage and monitor capital programmes at a national and local government level; a challenge that is further aggravated by deepening corruption (Bhorat et al., 2017).

Thus, in the current recessionary economic climate, the Country is neither able to address its dangerously wide inequality gap nor is it readily able to implement its comprehensive NDP because of the lack of management skill and corrupt use of capital. South Africa is not unique in that most sovereign governments in Africa cannot alone solve their social and environmental problems, but in the case of South Africa, despite being the second strongest economy on the continent it is unable to use its relative strength to become a more inclusive society (Fauconnier et al., 2017; O'Donohoe, Bugg-Levine, Leijonhufvud, Saltuk, & Brandenburg, 2010; Sales et al., 2015). The Country has not enjoyed the growth, employment and wealth redistribution it had projected; while strides have been made, poverty and unemployment prevail because the Country's approach supports the capitalist system it retained after transition from Apartheid that, at its heart, has no primary interest in including the poor into the economic net (Facundo et al., 2018; Kuljian, 2005; Mbewe & Woolard, 2016; The World Bank, 2018). However, Barman (2016) argues that capitalism does have the capacity to uplift society and that the vehicles for doing so are government initiatives and the private sector.

Thus, in this context consideration will be given first to the development aid the South African government can rely on to support the development agenda. Thereafter the legislative framework South Africa has developed to engage the private sector in addressing its triple constraint.

2.2.3 Development aid to support South Africa's development agenda

Set in 1970 by the United Nations, the Official Development Assistance (ODA) target for more well-off donor countries to supply to the emerging or frontier economies is 0.7% of the donor

country's Gross National Income (GNI) (Freiburghaus, Tinner, Varonier, & Wenk, 2016). For a variety of reasons such as poor market functioning, poor return on investment in relation to risks and limited skills in the emerging economy that the donor country wants to invest in as well as global downturns (OECD & WEF, 2015), it has been difficult to reach the 0.7% target (Freiburghaus et al., 2016). Despite the fact that Africa as a continent receives the largest proportion of global ODA and year on year progress is being made toward the target, ODA for African countries is currently at 0.32% of GNI (Fauconnier et al., 2017).

Because the Country ranks well in terms of advanced business and physical infrastructure, South Africa is considered too emerged as an economy and therefore does not attract high levels of ODA (Fauconnier et al., 2017). As South Africa transitioned from Apartheid to a democratically elected government, it relied on ODA (albeit limited) via sovereign Development Finance Institutions (DFI) and in recent decades to transition to direct foreign investment to augment its GEAR programme as well as unique funds set up to address specific challenges¹ (Swilling & van Breda, 2004). The intention being that these programmes and initiatives would drive the growth that in turn would foster an inclusive development agenda and make South Africa attractive to direct foreign investment. A specific aim of countries contributing to South Africa's ODA shortly after transition to democracy, was to wind down activity in favour of more development finance programmes where the South African government takes increasingly more of the responsibility for its social programmes (Ewing & Guliwe, 2005). In this objective, South Africa has been reasonably successful. In recent decades, the Country has positioned itself as a development partner on the continent, despite its strained financial resources to address the domestic challenges presented by the triple constraint (Besharati, 2013; Vickers, 2012). South Africa regularly contributes to peace-keeping, post conflict restoration and bilateral relations as part of its foreign policy to strengthen the continent in addition to addressing domestic development needs (Besharati, 2013; Vickers, 2012).

Over and above the macro-economic programmes (RDP and GEAR), the government has implemented a raft of legislative incentives to advance the development needs of the Country.

¹ These special funds include the Municipal Infrastructure Grant Fund and the National Skills Fund (Swilling & van Breda, 2004)

2.2.4 Legislative incentives to foster investment in the development agenda

Public-private partnerships that harness government's capacity to support (but not implement) and incentivise private sector investors to commit capital to market-based solutions that more efficiently meet the needs of the poor, unemployed and excluded can be an effective tool for development (The GIIN, 2018; The World Bank, 2018). It is suggested that such partnerships are effective because the private sector offers stronger skills capacity and financial resources to achieve these aims (Barman, 2016). Gill Marcus, erstwhile Governor of the South African Reserve Bank and deputy minister of Finance at the time of transition from Apartheid to democracy indicated that "although it was up to government to provide a framework for transition, it was up to all South Africans to make it work" (Scholtz, 2009, p. 29). Partnerships, therefore are an effective way for government, civil society and the private sector to work together to achieve what each one alone cannot do.

Although these can be complex relationships that Swilling et al. (2004) argue do not do enough to include grass roots communities to design pro-poor solutions that affect them, there are four examples where the legislative framework set by government provides for private sector funding and civil society to work together to achieve the aims of job creation, poverty reduction and inclusion. These are: The Jobs Fund; 12J legislation; Regulation 28; and Broad-Based Black Economic Empowerment (B-BBEE) codes.

- The Jobs Fund

A R9 billion Jobs Fund was announced by South Africa's president in 2011 as a mechanism to address unemployment in the Country (National Treasury, 2017). Established as a challenge fund, the Jobs Fund offers grant capital on condition that civil society organisations and corporates are able to raise at least the amount of the grant capital provided by the Jobs Fund, if not more, to develop innovative and sustainable solutions that create new permanent jobs (National Treasury, 2017). In conjunction with their corporate and civil society partners, R9.1 billion has been leveraged from R6.5 billion of grant funding distributed so far, since inception. This has resulted in the creation of 91,626 jobs (National Treasury, 2017).

While not strictly a legislative framework, this initiative demonstrates successful public-private partnerships that work to catalyse additional capital to foster the vision set out in the NDP.

- *Section 12J incentives*

One of the chief contributors to economic growth and job creation in emerging markets is the development of Small, Micro and Medium Enterprises (SMME) as their combined contribution to GDP is generally greater than that of national and multi-national corporates (Kindert et al., 2017). Growth opportunities arise if one considers that smaller businesses that scale have stronger capacity to develop new jobs and entrepreneurship resulting in a more inclusive economy (Slegten, 2013; Wilson, 2014). However, SMME's find it difficult to attract much needed investment for growth as the traditional banks have little inclination for lending into this sector because of the perceived risks (IFC, 2017). Thus, governments in emerging economies should provide an incentive for greater investment into start-up or venture businesses that have the potential to scale over time.

Section 12J of the South African Income Tax Act No. 58 of 1962 was implemented in July 2009 to provide a tax rebate incentive for individuals in respect of the cost of a 5 year equity stake in a venture capital company (Ngwenya, 2014). There have been a number of structural challenges with the incentive making it difficult for potential investors to comply, therefore rendering them unable to enjoy the benefits of the tax exemption offered, resulting in very little take up (Ngwenya, 2014). However, effective late in 2015, the South African Revenue Services (SARS) revised the legislation resulting in a plethora of venture capital firms being set up specifically to take advantage of the resulting new investment capital from high net worth individuals seeking a significant personal tax break if they invest in start-up businesses (SAVCA, 2014).

The recent legislative reforms to Section 12J are still nascent and it remains to be seen if this government incentive programme will have the necessary impact on the growth of small businesses in South Africa.

- *Regulation 28*

Welcomed by the South African investor community, the Regulation 28 amendment to the Pensions Fund Act No. 24 of 1956, marked a move away from a rules based investment

parameter approach to one that provided pension fund trustees with a set of guiding principles within which to operate (National Treasury, 2011; Viviers, Venter, & Krüger, 2012).

The explanatory memorandum to the amendment reminds trustees that they should consciously incorporate environmental, social and governance factors (ESG) into investment decisions specifically with the intention of aligning their investment mandates with the Country's development agenda (National Treasury, 2011). These far reaching guidelines gave effect in 2012 for pension fund trustees to consider the inclusion of alternative more impactful assets in their investment portfolios while at the same time exercising due care in keeping with their fiduciary responsibility to protect capital for the benefit of pension fund members (National Treasury, 2011).

The move provided the legislative framework to unlock pension fund assets to Responsible Investment (RI), and by implication the deployment of these assets to impact investment strategies (Viviers et al., 2012). Sales et al. (2015) argues that despite this legislative framework, pension fund trustees have remained reluctant to take up the opportunity available to them which may suggest that further policy impetus is required as has been the case in other geographies (US Advisory Board on Impact Investing, 2014). In May 2018, the South African Financial Sector Conduct Authority (FSCA) released for comment a draft directive that if adopted, will compel pension funds to develop Investment Policy Statements (IPS) that sets out a pension fund's commitment to environmental, social and governance (ESG) factors as part of their sustainability and to publicly report against those commitments. This may be the policy momentum required to drive capital owners to consider the factors that underpin sustainability and development.

- Black economic empowerment and social responsibility

Stemming from the GEAR programme, the provisions of the B-BBEE Act, No. 53 of 2003, its subsequent amendment encapsulated in the Broad-Based Black Economic Empowerment Amendment Act No. 46 of 2013 and their Codes of Good Practice, various options are available to encourage corporate South Africa to share economic opportunities more inclusively with black South Africans previously excluded from economic prospects under Apartheid (The Department of Trade and Industry, 2017). Under this legislation and its codes, corporate South Africa is incentivised to: invest in the development of its supply chain to favour the growth and expansion

of black owned enterprises; to employ a higher proportion of black people in upper levels of management; transfer tangible assets to black communities and staff; and to change their ownership structures in favour of black management and equity holders (The Department of Trade and Industry, 2017).

Over the two decades since independence this legislation has been most pivotal in shifting the economic empowerment needle to redress exclusion under Apartheid. Increasingly, the B-BBEE credentials of the investees are incorporated into the investment decision making process (Viviers et al., 2012). Additionally a number of significant B-BBEE empowerment deals have been concluded which, in some instances, have included the establishment or expansion of new or existing philanthropic foundations (Gastrow & Bloch, 2016; Theobald, Tambo, & Makuwerere, 2017).

While not yet fully effective in every instance, these examples of incentivised partnerships (The Jobs Fund, Section 12 J incentives; Regulation 28, and B-BBEE) serve as powerful illustrations of government creating the legislative framework to leverage commercial capital in the interests of the Country's development agenda. In South Africa's instance, the lack of skills and funding to effectively implement government's development programmes, limits the Country's capacity to deliver on their vision (Kuljian, 2005; Swilling et al., 2004).

2.2.5 Conclusion

In summary, it is reasoned that while South Africa has developed a noble vision and development plan to address the significant transformative challenges that remained after Apartheid's demise, government alone cannot address the challenges of poverty, unemployment and inequality. Foreign investment and ODA have their limitations especially in the context of poor economic growth, the skills gaps among government employees and increasing levels of corruption. With varying degrees of success, government has played its enabling role by putting in place economic transformation programmes such as RDP and GEAR; special funds; and legislative frameworks to leverage additional resources (both financial and skills) and partnerships to achieve the transformative development agenda. South Africa's social and transformation requirements remain largely unmet for most South Africans. Given a lack-lustre

economy with poor growth prospects, South Africa is increasingly unable to offer jobs created through an expanding economy to narrow its wealth gap.

While this presents dismal prospects for the Country, it also means that there is further opportunity to find innovative solutions to solve for these challenges, especially the capacity of business and civil society to contribute to the development agenda.

2.3 The role of business in addressing South Africa's development agenda

On a global scale in the latter part of the 20th century, the argument that business can operate purely in the interest of the business for shareholder value began to crumble (Agarwal, Gneiting, & Mhlanga, 2017; Senge, Dow, & Neath, 2006). Increasingly multi-nationals and locally based corporations were forced to consider the pressures on the available resources and means of production as key risks for the business's sustainability (Senge et al., 2006). The longevity of the business no longer was dependent on the ability of management to manage operations and a healthy balance sheet. Rather it was dependent on building productive relationships and innovating with stakeholders to more effectively manage the systemic environmental and social risks that could threaten the future of a company (Molteni, 2006). Stakeholder theorists such as Porter and Kramer (2011) and Freeman (2004) have long argued that rather than business operating purely for profit maximisation in the interest of increasing shareholder value, profit optimisation for the benefit of a wider range of stakeholders is a more sustainable way of doing business. Essentially, that it is not sustainable to operate without consideration of the context within which the business may operate if that business is to remain competitive. Porter and Kramer (2011) theorise that operating in isolation of systematic risks could raise idiosyncratic risks that affect the financial performance of corporations and their ability to compete among peers over time.

2.3.1 From shareholder value to stakeholder value

To operate from the perspective of stakeholder value rather than purely from a shareholder perspective is particularly relevant in a South African context of Apartheid. Indeed multinationals from the late 1970s were forced to reconsider their investment in South Africa following the advent of the Sullivan codes which set guidelines for American businesses

operating in South Africa that led to a global social movement (Viviers & Els, 2017). The reputational risk of companies remaining in the Country forced many to divest regardless of how profitable it may have been for shareholders to remain. As Porter and Kramer (2011) argue, multinationals with operations in South Africa could no longer compete in other geographies because of the fact that their suppliers, customers and staff viewed their presence in South Africa as support of an immoral regime.

Since the end of Apartheid in 1994, and following a global movement to more viable practices to remain competitive, businesses are having to at least consider how they operate in a given context and investors are engaging with those businesses on environmental, social and governance (ESG) factors to consider the ability of the firm to sustain itself over time (Wood, 2016). Thus it is prudent for business to seek to create value for most stakeholders (its employees, suppliers, customers, community, government non-governmental agencies, as the case may be) as opposed to a limited number of people or entities that have an equity stake in the business (shareholders) (Porter & Kramer, 2011; Revelli, 2017; Wu & Shen, 2013). Further, having a good stakeholder approach (meaning an approach where positive value is created for interest groups affected by the business over and above shareholders) can positively affect financial performance and the global challenges faced by society as a whole (Ioannou & Serafeim, 2015; UNPRI, 2017).

Agarwal et al. (2017) argue that beyond ESG, all commercial businesses should align their business objectives with the active achievement of the Sustainable Development Goals (SDG) in the interest of their own sustainability. Not only is there a business sustainability argument for a business to align with the SDGs, doing so may well contribute to closing the funding gap. It is estimated that there is a significant funding gap (\$2.5 trillion per annum) between what it will cost to achieve the SDGs and the capacity of governments to fund them (Business & Sustainable Development Commission & Convergence, 2017; Rodin & Madsbjerg, 2017). Hence the need to for business (and civil society) to assist government in finding innovative solutions to fund needs of a nation as set out in the SDGs.

While there is increasing popularity for utilising private finance to achieve social solutions especially in light of SDG funding gaps and a sovereign development agenda, caution is advised

as the objectives of a commercial solution and the needs of the poor may not be the same (Agarwal et al., 2017). A commercial investment in a business that primarily seeks to solve a development challenge affecting those at the base of the economic pyramid, can result in it being forced away from the social intention (Cetindamar & Ozkazanc-Pan, 2017).

Given rapid urbanisation, a growing consumer base, increasing connectivity and growing stability, Africa is a continent that is attractive for commercial investors (Fauconnier et al., 2017; IFC, 2017). Because of the socio-economic challenges many nations on the continent face, including South Africa, there is a compelling argument for this investment to be accomplished in the most responsible manner. Agarwal et al. (2017) further contend that government should take the primary responsibility for social transformation. While this is clearly the stated intention of the South African government via the NDP, the question remains as to how this can be done in an emerging economy with a complex socio-political history, strong social demands and where the resources to address social challenges are limited?

To meet South Africa's significant social development agenda, further ways need to be found to attract commercial or fiduciary capital and skills to augment where government cannot. Other sovereign nations that face similar development challenges have realised that new ways of investing which typically include responsibly invested fiduciary capital, need to be found in order to solve pressing challenges (Burckart & Lydenberg, 2016). With the triple constraint of inequality, poverty and unemployment creating a strong challenge in South Africa, mainstream investors have a unique opportunity to respond to this, at the very least as stakeholder theorists suggest to manage systemic risk of not doing so in order to remain competitive (Orthofer, 2016; Wood, 2016; Wood, Thornley, & Grace, 2013).

2.3.2 South African business community: attempts to address social challenges

Increasingly, given Regulation 28 and the pending FSCA directive for pension funds to be accountable for taking due consideration of ESG and RI for sustainability, pension funds and the banking sector are considering investments that are aligned to development interests of the Country (Moleko & Ikhide, 2017; Raliphada & Horne, 2017).

South Africa has significant pension savings pools to harness for the abovementioned investment. Asset holdings of pension funds and institutional investment funds are calculated between R2.3 trillion to R2.7 trillion (Association for Savings and Investment in South Africa (ASISA), 2018; Moleko & Ikhide, 2017). Opportunities for investment which could drive economic growth and have the added impact of job creation include: agriculture and agri-processing; manufacturing (food processing, textile and furniture manufacture) and tourism (Donaldson, 2017). It is clear that South Africa also has challenges in health and education that hamper its success as a nation (Social Progress Imperative, 2016; WEF, 2017, 2018). Investment in these sectors could contribute to the Country's prosperity. As has been argued earlier, government can take responsibility for social transformation by setting the agenda in a NDP and providing the legislative frameworks to incentivise individuals, communities and business to support the agenda. How has the South African business community responded?

South Africa is a leader on the continent in terms of investing for impact strategies (ESG integration, investor engagement, positive/negative screening, thematic and impact investing) (Dhlamini et al., 2017). Despite relatively large pools of capital and the social context that provides opportunities for investment and Regulation 28 guidelines that encourage active alignment of pension fund investment with the Country's development agenda, a very small proportion of this capital is invested in specific impact investing strategies (3.7% in Southern Africa of which South Africa represents by far the most significant proportion) (Dhlamini et al., 2017). A positive trend to note is that there is an increase in the quantum of funds in Southern Africa that are using an ESG overlay in investment decision making (from 72.5% in 2016 to 76.7% in 2017) (Dhlamini et al., 2017; Giamporcaro, Dhlamini, & Msulwa, 2016). It should be noted that ESG integration is a largely passive approach that does not intentionally seek to address social challenges. Rather, an ESG overlay takes cognisance of environmental, social and governance factors to the extent of their bearing on the risk an investor may face, whereas impact investing intentionally seeks environmental and social outcomes that can be measured and offer another layer of value to investors (Barman, 2015; Wilson, Silva, & Richardson, 2015).

For the most part, the focus of South African business' contribution to the development agenda has been channelled via Corporate Social Investment (CSI) and B-BBEE programmes. The

Country's B-BBEE legislation is the stimulus that rewards corporates that contribute 1% of their after-tax profit to CSI programmes. These are largely seen as the tools used to facilitate an organisation's relationships with its stakeholders to being a responsible corporate operative in a given context (Barman, 2016). The cost of running these programmes is negligible in comparison to the financial benefit that is achieved through the strategic relationships that are developed with the firm's stakeholders (Wu & Shen, 2013). Ioannou and Serafeim (2015) suggest that when companies are well respected in terms of their social responsibility programmes, they can be more attractive to their shareholders.

In a South African context, this means that CSI and B-BBEE is relegated to the realm of marketing or the license to do business. In the most recent annual survey (2015), R8.5 billion of corporate philanthropic donations through CSI programmes have been made, but this contribution is declining in comparison to past annual figures given the recessionary climate (Duff & Rockey, 2015; Rockey, 2015). Early evidence suggests that the B-BBEE codes have resulted in wider skills development, ownership and access to business opportunities for previously disenfranchised black South Africans (Juggernath, Rampersad, & Reddy, 2011). Specifically, in the period 2000 – 2014, B-BBEE deals concluded by the top 100 listed companies resulted in R317 billion of assets flowing to black beneficiaries (Theobald, Tambo, Makuwerere, & Anthony, 2015).

Thus, it can be seen, the South African corporate sector plays a role in addressing social needs via charitable contributions to CSI, through the transformation of workplaces via employment equity strategies to favour previously excluded black South Africans and B-BBEE transactions.

More recently, South African corporate sector has used its voice to record its dissatisfaction with the status quo especially in light of political developments that threaten economic stability and growth (Bhorat et al., 2017). In response to 'Nenagate'², corporate leadership set up an investment fund ("SA SME Fund"), leveraging fiduciary capital to support the growth of the

² On the 9 December 2015, the President of South Africa, Jacob Zuma removed the Minister of Finance, Nhlanhla Nene from office to replace him with a less experienced back bencher, Des van Rooyen arguably one who would not stand up to the contention that Zuma and his associates were attempting to capture National Treasury for nefarious purposes (Bhorat et al., 2017). Largely resulting from pressure from the business community, Des van Rooyen was replaced by a former Minister of Finance, Pravin Gordhan four days later (Bhorat et al., 2017). This affair became known as 'Nenagate'.

SMMEs (as they are often net job creators) and as a way to stave off sovereign downgrades by international ratings agencies (Hudson & Thys, 2016). Progress on the deployment of capital from the SA SME Fund has not yet materialised, thus the impact of this initiative is as yet, untested.

2.3.3 Conclusion

Within the South African context, while it makes financial sense to operate a business with a strong appreciation of the context of a broader range of stakeholders, business also has a framework that encourages social responsibility and investment in economic empowerment for the previously disenfranchised. While there is significant support from the business community for CSI programmes, economic transformation and employment equity through B-BBEE, there is very little take up of an investment approach to market-based solutions that address the social challenges South Africa faces.

2.4 The role of civil society organisations in South Africa

Since the advent of democracy in 1994, the role of grant-based civil society and philanthropic foundations have played a key part in addressing inequality in South Africa in keeping with the role they played in challenging the Apartheid state (Kuljian, 2005; Moyo, 2001, 2005; Osili, 2014). As the transformation agenda has gained traction, South African philanthropic foundations have grown in number and size to increasingly develop the capacity to continue addressing various social challenges (Gastrow & Bloch, 2016; Theobald et al., 2017).

It is ironic however, that the words ‘philanthropy’ and ‘charity’ are not easily revered in South African society. They are considered paternalistic, and reminders of the Country’s colonial past (Kuljian, 2005; Ractliffe, 2010; Viviers, Ractliffe, & Hand, 2011). In the developed world, particularly North America and Europe, philanthropy follows altruistic principles, with those at the top of the economic pyramid giving to those at the base of the economic pyramid with little expectation of anything in return. Westernised philanthropy can be considered as a tool to placate the conscience of a wealthy giver or to ensure political influence is maintained from developed nations to pacify unstable developing nations (Osili, 2014; Yunus, Dalsace, Menasce, & Faivre-Tavignot, 2015; Yunus & Jolis, 1998). Africans have been thought of more as

beneficiaries of private philanthropy and government aid from well-off nations rather than as people that have an interest in, or the talent and skills to address their own developmental challenges (Atibil, 2014).

Consider Atibil's (2014) idea that philanthropy is "shaped by the conditions of a people" (Atibil, 2014, p. 459), these being their historical, social, economic and cultural circumstances. Thus, indigenous philanthropy in South Africa and elsewhere on the continent, is flavoured by the concept of reciprocity rather than altruism. This is a more cooperative approach rooted in supporting those within the giver's immediate community in the knowledge that should the giver need support in the future, those that received previously would reciprocate (Atibil, 2014). Following this logic, the poor are most likely to be giving to their equally poverty-stricken neighbours (Wilkinson-Maposa et al., 2005). Thus, the focus of philanthropy in sub-Saharan Africa is approached from the perspective of helping each other, as a response to long past colonialism and in the case of South Africa, its specific history of Apartheid, rather than being dependent on outside help (Atibil, 2014).

The widespread culture of *ubuntu* captures this form of philanthropy. *Ubuntu* is the philosophy of who we are as people being defined by the humanity of others; the sense that '*I am, because you are*' ties African communities together, particularly in South Africa, in strong community bonds that support each other (Bedu-Addo, 2009; Gade, 2012; Kuljian, 2005; Wilkinson-Maposa et al., 2005). The idea of taking care of one's own because it defines one's humanity is reflected in many other mechanisms used in South Africa for mutual support (Atibil, 2014). Examples of these mechanisms include *Stokvels*³ and burial societies which are age old self-help mechanisms that rely on strong community bonds and peer pressure to take care of each member (Atibil, 2014). Endowed foundations are a relatively new feature of sub-Saharan African philanthropy, but the philosophy of *ubuntu* appears to be the philosophy that continues to underpin the motivation behind a growing number of high net worth Africans establishing foundations (as in

³ A colloquial South African word to describe a savings circle of members that regularly contribute an agreed small amount of money. The funds may be put into a savings account or kept in cash. At regular intervals, each member gets a turn to take a lump sum for a specific event or purchase. Peer pressure and group support keeps the process in check and the integrity of each member.

supporting the community of their birth because they can only be successful if the community is successful) (Ashamu, 2016; Atibil, 2014).

South African philanthropists and its foundations have a key role to play in utilising the philosophy of caring for their own as this is what will define the Country's civilisation. The government recognises that endowed foundations and civil society at large, play a crucial role complementing elements of the development agenda that government cannot fulfil (Davis, 2018). The direction and focus of philanthropic efforts are directed by the tax legislation to ensure that civil society is aligned to a particular development agenda. Thus, it is important to understand the legislative framework and the capacity (size and scope) of civil society organisations in South Africa. By doing so, appreciate civil society's ability to support the social transformation that government cannot alone address, supplementing the development agenda of the Country as embodied in the NDP or to challenge government to do better.

2.4.1 Legislative framework

South Africa has a well-established legal framework for the establishment of not for profit civil society organisations. Essentially, these cover four iterative levels, being: establishing a not-for-profit legal form; registering with the Department of Social Development's Directorate of Non-Profits as a non-profit organisation (NPO) thus limiting the distribution of surpluses other than for its public benefit; applying to the South African Revenue Services (SARS) to be partially exempt from income tax providing that it provides a public benefit (PBO) in terms of the 9th schedule of the income tax legislation; and finally electing to apply to SARS in terms of the ninth schedule provisions, for section 18A compliance, meaning that the PBO can offer donors deductibility against their own tax returns for their donations (Ross, 2017). The 9th schedule of the South African Taxation Laws Amendment Act No. 30 of 2000 sets out activities that each PBO should follow to be awarded tax exemption. These activities are directly aligned to the National Development Plan (Davis, 2018). Thus, a registered NPO cannot register for tax exempt status as a PBO unless their mission listed in their founding documents fits the list of activities listed in the 9th schedule. This list of activities (Public Benefit Activities – PBA) is derived from the National Development Plan; thus, tax exemption is a reward for alignment to the national development agenda (Smith & Jennings, 2016).

Despite this framework, it is critiqued for its complexity (Davis, 2018; Smith & Jennings, 2016). It spans two ministries and can take many months to achieve all the necessary registrations before a philanthropic organisation can accept donations without incurring a tax liability and commence work. The aim of South Africa's tiered approach to the legislation is to allow for a variety of civil society activity that are philanthropic in nature, does not benefit a founder or donor and any assets or surpluses are distributed for the philanthropic aims of the entity (even on dissolution) (Davis, 2018; Ross, 2017).

It is important to note that there is no such legal form in South Africa known as a 'foundation'. It is however, frequently used to describe any philanthropic or charitable entity (constituted as a Trust, Association or Non-Profit Company – “NPC”) that provides funding (in kind or in cash, be it in the form of grants, loans or equity) in support of a particular social or environmental mission. Typically, such foundations have an endowment portion of assets which is referred to in this research as ‘endowment capital’. This endowment capital is invested according to a mandate set by trustees of the foundation. The proceeds of these investments generate enough funds so that either the operational activities of the foundation can be paid for, or to provide funding for activities that align to their mission, or both (Jenkins, 2012; Kramer & Cooch, 2007). This portion of capital is referenced in this research as ‘philanthropic capital’.

Of significance is that the SARS tax exemption guidelines are remarkably silent on the extent and nature of investments a foundation may make with its endowment so long as there are at least three trustees that are unconnected to exercise their fiduciary duty over the foundation's assets (Davis, 2018; SARS, 2017). Yet, as will be argued later, the potential exists for foundations to use their endowment to invest in a manner that complements their philanthropy (Alijani & Karyotis, 2018; Cooch et al., 2007; Jeffery & Jenkins, 2013; M. Kramer, Mahmud, & Makka, 2010; Putnam-Walkerly, 2017; Roundy et al., 2017; Walker, 2017).

Registered PBOs may carry on some revenue generating activities with the funds that are available for their philanthropic purposes as long as it is in the interests of the Public Benefit Activities (PBA) as defined in the Act⁴; the trading activities are done so on a cost recovery

⁴ The South African Taxation Laws Amendment Act 30 of 2000

basis; and the trading activities are not in competition with commercial trade (Davis, 2018; Ross, 2017; SARS, 2017; Smith & Jennings, 2016). PBOs that are registered as conduits may onward donate to another foundation registered as an activity based PBO or NPO, but an activity based PBO may not donate to a conduit PBO. An activity based foundation, registered as a PBO may augment their philanthropic capital with donations from individuals, corporates or other donors (SARS, 2017). This is often welcome revenue for specific projects or for co-funding initiatives (Cooch et al., 2007; Jenkins, 2012). This additional donation income is not subject to income tax provided the foundation is registered as a PBO (SARS, 2017).

Because the SARS Tax Exemption Unit Guide (2017) suggests that the deployment of philanthropic capital should be altruistic in nature and unconditional, the assumption is often made that the only asset class that may be used is grant. This in spite of the fact that grants typically have the condition of delivery normally measured through extensive monitoring and evaluation processes (Jackson & Harji, 2014). While a grant from a foundation is only likely to be rescinded in cases of negligence, the threat of no further grants from the foundation if the desired impact is not achieved looms large for many donor recipients of a foundation's philanthropic capital. However, an examination of the SARS Tax Exemption Unit Guide (2017) would suggest that there is room for a foundation registered as a PBO to be innovative with their philanthropic capital such that they could use various forms of patient capital, sub-optimal loans and convertible debt or equity as has been explored in other geographies with similar legislative frameworks (Jeffery & Jenkins, 2013; Roundy et al., 2017).

These observations are key in that they provide the boundaries within which foundations can explore the possibility of creative solutions. The SARS legislation for PBOs is complex, difficult to interpret and the SARS Tax Exemption Unit commissioners apply their own interpretation that is not always grounded in the legislation (Davis, 2018; Smith & Jennings, 2016). Foundations may in turn, interpret this as an indication that to retain tax-exempt status, a conservative approach to endowment capital investment and philanthropic capital deployment is the only option. Stevenson, Bockstette, Seneviratne, Cain and Foster (2018) argue, foundations need to consider legislative and tax boundaries not as restrictive parameters, but rather as opportunities to consider different models for scale and innovation. Foundations have the most

capacity to be innovative because they can put their philanthropic capital at risk as these are funds that they would have given away in any event (Koh, Karamchandani, & Katz, 2012).

In summary, despite a complex legislation and interpretation by SARS commissioners, in the case of the endowment capital, investment strategies are unrestricted provided that the foundation's trustees are exercising their fiduciary duty. In terms of philanthropic capital, it seems that a foundation may use patient capital (debt or equity), sub-optimal loans or convertible debt in addition to grant in the pursuit of their mission aligned impact outcomes. In South Africa, if a foundation seeks to use innovative forms of funding beyond grant and not compromise their tax-exempt status, there may be room to do so provided that these ways of utilising their philanthropic capital are in support of the PBAs, are cost recovery in focus and do not usurp commercial actors' ability to compete.

2.4.2 Size and scope of philanthropic/charitable grant-based organisations in SA

According to the Directorate of Non-Profits website, as at August 2018, 198,350 organisations were registered as NPOs (Department of Social Development, 2018). Despite this seemingly prolific civil society community, much of it is not homogenous with well over half being small, semi-structured, survivalist community-based organisations (Kuljian, 2005; Russell & Swilling, 2002). Levy (2015) points out that less than a quarter of the registered NPOs are registered PBOs and very few are both a PBO and an endowed foundation. Given that the ninth schedule drives tax exempt status for PBOs against the NDP, this, by default, makes foundations' activities more aligned to the Country's development agenda and the rest of the registered NPOs unaligned. Even if as Davis (2018) suggests, civil society is key to the augmentation of the Country's development agenda, the reality is that this sector is fractured and therefore its capacity to support the NDP is limited.

Even though endowed foundations have gained traction in the last 10 years, there is not a comprehensive repository of information in South Africa that allows one to determine the size and extent of the philanthropic foundations in South Africa (Gastrow & Bloch, 2016; Theobald et al., 2017). However, through the convening of private philanthropic foundations, CSI practitioners and research on the impact of charitable foundations that have been established through B-BBEE empowerment deals, one is able to establish that private foundations hold

R12.5 billion of assets and B-BBEE foundations, R32.5 billion of assets (Gastrow & Bloch, 2016; Levy, 2015; Theobald et al., 2017). This excludes the R8.5 billion per annum that is granted through commercial company CSI programmes (Duff & Rockey, 2015).

Depending on how the assets of the private and B-BBEE foundations are invested, returns on investment less operational costs are then available for philanthropic giving, usually in the form of grant. While the final figure of philanthropic capital available for 'doing good' will be dependent on the investment mandate and parameters set by the foundation's trustees for investment of the foundation's endowment, it is usually a very small percentage of the endowment (Walker, 2017). In the United States, the Ford Foundation's departure from their traditional approach of grant-making resulted from the realisation by Darren Walker, the Foundation's CEO, that only 5% of their sizable \$12 billion endowment was being used to achieve their philanthropic aims and the balance of the endowment was tied up in investments (stocks, property and bonds) that bore little relationship to their work (Paynter, 2017; Walker, 2017). Apart from this mission misalignment, in downward economic cycles, many foundations experienced the blow of being tied to equity markets, with market crashes contributing to sudden losses in their giving capacity as endowment capital could not perform sufficiently to provide for the necessary philanthropic capital (Ewing & Guliwe, 2005). In South Africa, there are very few foundations that have considered aligning their endowment's investment strategy with the foundation's mission beyond shareholder activism and screening out undesirable assets (Gastrow & Bloch, 2016). In a survey of 21 South African private philanthropic foundations, only one was considering a RI policy and none were considering blended models (Gastrow & Bloch, 2016). Yet in other geographies, there is a small, but growing trend for foundations to consider impact investing and blended models as a way to address both adverse market conditions and use all their capital for their mission (Alijani & Karyotis, 2018; Cooch et al., 2007; Jeffery & Jenkins, 2013; Roundy et al., 2017).

A notable development over the past two decades is the fact that 22% of B-BBEE deals have resulted in benefit flowing to philanthropic foundations (Theobald et al., 2017). The nature of the capital that has benefited philanthropic foundations from B-BBEE deals is that their endowment has either been seeded (in the case of new foundations) or augmented (in the case of

existing foundations) through tranches of shareholdings gifted to them by the corporate that seeks to become empowered. To ensure that the corporate remains empowered, the foundation's shareholding often cannot be traded for a period of time, normally a restriction of ten years (Theobald et al., 2017). Currently, these decade long investment restrictions are being lifted, therefore philanthropic foundation's trustees will have increasing power to diversify and make decisions as to the investment mandate of their endowment capital. This presents an opportunity for foundation trustees to make potentially more impactful investment decisions.

The size of the philanthropic foundation's asset base is relatively small when one considers the size of the pensions savings pool, discussed earlier, in South Africa. As indicated earlier, this fiduciary capital is calculated at between R2.3 to R2.7 trillion and endowment capital (being the asset base of a philanthropic foundation) is conservatively calculated at R45 billion (Association for Savings and Investment in South Africa (ASISA), 2018; Gastrow & Bloch, 2016; Levy, 2015; Moleko & Ikhide, 2017; Theobald et al., 2017).

2.4.3 Conclusion

Civil society in South Africa has played an important role in the Country's transition to democracy, but also in supporting government's development and transformation agenda. Although not all efforts are aligned to the NDP, there is strong philosophical approach of community support and taking care of one's own expressed in *ubuntu*.

The tax legislation goes some way to align efforts to the NDP by granting tax exempt status to philanthropic organisations that conduct activities listed in the Act. However, the legislation is complex and interpreted conservatively by both SARS commissioners and foundations themselves. There may be room within the legislation for foundations to be more innovative with their capital whilst still remaining compliant and in so doing, use their capital more effectively toward their impact objectives.

Despite not being able to accurately verify, through a process of triangulating various data sources⁵, it is possible to estimate the value of foundation's asset base in South Africa at R45

⁵ The size of the South African endowed philanthropic foundation asset base has been calculated by the author using the data set out in the assets listed in the Levy (2015) report on philanthropic foundations and the Theobald et al. (2017) research on foundations that were established as part of B-BBEE empowerment deals. There is no data on

billion. South African foundations' assets are sizeable having been bolstered by the number of B-BBEE deals that either supplemented existing or created new foundations.

As B-BBEE foundations find themselves with greater control over their endowment's investment mandate and philanthropic foundations are presented with the opportunity to align their endowment's investment strategy to their mission, there may be room to consider how endowment capital as well as philanthropic capital could be used to leverage South Africa's fiduciary capital for the broader benefit of society.

2.5 Convergence of endowment capital, philanthropic capital and fiduciary capital

Following on from stakeholder theory of business discussed in section 2.3, Bakshi (2007) argues that financial markets are not scientific in their response to external risks that might impact investment performance, but rather can and do reflect how we as humans choose to be in the world. Indeed, Socially Responsible Investment (SRI) has a long history dating back to biblical times (Viviers et al., 2011), and has embodied a reflective human-centred approach that at times attempts to regulate all that mankind has done to damage the planet both socially and environmentally (Bakshi, 2007).

2.5.1 A history of Responsible Investment from SRI to impact investment

In the 1970s and 80s, investors (particularly in the United States and Europe) realised that they could bring their influence to bear by refusing to invest in certain stocks that were causing damage to the environment and supporting abhorrent political regimes such as Apartheid (Bakshi, 2007). Despite the argument that Teoh, Welch and Wazzan (1999) presented at the time, that economic sanctions made no difference to the wealth of white capital owners in South Africa, United States and European based investors frequently filed shareholder resolutions for companies such as General Motors, BP, Shell, IBM, Mobil, and Goodyear to divest from South Africa (Bakshi, 2007). It is common cause that the global anti-Apartheid movement which included divestment strategies brought political pressure on the Apartheid government to enter into negotiations for political reform and the first democratic elections in 1994.

the asset base of endowed foundations in South Africa because there is no requirement for foundations to publish AFS nor does the SARS PBO database provide details of assets.

The perceived success of the South African political reform meant that the early SRI drive moved beyond a 'do no harm' approach into more active RI strategies (Berry & Junkus, 2013). These included integrating ESG factors into investment decision making processes and the use of voting rights (shareholder activism) or screening to influence investment decisions for the betterment of the planet and its people while still making a profit (Giamporcaro et al., 2016). The United Nations led the way with the launch of the Principles for Responsible Investment (UNPRI) in 2006 providing a formalised reporting framework for signatory companies around the world to declare the extent of their strategies given that a clear business case emerged for business sustainability if such practices were followed (Bakshi, 2007). The growth of SRI and its more active subset of RI has been meteoric around the world (Renneboog, Ter Horst, & Zhang, 2008). Consequently, many questions abound about sub-optimal returns and pricing implications for investing with due responsibility. Despite perceptions to the contrary, the research both internationally and in South Africa suggests that SRI funds and RI strategies do not in and of themselves compromise financial performance (Revelli & Viviani, 2015; Viviers et al., 2011). While there is insufficient research to clearly answer the question of performance of investing for impact strategies when compared to traditional strategies, the longitudinal asset class comparative research that has been done provides inconclusive results (Alijani & Karyotis, 2018; Cooch et al., 2007; Patel, 2016; Roundy et al., 2017). There are periods in the economic cycle where traditional investments will outperform investing for impact strategies in a comparative asset class, and there are also times, when the opposite occurs.

RI extends the negative screening approach of SRI to that of achieving a positive impact through the consideration of risk mitigation ESG factors in investment decisions and the engagement of investors through the use of proxy voting (Berry & Junkus, 2013; Cooch et al., 2007). Trelstad (2016) argues that impact investing is a deeper subset of RI because it intentionally seeks a positive social or environmental outcome that is measured (Saltuk, Bouri, & Leung, 2011; Wilson, 2014). Early proponents argued that impact investing was an asset class of its own, but that argument was quickly refuted when it was realised that these strategies displayed a number of different characteristics and could be utilised within a several different asset classes (O'Donohoe et al., 2010). Rather, impact investing is a strategy (as are SRI and RI) that could be deployed using fiduciary capital on the one end of the continuum and philanthropic capital on

the other (Trelstad, 2016). It is suggested that these are “yin-yang deals” (Freireich & Fulton, 2009, p. 35) or the ‘sweet spot’ where fiduciary and philanthropic capital have the capacity to merge, and in so doing intentionally scale social solutions that address poverty, unemployment and economic exclusion (Freireich & Fulton, 2009; Koh, Hegde, & Karamchandani, 2014c).

Figure 2 depicts SRI, RI and impact investing as a series of concentric circles each with a deepening level of intent with respect to the impact outcome. Dhlamini et al (2017) in their annual African Investing for Impact Barometer describe all these strategies under the umbrella of investing for impact. Just as definitions help a reader to understand, the annual Barometer seeks to appreciate what strategies are being deployed on the continent in all contexts of the definitions. The lines between each investment strategy are often blurred and not neatly distinguishable from each other. Roundy et al. (2017) and Alijani and Karyotis (2018) argue that impact investors have a very specific impact intention to change the way humankind exists in the world and SRI and RI remain relevant to counter the effect of business on the sustainability of the planet. This in itself can be challenging, as while all these strategies are relevant to global sustainability, the reasoning behind each brings them into conflict (Alijani & Karyotis, 2018). As Dhlamini et al (2017) imply, discreet practical application in the field may not matter as much as understanding that all these strategies have a role to play in addressing social and environmental challenges.

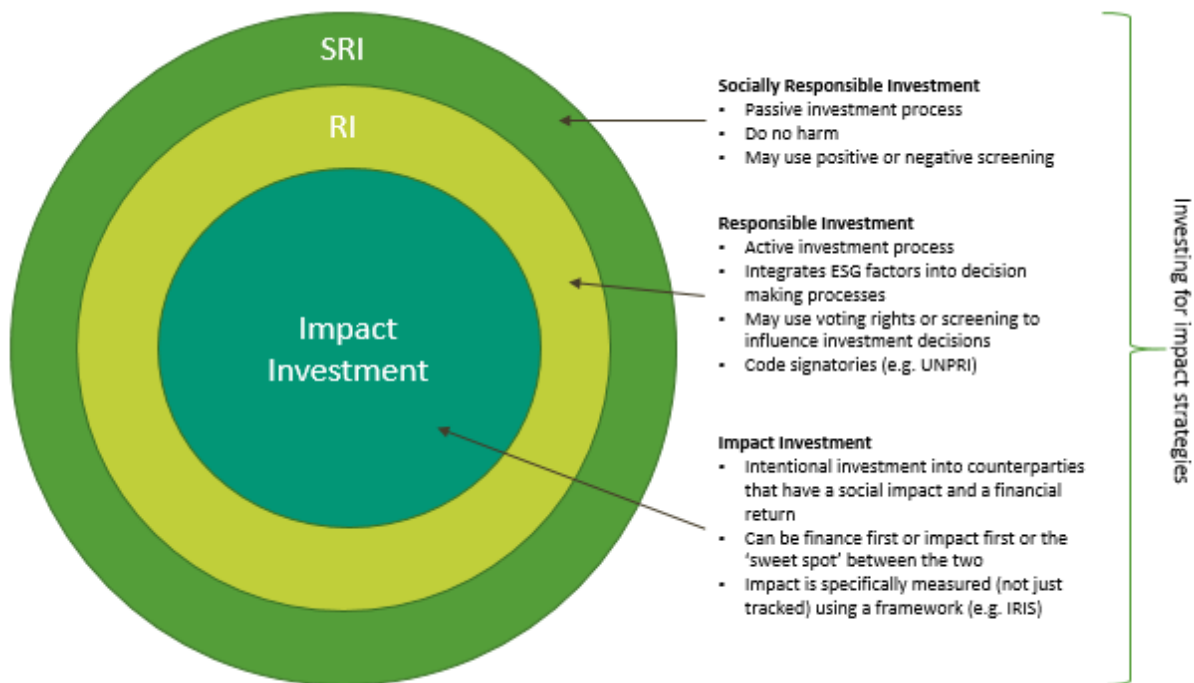


Figure 2: Relationship between SRI, RI and impact investing. Adapted from Dhlamini et al (2017), Saltuk et al (2011) and Trelstad (2016)

2.5.2 Impact investment defined

Impact investing is now a 10-year-old investment strategy that has gained significant traction over the past decade, globally and on the continent (Giamporcaro & Dhlamini, 2015; Giamporcaro et al., 2016; Mudaliar, Schiff, Bass, & Dithrich, 2017). In 2014, in excess of \$12.7 billion had been committed to impact investing strategies, a 19% increase on the previous year with a wide range of investors expected to continue to commit to a similar growth trajectory in future years (Allman & De Nogales, 2015).

An impact investing strategy refers to investments that are made with the intention of a measurable social impact while at the same time, providing a financial return (Bugg-Levine & Emerson, 2011). Particular to this definition is the intentionality of the investment, which is to achieve social change and the measurement of impact and thus distinguishing itself from SRI and RI (see Figure 2). For the traditional investor using fiduciary capital, impact investing is a strategy that moves away from profit maximising investments to those that target profit

optimisation, but also see a return above the impact floor. For the philanthropist, impact investing is a strategy that moves away from pure philanthropy to those that seek financial returns as depicted in Figure 3 (Freireich & Fulton, 2009).

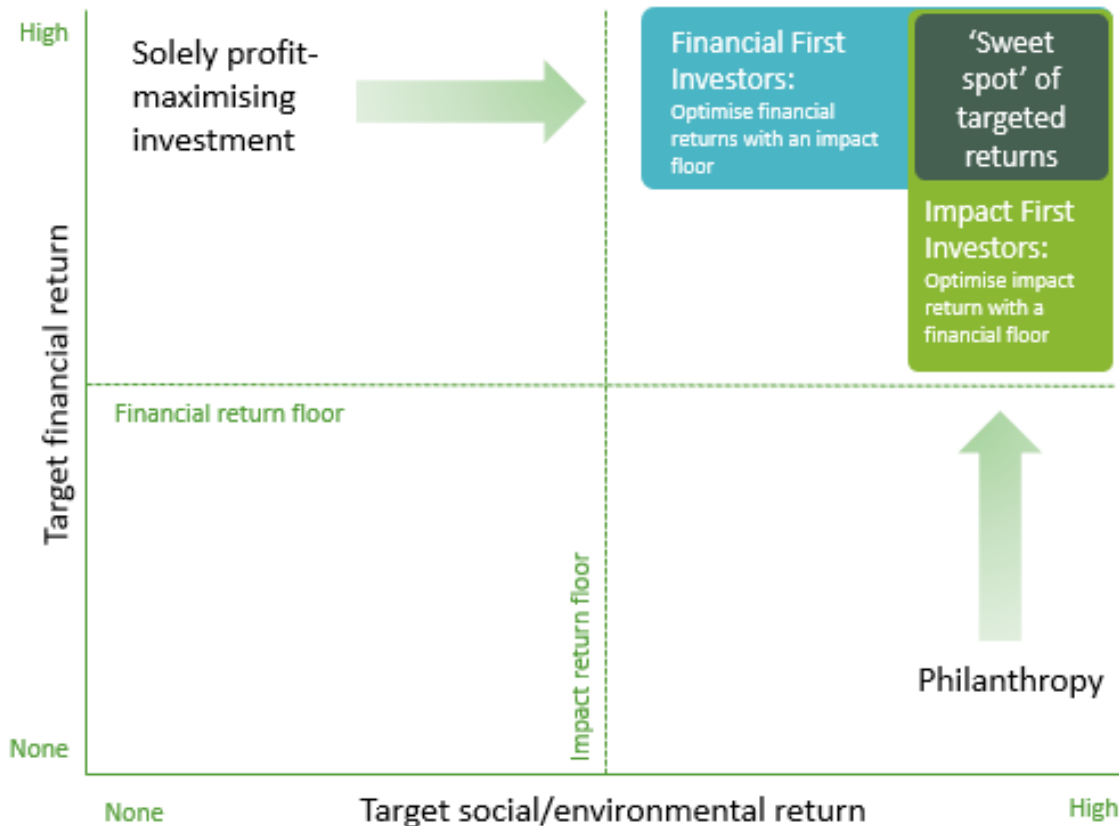


Figure 3: The impact investment 'sweet spot' (Freireich & Fulton, 2009, p. 34)

As indicated by the x axis in Figure 3, the range of financial returns can vary from grant, which is negative 100% return, to sub-optimal returns to market related returns that an investor can expect from the relevant asset classes available in the market (Kindert et al., 2017; Matthews, Leary, Mudaliar, Pineiro, & Dithrich, 2017). Similarly, the impact return on the y axis, can also range from no impact to highly positive impact, but is always intended relative to outcomes from a theory of change (Harji & Jackson, 2016; Jackson, 2013b). As argued by Trelstad (2016), these returns are not a trade-off of one over the other, but rather can lean in one direction or the other, depending on the mandate of the investor to be 'finance first' or 'impact first' (Freireich & Fulton, 2009).

The Global Impact Investing Network (GIIN), explicitly references a number of additional features of the strategy that include: investing with a return expectation (even if that return is sub-optimal); and providing for a range of return expectations and asset classes in addition to the two key features of positive social intention and measurement (Mudaliar et al., 2017).

Furthermore, Alijani and Karyotis (2018) contend that impact investing is distinguished from SRI and RI, but also CSI by its intentionality and additionality. The latter strategies (SRI, RI and CSI) seek to mitigate the effect of business in a given context, whereas impact investing seeks to create more than what was prior to investment (Alijani & Karyotis, 2018). Brest and Born (2013) posit that it is specifically the additionality of the impact intention that defines it as an impact investment. In other words, has the quality of life of the end beneficiaries improved beyond that which would have resulted in the course of a traditional investment?

It is argued that both (intentionality and measurement) should be assessed with the same rigour applied to the measurement of financial returns using an articulated, visible theory of change and independently defined measurement standards so as to provide value to both beneficiaries of the strategy as well as to the investor (Barman, 2015; Jackson, 2013b). The Global Impact Investing Network (GIIN) has developed a measurement framework (Impact Reporting and Investment Standards – IRIS) to apply to impact investing in the way that International Financial Reporting Standards (IFRS) apply to financial reporting (Barman, 2015; Schiff, Bass, & Cohen, 2016). While these attempts to create strong outcomes based measurement frameworks for impact, the process for measurement and reporting still remains fragmented and non-standardised among impact investors (Reeder & Colantonio, 2013). Many of the existing systems, such as IRIS are outputs based (for example, products or services provided and number of people impacted) with very few measures focussing on the beneficial outcomes (for example, changes in quality of life) (Brest & Born, 2013).

Because impact investment as Trelstad (2016) describes it, is the convergence of fiduciary capital and philanthropic capital it has, in theory the capacity to offer a wide range of returns from market related positive returns to below market negative returns depending on the nature of asset class deployed (from debt, to equity, to patient, to venture, to grant) (Bannick, Goldman, Kubzansky, & Saltuk, 2017). While this range of returns potentially exists, Brest and Born

(2013) suggest that market related returns together with an intentional impact return may not be possible simply because the impact outcome would have occurred in any event – no additional quality of life would have occurred in a rational investment market. Wood (2013) counters this argument by suggesting that it may not be helpful to be so purist and binary in an approach to impact investing. While it is helpful to consider additionality, markets are not perfect and all investing for impact strategies should be welcomed in the interest of creating a ‘better’ world.

As market related returns among theorists foster debate, the challenge of sub-optimal returns do too. It is suggested that they can cause market distortions that cause the vision of attracting fiduciary capital toward impact investing strategies less viable, effectively excluding fiduciary capital over time (Bannick et al., 2017). Impact investors have significant responsibility to use sub-optimal approaches very carefully, if for no reason other than to leverage fiduciary capital over the impact strategy line making an investment commercially attractive to a wider pool of investors (Cashman, 2015; Wilson et al., 2015).

Impact investing is attracting increasing capital and there are a growing number of investment funds that are using these strategies with \$228 billion committed to impact investing and blended finance strategies (Mudaliar, Bass, & Dithrich, 2018). It is estimated that impact investors stand to profit in the range of \$183 billion and \$667 billion over the coming decade from impact investing deals (Koh et al., 2012). While the assets under management in impact strategies are growing strongly, these strategies still constitute less than 0.01% of global assets (Alijani & Karyotis, 2018). Despite the relatively small allocation to these strategies, the growth trajectory is indicative of the many opportunities for actors in the financial sector. For the purposes of this research, investing for impact strategies for foundations are important because of the potential to unlock additional capital from traditional sources to enhance philanthropic objectives at scale (Cooch et al., 2007; Koh, Hegde, & Karamchandani, 2014a). In addition, philanthropic foundations that align the investment strategies of their endowment (‘endowment capital’) to the objectives of the foundation, effectively use all their capital for their mission (Alijani & Karyotis, 2018; Cooch et al., 2007; Jeffery & Jenkins, 2013; Roundy et al., 2017). Finally, use of these strategies is important for foundations as they provide the opportunity to be innovative with their

capital for the benefit of society at large in ways that more risk-averse traditional investors cannot (Stevenson et al., 2018).

The following section discusses practical impact investing strategies that foundations could follow, as well as more innovative structuring models, all with the aim of unlocking traditional capital, aligning investment strategies to mission and developing innovative blending solutions.

2.5.3 Impact investment strategies for philanthropic foundations

“A new breed of philanthropists tends to view impact investing as a natural extension of the business mindset and has done much to advance impact investing’s profile in the mainstream investing world.” (Cashman, 2015, p. 19)

Beyond the consideration of ESG factors as a risk mitigation strategy, there has been little take up by fiduciary capital owners (pension funds) and mainstream financial asset managers (Alijani & Karyotis, 2018; Wilson, 2014). Seemingly one of the impediments is that despite regulatory frameworks that exist in various jurisdictions (for example, the Regulation 28 parameters in South Africa) and a clear social agenda to demand capital flows, very few investment opportunities exist for fiduciary capital that offer a financial return with intentional and measured social/environmental return (Trelstad, 2016). It is also suggested that impact investing strategies are nascent and, as yet do not have sufficient performance track records, thus more proven investment choices are preferred (Fletcher, 2011). As discussed in the previous sub-section (2.5.2), Brest and Born (2013) advocate that it is demanding to achieve market related returns as well as an impact return over and above what would have occurred in any event. Given investor preference for more proven models and less complexity, it is not surprising that there has been less adoption of impact investing strategies by traditional investors.

However, the GIIN Annual Investor surveys in 2017 and 2018 suggest that there is a steadily growing number of investors using impact investment strategies and the market is maturing with a third of impact investors being from the traditional markets compared to three years ago (Mudaliar et al., 2018, 2017; The GIIN, 2018). This may suggest that a trade-off between impact and financial returns is not necessarily the case (Trelstad, 2016). Alternatively, it may suggest that there are a growing number of investors that see a trade-off as necessary given that the

benefits of a positive outcome to society far out-weigh a reduced financial return (Weatherly-White, 2017). Furthermore, it could imply as Emerson and Smalling (2017) suggest, that market benchmarks are unhelpful hurdles for impact investors. In a world where there are significant social and environmental challenges, a balance between the two objectives is achievable depending on the preference of the investor and investing for impact strategies have the potential to achieve this and make a contribution for greater sustainability and more inclusivity (Wood, 2016). Investors can lean comfortably toward one goal without compromising the other or conceding where they wish to, depending on whether the investor is a ‘finance-first’ or ‘impact-first’ investor as shown in Figure 3 (Bannick et al., 2017; Bugg-Levine & Emerson, 2011; Freireich & Fulton, 2009; Rangan, Appleby, & Moo, 2011; Wilson, 2014).

Despite this growth in impact investing, investors of fiduciary capital are by nature sceptical of complexity and emotive motivations for the placement of their capital in favour of careful consideration of the risks and matching those to their specific tolerance threshold (Trelstad, 2016; Wood, 2016). This has meant that owners of fiduciary capital remain reluctant to engage in impact investing despite the huge social and environmental challenges encountered on the African continent and, it has been argued, that South Africa encounters as well (Keeler, 2015; Sales et al., 2015). Although traditional investors are by nature conservative and will often follow rather than lead when it comes to entering into new ventures until risk is sufficiently mitigated, impact investors (especially foundations that engage in these strategies) have a stronger appetite for complexity and innovation and are thus, best placed to build the eco-system (Brest, 2016; Charlton, Donald, Ormiston, & Seymour, 2014; Cooch et al., 2007; Fletcher, 2011; Koh, Hegde, & Karamchandani, 2014b).

The Ford, Annie E Casey and FB Heron Foundations have made noteworthy strides to leverage their foundations’ endowment capital for greater impact as a departure from their traditional approach of grant-making resulting from the realisation that only a limited portion of their sizeable endowments was being used to achieve their aims (McCarthy, 2017; Miller & FB Heron Foundation, 2012; Paynter, 2017). Essentially, only their philanthropic capital was working toward their mission and their endowment capital, while being used to generate the annual philanthropy amount, was devoid of any mission alignment (McCarthy, 2017; Miller & FB

Heron Foundation, 2012; Walker, 2017). Most foundations' endowment investment strategy still remains "socially neutral" (Brest & Born, 2013, p. 24). The William and Flora Hewlett Foundation, for example argues that they should not be considering mission in the investment strategies for their endowment capital as, in their view impact investing is still sub-optimal and making such concessions would compromise their capacity to meet their programmatic objectives (Kramer, 2017).

Accepting misalignment is becoming increasingly unacceptable to philanthropic foundations in the global North because the investment objectives of the endowment versus their philanthropic mission is either incompatible or in direct conflict (Alijani & Karyotis, 2018). Rather, these foundations are forging new approaches to ensure that all of their assets, both endowment capital and philanthropic capital are aligned to their mission. Applying a mission lens to the entire balance sheet (endowment capital and philanthropic capital) is the essence of Total Portfolio Management (TPM) (Emerson & Smalling, 2017).

Once the foundation's philanthropic funding goals and objectives are defined, specifically honing a withdrawal rate (normally between 4-5%), then an Investment Policy Statement (IPS) is devised based on mission and these goals. It is this IPS that guides the selection of an investment advisor, asset classes, the structure of the portfolio and the investing for impact strategies to be deployed (Emerson & Smalling, 2017). Figure 4 illustrates this principle.

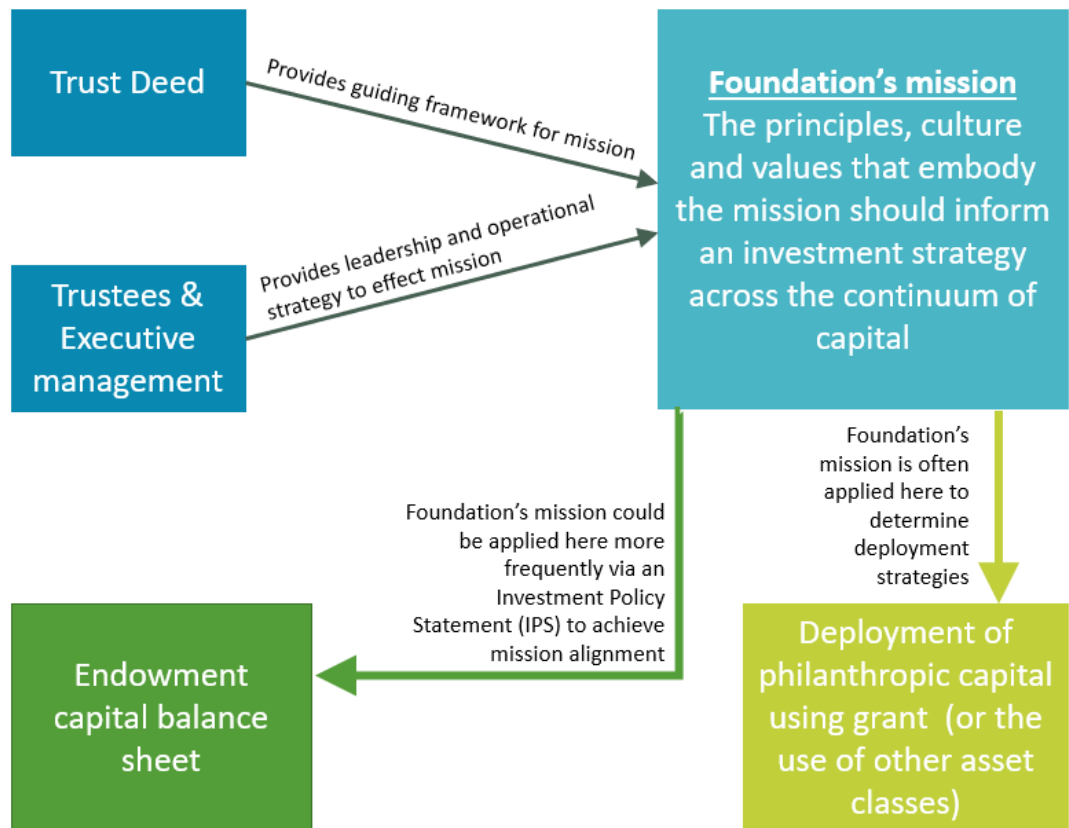


Figure 4: Applying mission values to the full portfolio. Adapted from Jenkins (2012) and Emerson and Smalling (2017)

Emerson and Smalling (2017) elaborate on the TPM approach by suggesting that impact investing can be applied across a number of asset classes. Because the characteristics of impact investing do not behave consistently, it is not an asset class as suggested by early proponents of the practice (O’Donohoe et al., 2010). Rather, impact investing is an overarching investment strategy through which to consider all asset classes held within a portfolio. It is an investment practice that should be applied to the full portfolio regardless of what asset class is being deployed so long as it is aligned to mission and applied with intention (Emerson & Smalling, 2017; Jenkins, 2012).

Even though impact investing is distinguished from SRI and RI strategies by its intentionality, impact measurement and additionality, proponents of TPM see impact investing as the aspirational destination and SRI and RI strategies as the means to achieve this ideal (Emerson & Smalling, 2017). These strategies (SRI, RI and impact investing) can be considered collectively

as ‘investing for impact’. This is an idea that moves away from impact investing being viewed as a single strategy, but rather as a wider approach as suggested by the series of African Investing for Impact Barometers (Dhlamini et al., 2017; Giamporcaro & Dhlamini, 2015; Giamporcaro et al., 2016). Thus, TPM is an ‘investing for impact’ approach that incorporates a series of strategies deployed across a portfolio of investments, being: ESG integration; investor engagement; screening; thematic investing; and impact investing itself. Emerson and Smalling (2017) and Jeffery and Jenkins (2013) suggest that for philanthropic foundations, taking a TPM approach using investing for impact strategies is a way to align investments to the foundation’s purpose or mission over a period of time. Viewing alignment of the endowment portfolio to mission as a journey through investing for impact strategies over time, provides a way to do so for foundations such as Hewlett without conceding the performance targets they need to generate philanthropic capital (Kramer, 2017).

Mission aligned investment strategies present some opportunities for foundations, but structuring solutions open a new set of opportunities for foundations to achieve greater impact. The next section defines these models.

2.5.4 Blended finance models – toward a definition

“That spotlight, as well as a strong traditional divide between the non-profit and commercial space, to some extent has hindered the uptake of the terms ‘impact investing’ and ‘social enterprise/inclusive business’. From both sides of the aisle, there is discomfort in blending social impact with business” (Ngoepe & Fisker-Henriksen, 2016, p. 4).

The Organisation for Economic Co-operation and Development (OECD) and the World Economic Forum (WEF) offer the following definition for blended finance: “The strategic use of development finance and/or philanthropic capital to mobilise private capital flows to emerging and frontier markets, resulting in positive results for both investors and communities” (OECD & WEF, 2015, p. 8). Further, they propose that the practice of blended finance has three key features, namely:

1. **Leverage** – philanthropic capital can be used to attract fiduciary capital into investment opportunities;

2. **Social impact** – these investments foster a positive social impact and drive economic growth; and
3. **Financial return** – returns for investors will be market related and adjusted for risk (OECD & WEF, 2015).

At times, blended finance and investing for impact strategies are mistakenly assumed to be the same. While investing for impact strategies is an umbrella for a number of investment approaches that offer a range of financial and social returns depending on whether the investor is finance or impact first, blended finance is a form of structuring that specifically uses endowment, philanthropic and fiduciary capital (or even development capital from DFIs) to catalyse further fiduciary or private capital (OECD & WEF, 2015). Of importance to note is that both impact investing approaches and blended finance structuring have analogous objectives – intentional in their aims and offering both a measurable financial and a social return (OECD & WEF, 2015).

Foundations see structured blending and leverage strategies as tools that can be more effective than grant alone because of the additional synergistic support or investors it can attract (Eldridge & Tekolste, 2016; Freiburghaus et al., 2016; Jeffery & Jenkins, 2013; Schiff & Dithrich, 2017). The structuring options of blending different types of capital have the benefit of reducing risk for risk averse investors and therefore attracting private investment to assist where governments and philanthropic foundations alone cannot address (Freiburghaus et al., 2016; O’Donohoe et al., 2010; OECD & WEF, 2015)

2.5.5 Overview of blended finance models

As impact investing strategies garner increasing growth, two noteworthy trends support the use of blended finance models. The first is that rather than developing new products or tools independently, sovereign DFIs and asset managers that manage fiduciary capital are partnering to use their combined expertise and product sets to invest for greater impact (Lay, 2017; Sales et al., 2015). The second is the use of de-risking instruments (for example guarantee mechanisms or pay-for-success models) to attract fiduciary capital to impact investing strategies (Halais, 2016; Patton, 2013; Roman, Walsh, Bieler, & Taxy, 2014; Schinckus, 2017). These trends have the potential to scale impact investment for the benefit of society.

Similarly, foundations can combine their philanthropic capital with fiduciary capital and by doing so, there is the potential to do more for the benefit of society and the investor. Blended finance models present a significant opportunity to assist in mitigating risk for traditional investors and can provide an attractive enhancement (debt or equity) such that an investment track record is developed (Halais, 2016; Schiff & Dithrich, 2017; Trelstad, 2016; UK Ministry of Civil Society, 2013). Philanthropic foundations can play a very specific role as the actor that takes on risk to test a model that can then inspire other traditional investors to follow. To do so, they might leverage their foundation's assets (either philanthropic and endowment capital) to achieve scale in a model that would not have been possible had they adhered to grant making alone (McCarthy, 2017; Paynter, 2017).

The foundation's assets could be used to either be the first taker; or stand alongside traditional investors to share or mitigate risk; or test a nascent model such as a guarantee for investors or setting up a pay-for-success model such as an impact bond; or demonstrate the performance effectiveness of investing for impact strategies by aligning their endowment's investment mandate to their foundation's philanthropic mission (Kramer & Cooch, 2007; Miller, 2017; UK Ministry of Civil Society, 2013).

It is argued that that technical assistance, funded by foundations or DFIs can be considered a form of blended finance because it provides comfort for investors (Business & Sustainable Development Commission & Convergence, 2017). While not direct investments, such assistance can predispose a traditional investment deal to reach conclusion because either investment readiness support is provided prior to the close or it is provided throughout the life of the deal to ensure that the investee meets its investor commitments (Business & Sustainable Development Commission & Convergence, 2017). Similarly, it is also argued that foundations that convene or collaborate with partners to solve a particular issue in the eco-system constitute a form of blending (Johnson, 2018; Quélin, Kivleniece, & Lazzarini, 2017; Smeets, 2017). Again, while not directly mingling different forms of capital, this practice is the pre-cursor to relationships that could lead to blended funding or impact investment at a later stage.

By way of summary, the UK Cabinet Office (2013) offers a framework for blended finance models that philanthropic foundations have implemented. These models are broadly outlined as follows:

1. **Foundations use an impact investing strategy to develop a track record:** Here the foundation demonstrates viability by using their own endowment capital to adopt a mission related impact investment strategy in the hope that this will provide a performance track record over time for commercial investors with fiduciary capital to emulate, but also to ensure that the philanthropic foundation increasingly uses a far greater proportion or all of its endowment (both endowment and philanthropic capital) to achieve its mission (McCarthy, 2017; Miller & FB Heron Foundation, 2012; Paynter, 2017; Walker, 2017).
2. **Leveraging by standing alongside or acting as seed investors:** Here the foundation uses their philanthropic capital to invest first or at the same time as a traditional investor who uses their fiduciary capital. In this way the foundation provides first-mover confidence for the traditional investor (UK Ministry of Civil Society, 2013). Depending on the extent of their risk tolerance, foundations could use their endowment capital to do the same.
3. **Risk-reward positions:** Here philanthropic capital is used to invest for return (normally sub-optimal) by taking either take a higher risk position (for example senior financing position) for lower returns in favour of the traditional investor or taking a lower risk position (subordinate or mezzanine financing) to attract traditional senior investors (UK Ministry of Civil Society, 2013).
4. **Risk mitigation or enhancement:** Here endowment or philanthropic capital is used to create tools such as guarantees or pay-for-success models to provide a traditional investor comfort in the investment vehicle or fund mandate (Roman et al., 2014; Schiff & Dithrich, 2017; UK Ministry of Civil Society, 2013)

2.5.6 Criticism of blended finance models

The Bill & Melinda Gates, Rockefeller and Gatsby Foundations have forged leading models by providing guarantees and leverage seed funding to commercial vehicles to support greater capital

deployment into key challenges that face developing nations. These include providing guarantees to support the Global Health Investment Fund to reduce the cost of essential vaccinations in the case of Gates, co-investment strategies with the IFC to support private infrastructure investment in the case of Rockefeller and east African economic development to support emerging farmers in the case of Gatsby (Bill & Melinda Gates Foundation & Impact Alpha, 2016; Black, Bhan, Chopra, Rudan, & Victora, 2009; Business & Sustainable Development Commission & Convergence, 2017; UK Ministry of Civil Society, 2013).

While these pivotal blending strategies are essential to change the way in which ecosystems (access to vaccines and access to finance) operate to benefit the most vulnerable in emerging markets, some have argued that the use of commercial strategies to achieve philanthropic aims is flawed (Clark & McGoey, 2016; McGoey, 2012). McGoey (2012) in using the term “philanthrocapitalism” (McGoey, 2012, p. 186) suggests that while laudable, very high net worth families have the capacity to deploy their charitable endeavours in a manner that is not publicly accountable. Commercial unlisted entities are established to deliver key elements of their philanthropy such as the Global Alliance for Vaccine Initiative (GAVI) and Msingi⁶. These privately held companies have no obligation to report on their actions in the same way that a foundation may be required to in the United States or the United Kingdom.

In contrast to Barman’s (2016) neo-liberalist view that capitalism has the capacity to solve for the social and environmental challenges we face through market based solutions, Clark and McGoey (2016) argue that the contribution of philanthropists such as Bill and Melinda Gates, the founding John D. Rockefeller and Lord Sainsbury (founder of The Gatsby Foundation) becomes challenging when donations are significantly sizeable that they have the capacity to influence strategic policy decisions that neutral conveners such as the World Health Organisation (WHO) and the UNPRI should make. Furthermore their philanthropic efforts, just as SRI, RI and CSI strategies can be used to mitigate the damage that firms have on society, may mask any questioning of the way in which the founding corporations for the family fortune (respectively,

⁶ Msingi is the east African economic transformation business incubated by Gatsby Foundation to build new farming innovations (their first is aqua-culture) for the benefit of emerging farmers. Gatsby developed a collaborative funding model with the United Kingdom’s Department of International Development (DFID) such that they can build a viable and sustainable economic sector over time (The Gatsby Foundation, 2017b).

Microsoft, Standard Oil and Sainsbury's), may have conducted themselves (Barman, 2016; Clark & McGoey, 2016; Wiedeman, 2018).

While hailed as an innovative form of funding for social purpose organisations based on the impact outcomes they purport to achieve, Social Impact Bonds (SIB) have also been slated. Schinckus (2017) argues that SIBs represent an innovative market-based financial structuring model to leverage traditional capital in a more transparent way for all stakeholders. The handful of successful SIBs globally has also pushed the impact measurement boundary to a greater degree of rigour because of the demand to independently validate impact outcomes (Jackson, 2013a). However, critics have validly pointed out the complex nature of SIB models, the significant cost of setting them up, and questioned if they do indeed offer the intended social outcomes for the end-beneficiary (Arena, Bengo, Calderini, & Chiodo, 2016; Berndt & Wirth, 2018; Giacomantonio, 2017).

Despite these criticisms, as with impact investing strategies, blended finance models present a strong addition to the tools that philanthropic foundations have to innovatively effect greater impact above and beyond conventional grant making (Charlton et al., 2014; Harrison, 2018). Were it not for the likes of the Gates Foundation, certain vaccines such as the Ebola vaccine, that stand to benefit the most remote and vulnerable communities in Africa would not have been developed (Brown, 2018). The same could be argued for the development of the impact investing ecosystem that Rockefeller pioneered and the development of the east African tea and aquaculture farming sector pioneered by Gatsby (Business & Sustainable Development Commission & Convergence, 2017; UK Ministry of Civil Society, 2013). Similarly, foundations are best placed to test new models of paying for success and outcomes based measurement that are embodied in SIBs because they can afford to take the innovation risk with their philanthropic capital (Cooch et al., 2007; Mulgan, Reeder, Aylott, & Bo'sher, 2011; Smeets, 2017). It is through these pioneering efforts that new paths for funding and solutions for development challenges are found.

Increasingly, philanthropic foundations that provide funding to effect their work are looking for new ways to stretch their capital further, making a stronger impact in line with their mission (Michael & Susan Dell Foundation, 2017; Stevenson et al., 2018). With thoughtful planning,

philanthropic foundations can more effectively utilise their capital to achieve their broader mission to society. Impact investing strategies and blended finance models are considered complex and can take significant time to implement (Gastrow & Bloch, 2016; Miller & Johnson, 2015). However, these approaches can facilitate working with a larger community of like-minded stakeholders to achieve mission aligned solutions and act as a stimulus to leverage additional capital from new sources (often traditional corporate or pensions savings pools – “fiduciary capital”) to achieve greater impact (Alijani & Karyotis, 2018; Charlton et al., 2014).

The challenge lies in knowing how to implement such strategies and having a pioneering spirit as well as the mandate to execute. An appreciation of what might prevent a foundation from deploying these strategies is a pre-cursor to implementation.

2.5.7 What prevents foundations from using impact investing strategies

Trustees of philanthropic foundations have thus an opportunity to intensify their mission related impact, by deploying investing for impact strategies and blended finance structuring. Figure 5 illustrates that foundations always have the option of investing their endowment in traditional instruments and from the proceeds generate enough income to: grow the endowment; generate the operating costs required to run the foundation; and provide for philanthropic grants in support of their mission. However, the potential exists to align the investment portion of the endowment (endowment capital) with the foundation’s philanthropic mission using investing for impact strategies and further to use either endowment capital or philanthropic capital or both in blended finance structures to achieve closer alignment. In essence, for foundations that wish to do more, using an impact investment strategy makes intuitive and strategic sense.

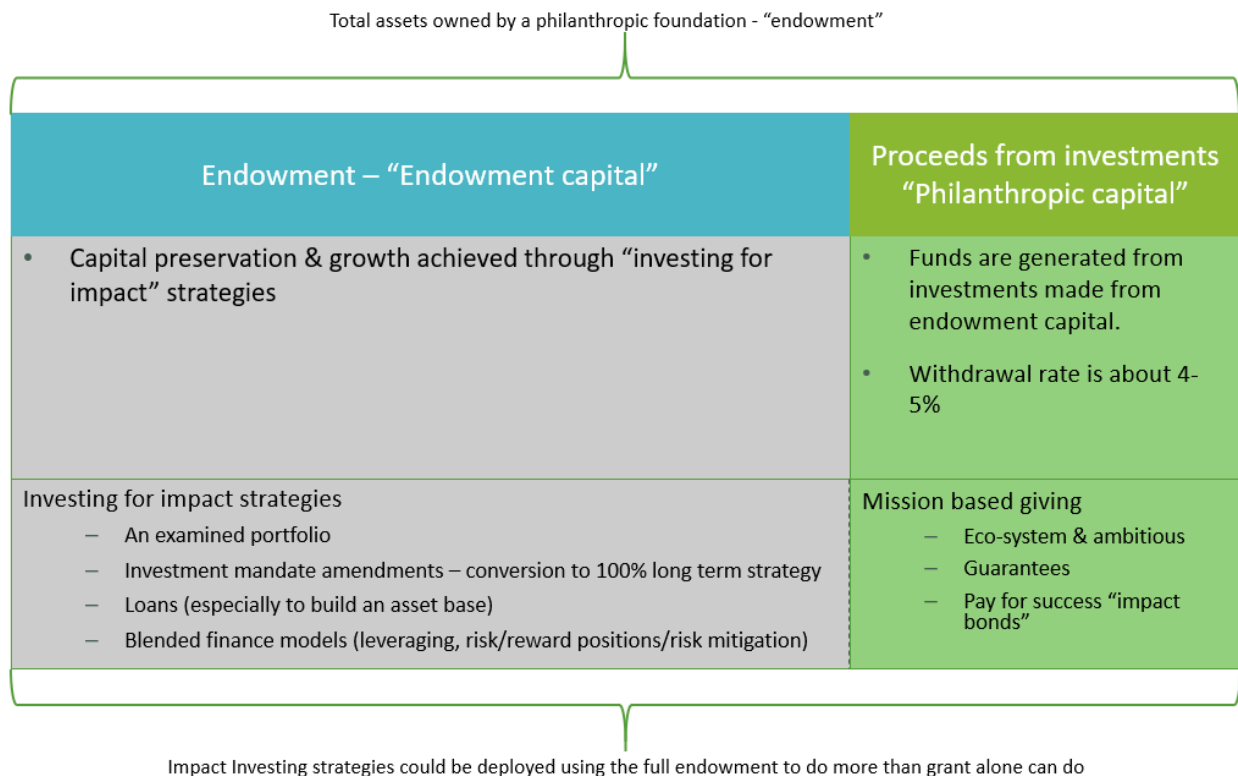


Figure 5: Deployment of a foundation's assets (personal collection)

It is suggested that the advantages of aligning endowment capital toward more impactful strategies include:

1. Using their foundation's endowment to create greater impact beyond the grants they may make and therefore using all of their capital resources (both endowment and philanthropic) to further their mission;
2. Leveraging their capital resources to attract fiduciary capital to further their mission; and
3. Prolonging the use of their capital base by recycling or using their funds more efficiently to further their mission than their grant making alone could do (Charlton et al., 2014)

Fletcher (2011) suggests that just as traditional investors are risk averse to some extent or another, foundations are similarly risk averse, but for different reasons. They may have concerns as to why they may find it problematic to use their capital to leverage fiduciary capital or even explore a commercial venture for a positive impact return. Because foundations have relatively

less capital with which to work as compared to DFIs, pension funds, or corporates, they are considered more conservative in their approach to mobilise capital from traditional market investors for the greater good (Business & Sustainable Development Commission & Convergence, 2017). Their conventional approach of preserving their endowment capital base and only investing to create enough philanthropic capital to grant for the purposes of achieving their mission can limit their potential to do more. Particularly with philanthropic capital, foundations have greater risk capacity to experiment with innovative blending models (Cooch et al., 2007; Mulgan et al., 2011). Charlton et al (2014) and Business & Sustainable Development Commission and Convergence (2017) suggest that universal concerns of foundation's trustees can be categorised as follows:

- Whether impact investment strategies are allowed either in terms of a tax framework or their foundation's articles of association, Trust Deed or mandate;
- The lack of leadership or skill within the foundation or among trustees to understand where impact investment strategies (or even the broader overarching SRI or RI strategies) are positioned in typical investment portfolios for a foundation's endowment;
- The lack of capacity or skill to design, implement and manage an impact investing strategy;
- The possibility that there may be a limited pipeline of investable opportunities that relate to the mission of the foundation/trust; and
- A lack of a support infrastructure to facilitate impact investment strategies such as investment consultants or advisors that are skilled enough in the field, deal origination skills and frameworks to measure the outcomes of either the impact investing strategy or the investments themselves.

While there are very few documented models or frameworks in South Africa that depict impact investing strategies and blended finance models that foundations could deploy to leverage fiduciary capital, there are a growing number abroad that have implemented such strategies and models (Bank, 2017; Cooch et al., 2007; Miller & FB Heron Foundation, 2012). International foundations, therefore have gained practical experience over time of the practical challenges of executing these strategies.

2.5.8 Conclusion

In this section, consideration has been given to the history of investing for impact strategies and their unique connection to South Africa. Impact investing is distinguished from SRI and RI strategies as well as CSI which may be deployed as a way to mitigate the negative impact of a corporate's conduct, as an emerging and growing strategy through intentionality and impact measurement. Consideration has been given to impact investing strategies for foundations and the growing number of foundations that are using these strategies abroad, but not yet in South Africa. What is being suggested is for foundations to use their own endowment (their endowment capital) for impact investing strategies that align their investment strategy to that of their mission. Either in addition to or as a stand-alone strategy, there is capacity for foundations to use blended finance structuring models. Blended models have attracted criticism, but the potential to leverage more than the philanthropic pool of capital remains. In so doing, the opportunity exists to innovate where conservative traditional investors would not and to mitigate risk such that traditional investors are willing to invest in solutions that address social or environmental challenges. Foundations stand to leverage the significantly larger and untapped pools of fiduciary capital for their mission. While there are notable examples of foundations that have implemented these models, to encourage more to follow, consideration is given to what would prevent a foundation from doing so.

2.6 Literature review conclusion

Through the literature review, a conceptual framework is suggested that offers the following in summary.

South Africa has significant social and environmental challenges that need to be resolved, to build a functioning, just and prosperous society where people have access to education, shelter, healthcare, security, nutrition, sanitation and jobs. The triple constraint of inequality, poverty and unemployment mean that South Africans, especially black South Africans have an environment where they can thrive as responsible contributing citizens for the benefit of present and future generations.

Government alone cannot solve for all these challenges. The Country faces a number of systemic challenges that further dampen its capacity to address issues. These include a low growth economy and rampant corruption rendering state owned enterprises dysfunctional, thus placing further demands on government's limited resources to bail out.

An increasing number of fiduciary asset owners are wanting to invest responsibly and they have large pools of capital to deploy, but are presumptive, risk averse and conservative. Government has implemented regulatory frameworks to harness the potential of public-private partnerships. In this way, Regulation 28, The Jobs Fund, Section 12J and B-BBEE have achieved some traction to leverage.

Civil society philanthropy, is fragmented and also does not have the resources (financial and other) to solve for all these challenges. Philanthropic foundation's asset base is growing largely due to empowerment options that firms have chosen to implement under the ambit of the B-BBEE legislation. It is suggested that alongside the efforts of business, government and the rest of civil society, foundations are uniquely placed to play a more active role in addressing the challenges the Country faces using impact investing strategies and blended finance models.

The question then becomes: What can be done to leverage fiduciary capital for the greater good of South African society? More specifically, what is preventing endowed philanthropic foundations using their endowment and philanthropic capital to crowd in traditional fiduciary capital via impact investing and blended finance strategies?

With the aim to address the abovementioned gap, this research seeks to contribute to the emerging body of knowledge on impact investing by understanding the hurdles and concerns that foundations face, in order to reveal what could be done to overcome them using existing case studies and to develop a framework to guide those responsible for endowment capital in an effort to inspire them to leverage fiduciary capital for a far greater impact than their grant making alone would allow.

The following chapter discusses the methodology that was undertaken to consider this question and to develop a framework for foundations to use.

Chapter 3 – Research methodology

This chapter sets out the research methodology used for this paper. Specifically, it aims to explain the underpinning research strategy, method, approach, data collection methods and tools, sample selection, research process, data analysis, limitations and finally ethical considerations.

3.1 Research strategy

The purpose of any research is to systematically illicit findings that will address the research question (Bryman & Bell, 2014; Williams, 2007). The field of innovative finance with the purpose of an intentional impact for the benefit of either society and the environment at large, is relatively nascent (Roundy et al., 2017). Research on the investment and grant making practices of foundations in South Africa is similarly emerging (Levy, 2015; Russell & Swilling, 2002; Theobald et al., 2017). Thus, the research strategy that underpins this work is exploratory in order to seek explanations for and offer new insights into why a foundation would engage in these strategies (Terre Blanche, Durrheim, & Painter, 2010). As well as to seek an understanding as to what the concerns would limit a foundation from engaging.

3.2 Research method

This research utilised a qualitative multi-method using case studies, interviews and focus groups. At the outset of this study it was clear that the sample of foundations in South Africa was small. Similarly, there is also a small number of international foundations that have engaged in these strategies. Initially, consideration was given to a mixed method approach where a combination of narrative descriptions could be integrated with specifically isolated variables to draw more definite results (Bryman, Becker, & Sempik, 2008). The small sample and the exploratory nature of the research however lends itself to a qualitative method (Terre Blanche et al., 2010).

This method allowed for a deeper and more nuanced understanding of the data to draw an iterative picture in each stage of the research design using patterns emerging from the findings (Bryman & Bell, 2014; Terre Blanche et al., 2010). The disadvantage of this method is that it is not generally applicable to the broader population (Bryman & Bell, 2014). Despite the fact that it is not broadly applicable, a comprehensive narrative of insights provided by a qualitative

method may be used for specific foundations to reflect on and to consider if these perspectives might be useful (Terre Blanche et al., 2010)

3.3 Research approach

Given the exploratory nature of this research, the approach in this study was inductive. This approach provided for a way to synthesise raw narratives in a systematic way and then to be able to draw conclusions such that they can be verified (Thomas, 2006). The research design used an existing framework against which to assess the research question, which ordinarily would imply a deductive approach (Thomas, 2006). However the intention of this research was to uncover new and emerging themes beyond the framework in a South African context hence the choice of an inductive research approach (Thomas, 2006). This approach allowed for open questions and submersion in key phrases and observations generated by informants to develop insights as opposed to testing a specific hypothesis (Terre Blanche et al., 2010). In this way, a picture was built by discovering new perspectives and reasoning that helped to understand why these experiences of philanthropic foundations might be so (Williams, 2007).

3.4 Research design, data collection methods and tools

Considering the exploratory strategy, the qualitative method and the inductive approach, the research design was developed to encompass three phases of field work, namely:

1. Case study development;
2. Semi-structured interviews; and
3. Focus group discussions.

This design was selected to achieve the research objective in the following ways. Case studies assisted in building a realistic depiction of the strategies employed by international foundations. Semi-structured interviews provided an opportunity to ascertain the extent to which South African foundations are engaging in these strategies, their appetite to engage in the future and gained insights as to what drivers or constraints that foster or limit the adoption of these strategies for South African foundations. Finally, focus groups offered the opportunity to test themes that illuminate the drivers and constraints that have emerged from the interviews.

3.4.1 Case study development

Practical case studies developed from international examples offer the opportunity to appreciate the drivers and constraints to adoption of impact investing strategies. By sharing these insights with South African philanthropic foundations “the problem, the context, the issues, and the lessons learned” (Williams, 2007, p. 68), local trustees could be enabled to consider how they may apply similar strategies. Case studies on specific international foundations allowed for each individual foundation to be studied through the perspective of a key informant and publicly available information. Thus each case was developed not as representative of the population, but as unique examples for a depth of understanding (Terre Blanche et al., 2010).

To build the case studies, open-ended questions were drawn from the framework offered by the Charlton et al (2014) and Business & Sustainable Development Commission and Convergence (2017) as reasons why a foundation might not engage in these strategies. These themes were used to shape a case study guide. This guide is set out in Appendix A.

3.4.2 Semi-structured interviews

A semi-structured interview guide was developed to shape a face-to-face interview with locally based foundations. This allowed for a more natural conversational setting for each informant because it was believed that this would facilitate better sharing and richer insights (Terre Blanche et al., 2010).

Once the case study interviews were completed, an interview guide was developed based on the insights offered in the case study interviews as well as the Charlton et al (2014) and Business & Sustainable Development Commission and Convergence (2017) framework. This guide provided a baseline that would assist in ascertaining the extent to which local foundations were engaging in these strategies, if at all. Using the guide in an interview setting allowed for discussions around a question, especially if the informant wanted to explain context or the rationale for a response. It was also possible to clarify responses and appreciate the nuances of answers given in reference to the peculiarities of each foundation. The interview guide can be found in Appendix B.

3.4.3 Focus group discussions

Once the data emanating from the interviews with local foundation trustees and management was analysed an initial view of the drivers and constraints to adoption was developed. Four key themes were used to frame the discussion (see Appendix C). Each focus group commenced with an overview of the research process thus far and addressed how confidentiality would be managed.

3.5 Sample selection

3.5.1 Case study sample selection

Six international philanthropic foundations were identified in the literature as having implemented impact investing and blended finance strategies, these being the Ford Foundation, FB Heron Foundation; Annie E Casey Foundation, Rockefeller Foundation, Bill & Melinda Gates Foundation and Gatsby Foundation (McCarthy, 2017; Miller, 2017; UK Ministry of Civil Society, 2013; Walker, 2017). These foundations have attempted with varying degrees of success and progress, one or more investing for impact and blended finance approaches. These foundations could offer insights into how they overcame the challenges of implementing impact investing strategies and blended finance models, such that local foundation could learn from their experiences. Therefore, these were targeted for case study development. Furthermore, these foundations were selected because of their global reputation. Should local foundations consider emulating the experiences set out in the case studies, these international foundations might carry gravitas in South Africa. Given that these strategies have yet to be deployed in South Africa by philanthropic foundations to any great extent, it was not possible to use local foundations to develop case studies. Key informants within these international foundations were located through a process of research via the foundation's website and contacting the foundations directly to identify the correct people within the investment teams with sufficient authority and organisational knowledge to participate in an interview.

3.5.2 Semi-structured interview sample selection

The focus of this study was on endowed South African foundations (either as part of a family legacy, or a philanthropic legacy of a high net worth individual or as a consequence of a B-

BBEE empowerment deal). Therefore, international foundations that have operations in South Africa were excluded from the sample. Similarly, CSI programmes that may have self-identified themselves as being a philanthropic foundation, were excluded. Typically, these CSI programmes are funded from an annual contribution from the corporate rather than having an endowment which they invest to generate sufficient funds for operational expenses and their philanthropic activities.

A non-probability convenience sampling method was used to locate key decision makers because trustees of locally based philanthropic foundations are challenging to locate (Bryman & Bell, 2014). There is no central repository of philanthropic foundations (Gastrow & Bloch, 2016; Russell & Swilling, 2002). The South African Revenue Services (SARS) and the South African Not for Profit Directorate via the Department of Social Development have a database of all registered Public Benefit Organisations (PBOs) and Not for Profits (NPOs) available on their respective websites. However, these databases are limited in their search functionality. Without knowing either the name of the foundation or the NPO number, it is not possible to search by organisation type or key words, or to acquire contact information. These foundations are protective of contact information and financial data, making contacting them without personal introductions challenging. Unlike international foundations, key staff of South African foundations are seldom listed.

South African foundation informants were therefore identified through personal networks, interview informant referrals and through the Independent Philanthropy Association South Africa (IPASA). Through this convenience sampling technique, 17 foundations were contacted via an email invitation to participate in a semi-structured interview using the questionnaire as a guide to frame the interview. Of these, 14 agreed to participate in the research representing approximately R14.9 billion of endowment assets⁷ being 34% of the asset base of all privately endowed foundations and those created from B-BBEE deals. Of the three that did not participate, two did not respond despite numerous attempts to set up an interview and the

⁷ This is an estimation of assets that foundations hold triangulated from data sourced from audited annual financial statements of the four foundations that shared them, financial information shared in confidence during interviews and published research on empowerment foundations where these assets were declared (Theobald et al., 2017).

remaining one indicated that they were not interested in such an interview as they believed that they did not follow these strategies.

3.5.3 Focus group discussions

Open invitations were sent to the same informants to participate in a focus group discussion as well as to new informants via IPASA and via the researcher's personal LinkedIn network. Network representatives and LinkedIn contacts were encouraged in turn, to invite and share with their own networks. Ten participants took part in two focus group discussions held in Cape Town and Johannesburg representing nine different organisations. These groups comprised people that hailed from foundations, networking convenors and advisors to foundations, thus forming a heterogenous group that could share similar experiences albeit from different perspectives (Terre Blanche et al., 2010).

A list of all participating organisations and foundations is provided in Appendix D.

3.6 Data collection process

Case study interviews were conducted via Skype from October 2017 to January 2018. Given that the international foundations in this sample are based in the United States and the United Kingdom, Skype was the most practical way to conduct an hour-long international interview. Each interview was recorded. After each interview, detailed notes and recordings were transcribed.

Interviews with South African foundations were conducted in situ in Cape Town and Johannesburg between February 2018 and June 2018. In three cases, where meeting logistics were challenging, interviews were conducted telephonically. At the request of the initial interview subject requesting that the interview not be recorded, a decision was taken not to record any of the interviews. Extensive notes were taken during the interview. These augmented the interview guide. The interview data together with explanatory comments were manually loaded onto Survey Monkey such that broad trends could be ascertained.

Focus group discussions were hosted at the University of Cape Town's campus in Johannesburg and Cape Town in July 2018. These discussions were recorded and transcribed.

3.7 Data analysis

3.7.1 Case Study analysis

For each of the six international foundations a case study template was developed to organise generic data consistently. This template covered: objectives of the foundation; location; value of endowment capital (that is assets as per audited AFS); value of philanthropic capital (that is funds available for PRI and grant giving as per audited AFS); impact investing or blended finance strategies deployed; results of their strategies and finally a defining quote from the informant.

A database was charted in Excel to abduct to a theoretical framework offered by Charlton et al (2014) and Business & Sustainable Development Commission and Convergence (2017) as a way to frame themes that foster adoption of the strategies and approaches. Each transcription was coded verbatim into these themes.

The following Table 1 shows how coding themes were developed relative to the literature in preparation for analysis.

Table 1: Case study coding table

Interview question	Coding theme	Reference to the literature
Describe your experiences with impact investing and blended finance structures.	Establishing context (impact investing strategy deployed)	
What was the motivation for their implementation?	Establishing context (motivation)	
Did you have to consider any legislative compliance issues when considering these approaches?	Strategies allowable (Compliance issues)	(Charlton et al., 2014)
Were there any endowment mandate restrictions that you had to consider when considering these approaches?	Strategies allowable (Mandate issues)	(Charlton et al., 2014)
What were the leadership considerations that were taken into account prior to adopting such an approach?	Leadership	(Charlton et al., 2014)

Were there skills gaps that you had to manage either within in the foundation or at trustee level that you had to consider?	Skills capacity	(Charlton et al., 2014)
How did you address those gaps?	Skills capacity	(Charlton et al., 2014)
Did you provide training or workshops on the approaches?	Skills capacity	(Charlton et al., 2014)
How did you approach an impact investment strategy? (or: How did you approach a blended finance structuring offering?)	Establishing context (impact investing strategy deployed)	
What factors did you take into account when considering the development of an investment mandate and/or portfolio construction? What did you hope to achieve?	Establishing context (impact investing strategy deployed)	
How did you go about finding (or: how will you go about finding) investable pipeline for your portfolio?	Absorptive capacity of the market (pipeline)	(Business & Sustainable Development Commission & Convergence, 2017)
With whom did you partner (if any) to implement this strategy?	Support infrastructure (partnerships)	(Business & Sustainable Development Commission & Convergence, 2017; Charlton et al., 2014)
How do you measure your impact of your investment approach?	Support infrastructure (M&E)	(Business & Sustainable Development Commission & Convergence, 2017; Charlton et al., 2014)
What have been the results?	Support infrastructure (M&E)	(Business & Sustainable Development Commission &

		Convergence, 2017; Charlton et al., 2014)
If you had the opportunity to re-do or re-visit your approach, what would you do differently?		

Once coded, these coding sheets were analysed to induce themes that were prominent. New themes were considered as they emerged and consideration was given to whether they too were grounded in the literature. Where possible, links were drawn for the purposes of creating a framework that makes sense to an audience of philanthropic foundations that may seek to benefit from the insights offered (Bryman & Bell, 2014). In this way, this approach mapped the concerns or hurdles that these foundations have overcome (or remain challenged by) in using their capital (endowment, philanthropic or both) to leverage or blend with fiduciary capital for greater impact.

3.7.2 *Semi-structured interview analysis*

After each interview, the completed interview guide (completed by the researcher in each interview) was manually entered into an electronic survey tool (Survey Monkey) to understand basic trends and then exported to excel. Each line of data was augmented by commentary offered in each interview in the same excel spreadsheet to help explain why a particular foundation may have responded in the manner in which they did. Summary tables were developed to categorise the data to a coding theme to understand what strategies were being deployed by South African foundations, their reasons for engaging/not engaging and the likelihood of future engagement.

Table 2 shows how each question was coded and its reference in the literature.

Table 2: Semi-structured interview coding table

Semi-structured interview question	Coding theme	Reference to the literature
Section 1: Background information on your philanthropic foundation (“Foundation”) Please describe your role at the Foundation	Establishing context	

<p>How long has the Foundation been in existence?</p> <p>How is the Foundation structured?</p> <p>What is the year end for the Foundation’s latest audited financial statements?</p>		
<p>Section 2: Generating funds for the Foundation’s mission</p> <p>As at the Foundation's last audited financial year end, how much money did your Foundation provide for your direct mission activities (excluding operational costs) via grants, loans or equity, for the year?</p> <p>As at the Foundation's last audited financial year end, what percentage of the funds that you provide for your mission fall into the following categories:</p> <ul style="list-style-type: none"> • Grant • Patient capital (a concessionary loan with extremely long-term repayment periods) • Convertible debt (a concessionary loan which may be converted into grant or another form of finance (e.g. equity) at some point in time) • Loans (at interest rates ranging from 0% to below the prime lending rate) • Loans (at interest rates ranging from the prime lending rate and above) • Equity (a stake in an entity on mutually agreeable terms) that you will seek to exit at some point in the future) • Other <p>As at the Foundation's last audited financial year end, what percentage of the funds that you provide for your mission were generated by: investments that your Foundation’s endowment made; funds that the Foundation raised from individuals; funds raised from corporates; funds raised from other foundations; and funds raised from other sources?</p>	<p>Establishing context (existing practices)</p>	
<p>Section 3: SRI, RI and impact investment strategies</p> <p>What is your Foundation’s approach to Socially Responsible Investment (SRI) strategies for the Foundation’s assets?</p> <p>What is your Foundation’s approach to Responsible Investment (RI) strategies for the Foundation’s assets?</p> <p>What is your Foundation’s approach to Impact Investment strategies for the Foundation’s assets?</p> <p>Does the Foundation have a SRI, RI or impact investment strategy for the Foundation's assets that are used to generate an</p>	<p>Establishing context (investing for impact strategies deployed)</p>	

<p>income for the Foundation’s operations and/or funds that are used to exercise the Foundation’s mission?</p> <p>Is the SRI, RI or impact investing strategy for the Foundation's assets aligned to your Foundation’s mission?</p> <p>Why does the Foundation not have a SRI, RI or impact investment strategy for its assets. Please tick all that apply. <i>(This question was also asked in the affirmative)</i></p> <p>A. A responsible investment or impact investment strategy is not permissible in terms of our Articles of Association or Trust Deed</p> <p>B. A responsible investment or impact investment strategy is not permissible in terms of legislation that applies to our Foundation</p> <p>C. Our Trustees/Directors do not have the capacity to implement a responsible investing or impact investing strategy for our Foundation</p> <p>D. Our Trustees/Directors do not have the willingness to implement a responsible investing or impact investing strategy for our Foundation</p> <p>E. Over and above financial performance, our Trustees/Directors do not need to concern themselves with the composition of Foundation’s investment portfolio holdings</p> <p>F. Our Trustees/Directors are satisfied that the Foundation’s investment portfolio provides adequately to enable the Foundation’s mission</p> <p>G. Our Trustees/Directors do not have the skills to implement a responsible investing or impact investing strategy for our Foundation</p> <p>H. There is limited human capital within the Foundation to design, implement and manage a responsible investment or impact investment strategy</p> <p>I. There are insufficient responsible investment or impact investment products for our Foundation to implement a responsible investing or impact investing strategy</p> <p>J. The Foundation’s investment advisors have not advised or recommended a responsible investing or impact investing strategy</p> <p>K. Following a responsible investment or impact investing strategy may not offer optimal performance for our Foundation’s assets</p>	<p>Strategies permissible (Mandate issues)</p> <p>Strategies permissible (Compliance issues)</p> <p>Skills capacity</p> <p>Leadership</p> <p>Fiduciary duty</p> <p>Fiduciary duty</p> <p>Skills capacity</p> <p>Skills capacity</p> <p>Absorptive capacity of the market (pipeline)</p> <p>Role of advisors</p> <p>Financial performance</p>	<p>(Charlton et al., 2014)</p> <p>(Charlton et al., 2014)</p> <p>(Charlton et al., 2014)</p> <p>(Charlton et al., 2014)</p> <p>(Jenkins, 2012)</p> <p>(Jenkins, 2012)</p> <p>(Charlton et al., 2014)</p> <p>(Charlton et al., 2014)</p> <p>(Charlton et al., 2014)</p> <p>(Emerson & Smalling, 2017)</p> <p>(Weatherly-White, 2017)</p>
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<p>L. The Foundation’s asset managers do not have a framework with respect to responsible investment of impact investment advice, deal origination and/or impact measurement</p>	<p>Role of advisors</p>	<p>(Emerson & Smalling, 2017)</p>
<p>Section 3a: Likelihood of engaging with investing for impact strategies</p> <p>How likely is the Foundation to facilitate interaction between Foundation management responsible for mission related projects and/ grant making and Trustees that set the investment strategy for the Foundation’s assets?</p> <p>How likely is the Foundation to apply an ESG screen to your Foundation’s investment portfolio?</p> <p>How likely is the Foundation to screen out investments that are potentially damaging to society and/or the environment?</p> <p>How likely is the Foundation to screen in investments that relate in some way to your foundation’s mission?</p> <p>How likely is the Foundation to engage with the companies your Foundation invests in, either directly or through your investment manager?</p> <p>How likely is the Foundation to withdraw or divest your Foundation’s capital from an investment because of social or environmental concerns?</p>	<p>Collaboration</p> <p>ESG screening</p> <p>Negative screening</p> <p>Positive screening</p> <p>Investor engagement</p> <p>Divestment</p>	<p>(Business & Sustainable Development Commission & Convergence, 2017)</p> <p>(Dhlamini et al., 2017)</p> <p>Ibid</p> <p>Ibid</p> <p>Ibid</p> <p>(Harrison, 2018)</p>
<p>Section 4: Blended finance approaches</p> <p>In the last audited financial year, has the Foundation worked collaboratively with another Foundation to jointly fund a particular initiative?</p> <p>In prior financial years, has the Foundation worked collaboratively with another Foundation to jointly fund a particular initiative?</p> <p>In the last audited financial year, has the Foundation worked collaboratively with a corporate, an impact investor and/or a development finance institution to jointly fund a particular initiative?</p> <p>In prior financial years, has the Foundation worked collaboratively with a corporate, an impact investor and/or a development finance institution to jointly fund a particular initiative?</p>	<p>Context setting</p> <p>Collaboration</p>	<p>(Business & Sustainable Development Commission & Convergence, 2017)</p>

<p>Section 4a: Likelihood of engaging in blended finance approaches</p> <p>How likely is the Foundation to convene a multi-stakeholder meeting to establish ways to collaboratively fund parts of the ecosystem related to your Foundation’s mission?</p> <p>How likely is the Foundation to use the funds it has at its disposal for its mission to de-risk an initiative that creates a positive social or environmental impact?</p> <p>How likely is the Foundation to use the funds that it has at its disposal for its mission to leverage additional funding for initiatives that create a positive social or environmental impact?</p> <p>How likely is the Foundation to provide technical assistance to social/environmental enterprises or not-for-profit initiatives that your Foundation supports?</p> <p>How likely is the Foundation to participate in a pay-for-success model (such as a social impact bond) for an initiative that your Foundation supports?</p> <p>How likely is the Foundation to use the funds that it has at its disposal for its mission, to provide guarantees to social/environmental enterprises or not-for-profit initiatives that your Foundation supports?</p>	<p>Collaboration</p> <p>Risk/reward positions</p> <p>Leveraging</p> <p>Technical assistance</p> <p>Pay for success</p> <p>Guarantees</p>	<p>(Business & Sustainable Development Commission & Convergence, 2017; Johnson, 2018; Quélin et al., 2017; Smeets, 2017)</p>
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3.7.3 Focus group analysis

From an analysis of the semi-structured interviews, four core themes were induced, being:

- The **foundation’s accountability to mission versus accountability to the management of their endowment capital** and how this might be limited by trustee’s understanding of their fiduciary duty;
- The **role of financial advisors as well as the skills capacity within a foundation** to advise on impact investing or blended finance models;
- The **understanding that foundations have of the regulatory environment**, specifically the tax legislation as to what may be permitted or not in terms of investment strategies; and

- The **nature of the interaction** between a foundation’s management team that facilitate the deployment of their programmatic work and those trustees that are responsible for the investing the foundation’s endowment.

Each focus group transcript was coded in Excel using the 4 themes that framed focus group discussions. Comments were coded verbatim so that patterns could be determined.

The following Table 3 shows how each focus group question was coded and its reference in the literature.

Table 3: Focus group coding table

Focus group question	Coding theme	Reference to the literature
<p>Theme 1: Fiduciary duty and financial performance</p> <p>What do you understand are the fiduciary duties of foundation trustees in respect of endowment capital?</p> <p>Prompt: Do you think that there is a duty to act responsibly toward the capital or toward the mission?</p>	<p>Fiduciary duty</p> <p>Financial performance</p>	<p>(Jenkins, 2012; Weatherly-White, 2017)</p>
<p>Theme 2: Role of advisors and skills capacity</p> <p>If you don’t have the skills in house, what investment advisory services have you used to assist you with an impact investing (or any other investing) strategy and/or blended structures?</p> <p>Prompt: Did you find the necessary skills?</p> <p>Prompt: Could they adequately advise you on how to build a structure or a impact investing portfolio across asset classes?</p>	<p>Skills capacity</p> <p>Leadership</p> <p>Role of advisors</p>	<p>(Charlton et al., 2014)</p> <p>(Charlton et al., 2014)</p> <p>(Emerson & Smalling, 2017; Jenkins, 2012; Weatherly-White, 2017)</p>
<p>Theme 3: Regulatory environment</p> <p>As a registered PBO, what do you understand of the investment restrictions, if any on the endowment assets of your foundation?</p> <p>Prompt: If you have entered into any blended finance structures (guarantees or pay-for-success models, what PBO/tax/NPO considerations have you had to take into account when putting those structures together?</p> <p>Prompt: What legal considerations have you had to take into account to develop these structures?</p>	<p>Strategies permissible (Compliance issues)</p>	<p>(Charlton et al., 2014)</p>

<p>Prompt: Did you consider any other models?</p> <p>Prompt: Do you believe there are ways within the current legislation parameters that allow a foundation to use their philanthropic capital for loans and equity beyond grant and operational costs? If not, what would it take?</p>		
<p>Theme 4: Nature of interaction between programmatic work and investment of endowment</p> <p>How much interface does your executive management have with your board's investment committees? How does that interaction unfold? To what extent does mission shape the conversation?</p>	<p>Leadership</p> <p>Skills capacity</p>	<p>(Charlton et al., 2014)</p>

3.8 Limitations of this research study

While the qualitative approach followed offered an opportunity to provide direction for further research in the field of impact investing and blended finance, given that there is not a sufficient body of theory in the area, there are limitations that need to be considered (Bryman & Bell, 2014).

The first limitation required the researcher keep in check their understanding of the views and perspectives that foundations may have. Remaining open to new discoveries assists in reducing interviewer or responder bias (Bryman & Bell, 2014). Given that this researcher is an actor in the impact investing field with practical personal experiences, it is not possible to easily dissociate from personal experience. However, Denzin (2009) suggests that these experiences and interpretation of the lived experience of others, offer increased value to researchers trying to more deeply understand their importance for the benefit of a stronger research outcome.

Qualitative research techniques of inducing themes presented in case study development, semi-structured interviews and focus groups have limitations in terms of theory development and broad generalisation (Bryman & Bell, 2014). This research has not attempted to develop new theory or suggest generalisation. Rather, it has endeavoured to develop a collation of concepts specific to the phenomena experienced by philanthropic foundations (Bryman & Bell, 2014; Terre Blanche et al., 2010).

International foundations were selected as examples of foundations that had successfully implemented these strategies as indicated by the literature. This does not imply that the practice of impact investing and blended finance among international foundations is common place or widespread. The use of these case studies served to suggest firstly, factors that South African foundations may need to consider in applying these strategies, and secondly, to build a guide to administer with South African foundations in a semi-structured interview setting.

Thus, the sample in both the international and South African context is subject to selection bias, is incomplete and not representative.

3.9 Research ethics

To develop praxis, particularly for local philanthropic foundations, the purpose of this research is to share the case studies both through publication and in focus groups. In particular, the intention was to share the practical challenges encountered by each of the case studies. Given that the international foundations in the sample have already been public about the challenges they have faced, it was anticipated that key informants at these foundations would welcome the sharing of their experiences (Bank, 2017; Bill & Melinda Gates Foundation & Impact Alpha, 2016; R. E. Black et al., 2009; McCarthy, 2017; Miller, 2017; Saltuk et al., 2011; UK Ministry of Civil Society, 2013; Walker, 2017). It was anticipated that South African foundations may be more sensitive with regard to their information since it is not typical to publish detailed information.

To mitigate any challenges in this regard, each informant in either the case study building, semi-structured interviews or the focus group discussions was given the opportunity to have their responses remain anonymous if they so wished and to be able to withdraw from the research at any stage. Informants were asked to consent to each interview and if their names and the names of their respective organisation could be listed in an appendix. Further, international informants were offered the opportunity to review the case studies and quotations for their comment and permission to use prior to inclusion in this work. The informant from the Ford Foundation asked to be quoted anonymously. In these instances, comments attributed to this informant have been referenced as 'Foundation A'.

All data gathered in this research study has been stored on a password protected computer. All back-ups of the research data has been stored on an external storage device retained in the researcher's personal safe and similarly password protected.

Chapter 4 – research findings

As set out in the previous chapter, the methodology has been designed to induce insights that answers the question: *What are the key drivers or constraints that foster or limit the adoption of blended finance structuring and impact investing strategies by philanthropic foundations in South Africa?*

Research findings are presented in three sections: firstly, case studies of international foundations and how these findings either confirm or refute the model offered for what prevents foundations from engaging in the practice of impact investing or blended finance; secondly, an assessment of the extent to which South African foundations have engaged in these strategies, what may be preventing them from doing so and the appetite for future engagement; and finally a review of focus discussion groups where the factors as to what prevents were tested with actors in the field.

4.1 Overview case studies for international foundations

This section sets out case studies of the six international foundations interviewed and the investing for impact strategies or blended finance model that each follow. These respective strategies are reflected in Table 4 overleaf.

Table 4: Investing for impact strategies and blended finance models. Adapted from Dhlamini et al. (2017), Miller and FB Heron Foundation (2012), Paynter (2017), Roman et al. (2014), Schiff and Dithrich (2017), UK Ministry of Civil Society (2013) and Walker (2017).

<p style="text-align: center;">Investing for impact strategies</p> <p style="text-align: center;">Typically deployed using endowment capital</p>	<p style="text-align: center;">Blended finance strategies - structuring models by blending different forms of capital</p> <p style="text-align: center;">Typical deployed using philanthropic capital</p>
<ol style="list-style-type: none"> 1. An examined portfolio: Examining the foundation’s portfolio of assets to consider if they are mission aligned. 2. ESG integration: Integrating environmental, social and governance factors within the foundation’s portfolio that may be relevant to the foundation’s mission. At a minimum, ESG factors may be used as a risk mitigation strategy. 3. Investor engagement: Engaging with investee company management to ensure that practices within the firm are aligned with the mission and ethos of the foundation as the investor. 4. Screening: Used by the foundation to either positively screen in or negatively screen out investments that either align or contradict the mission of the foundation. 5. Sustainability themed investment: Used by a foundation to directly invest in a theme that is closely aligned to their philanthropic mission. For example, investing in a risk adjusted market rate of return education fund if the foundation’s philanthropic mission is focussed on education. 6. Impact investment: Investing the foundation’s assets with the specific intent of a specific impact outcome alongside of a financial return and measuring the impact outcome. 	<ol style="list-style-type: none"> 1. Use an impact investing strategy to develop a track record: The foundation demonstrates viability by using their own endowment capital to adopt a mission related impact investment strategy in the hope that this will provide a performance track record over time for commercial investors with fiduciary capital to emulate. Can also be used to ensure that the foundation increasingly uses a far greater proportion or all of its endowment (both endowment and philanthropic capital) to achieve its mission. 2. Leveraging by standing alongside or acting as seed investors: The foundation uses their philanthropic capital to invest first or at the same time as a traditional investor who uses their fiduciary capital. In this way the foundation provides first-mover confidence for the traditional investor. 3. Risk-reward positions: Philanthropic capital is used to invest for return (normally sub-optimal) by taking either take a higher risk position (for example senior financing position) for lower returns in favour of the traditional investor or taking a lower risk position (subordinate or mezzanine financing) to attract traditional senior investors. 4. Risk mitigation or enhancement: endowment or philanthropic capital is used to create tools such as guarantees or pay-for-success models to provide a traditional investor comfort in the investment vehicle or fund mandate.

The six investing for impact strategies as depicted on the left-hand side of Table 4 are utilised using mainly endowment capital and typically seek to preserve capital or achieve a benchmark commensurate with the asset class deployed. Whereas the four blended finance models depicted on the right-hand side of Table 4 are executed using philanthropic capital.

Even though the six international foundations were selected on the basis of their documented strategies set out in the literature, through the process of interviewing representatives from each of these foundations, it was found that three of them (FB Heron, Ford and Annie E Casey Foundations use mainly investing for impact strategies. The remaining three (Rockefeller, Bill & Melinda Gates and Gatsby) use mainly blended finance models.

This is not to say that those foundations that use investing for investing for impact strategies (being FB Heron, Ford and Annie E Casey) using endowment capital do not engage in structuring blended models with their philanthropic capital. However, the converse does not appear to apply. In other words, in the case of the Gatsby, Bill & Melinda Gates and Rockefeller Foundations, they all explore high risk blended models, but do not align the investment strategy of their endowment to their mission. When pressed as to the investment strategies of their foundation's endowment capital in the interviews that were conducted, informants were reluctant to comment. Each informant indicated that the subject of how the respective endowments were invested and if they were aligned to mission was highly confidential and run entirely separately to their programmatic work. Informants for these three foundations indicated that this was a sensitive topic, but that as far as they understood, their endowments were invested in a "socially neutral" (Brest & Born, 2013, p. 24) manner relative to the foundation's mission.

In all three cases, the families associated with these foundations still remain involved with the investment operations of the foundation or the programmatic work. The founding family's personal wealth has given rise to the foundation's formation. Some wish to remain very private (Lord Sainsbury in the case of Gatsby Foundation) while others use their personal profiles to leverage their work (Bill and Melinda Gates in the case of the Gates Foundation). In the case of Gates, this has led to personal criticism and accusations in relation to the lack of accountability that critics claim is a feature of "philanthrocapitalism" (McGoey, 2012, p. 186). Rockefeller Foundation was founded over a century ago by John D Rockefeller and his son (The Rockefeller Foundation, 2017a). The 6th generation of Rockefellers remain involved in the investment strategies of the legacy. While this was not forthcoming in the interviews with Rockefeller informants, there have been reports in the press that suggest that the family and various trustees are not in agreement on investment strategies for the various trusts including the philanthropic

foundation itself. It seems that the family would like more responsible investment approaches whilst independent trustees appear committed to capital preservation and growth, prioritising this over SRI or RI strategies (Wiedeman, 2018). The Rockefeller Brothers Fund, another philanthropic fund emanating from the original John D Rockefeller fortune, however has made a concerted effort at investing its endowment in a responsible manner (Rotenberg & Bonsey, 2016).

With this as context, the six case studies are presented with the first three being those that follow investing for impact strategies (FB Heron, Ford and Annie E Casey Foundations). Thereafter the remaining three (Rockefeller Foundation, Gates and Gatsby) that utilise blended models to further their mission are set out.

4.1.1 International foundations that use investing for impact strategies

<i>The FB Heron Foundation</i>	
Objectives of the foundation	Economic development and asset acquisition for marginalised Americans (FB Heron Foundation, 2018).
Location	New York, USA
Endowment Capital - Assets as per the audited AFS	\$273,658,696 (PKF O'Connor Davies, 2016)
Philanthropic Capital – PRI and grant giving	\$5,695,030 (PKF O'Connor Davies, 2016)
Strategies deployed	<p>100% of endowment capital deployed in investing for impact strategies. 40% of the endowment is invested in impact investing and the remainder utilise screening (PKF O'Connor Davies, 2016)</p> <p>Investing for impact strategy followed</p> <ul style="list-style-type: none"> • Examined endowment portfolio • Impact investing
Results of their strategies	<p>This has been a long-term strategy that has been deployed over the past 18 years. At first, there was a limited supply of intermediaries (asset managers) and investment products to absorb their capital in these strategies. The strategy to align their endowment investment strategy with their mission was slow for the first decade (PKF O'Connor Davies, 2016). It took that long to move 40% of the portfolio into impact investing strategies. Heron believes that part of their mission is to build the ecosystem. Over time, they have seen the universe within which they operate, mature. This evolving context enabled Heron to push the remaining 60% of their portfolio into investing for impact strategies (screening) (Miller & FB Heron Foundation, 2012).</p>
<p><i>"Ask your [investment] managers, to opine on [what] the impact is of what you own. By the way, if they can't do it, you need to look for different managers. Ask your managers to opine. Once you know that.... once staff and/or trustees know that, you can't unknow it. Whether or not there is commitment to do something affirmative, the impact can be profound."</i> Dana Bezzerá – VP Capital Markets – FB Heron Foundation</p>	

<i>The Ford Foundation</i>	
Objectives of the foundation	Social justice and human rights to enhance the dignity of people globally (The Ford Foundation, 2018)
Location	Headquartered in New York, USA and have regional locations in Africa, South America, Central America and South East Asia
Endowment Capital - Assets as per the audited AFS	\$12,105,972,000 (PricewaterhouseCoopers LLP, 2017)
Philanthropic Capital – PRI and grant giving	Grants approved as per last audited financial statements: \$526,405,000 Value of PRI assets as per last audited financial statements: \$155,292,000
Strategies deployed	Committed \$1bn of endowment (8%) to impact investing (debt and equity) in countries where they operate over next 10 years. Investing for impact strategy followed <ul style="list-style-type: none"> • Examined endowment portfolio • Impact investing
Results of their strategies	Through the leadership of the CEO, Darren Walker to convince the trustees of the Ford Foundation, a decision was made to commit a portion of their endowment capital to impact investing strategies (Bank, 2017). This is a long-term strategy that they hope to implement over a decade. The lengthy roll-out strategy results from a concern that there is insufficient absorptive capacity in the market given the size of the impact investing allocation (\$1 billion). There may not be a sufficient pipeline of suitable impact investing products or direct investment opportunities to absorb Ford’s allocation to impact investing. Initially, their impact investments will be conservative in that they will invest in sectors (affordable housing) and entities that they know (Mudaliar et al., 2018).
<p><i>" ...we have come to believe that if we expect to overcome the forces of injustice and inequality, we need to expand our imaginations and our arsenals. In short, we must begin to more deliberately leverage the power of our endowment." Darren Walker – President – Ford Foundation (Walker, 2017, n.p.)</i></p>	

<i>The Annie E Casey Foundation</i>	
Objectives of the foundation	Children vulnerable to detrimental education, social, familial and economic prospects in poorer communities in Eastern United States (The Annie E Casey Foundation, 2017)
Location	Headquartered in Baltimore, Maryland, USA
Endowment Capital - Assets as per the audited AFS	\$2,675,827,680 (Deloitte., 2017)
Philanthropic Capital – PRI and grant giving	Grants approved as per last audited financial statements: \$117,508,335 Value of PRI assets as per last audited financial statements: \$36,122,111
Strategies deployed	4% of endowment capital is mingled with programme related investments (PRI) allocated from their philanthropic capital is dedicated to impact investing (debt, equity and cash). Casey Foundation provides guarantees of \$64m to leverage \$1.6bn for impact investing. They provide sub-optimal loans for immovable assets (property). The remainder of the endowment capital is invested in a portfolio where impact is not considered; rather a growth and preservation investment strategy is followed. Investing for impact strategy followed: <ul style="list-style-type: none"> • Impact investing • Risk mitigation blended structures
Results of their strategies	Although a relatively small allocation to impact investing strategies, Casey has used both their PRI allocation together with their mission related investment allocation from their endowment capital to invest in congruence with their mission. The initial strategy was expected to offer sub-optimal returns. Over time, while the impact investing portfolio has not performed at the same level as the rest of the endowment capital portfolio, it has held its own. Casey leadership has been key to the fulfilment of this strategy.
<p><i>“What has been really important for Casey, Heron, Ford is that they have all had strong high-level leadership and support of these strategies – impact investing, social investing, mission driven investing or whatever you call it.... you have to have strong support from the top when it comes to impact investment.” James Wahls – Senior Investment Analyst – Annie E Casey Foundation</i></p>	

4.1.2 International foundations that use blended finance models

<i>The Rockefeller Foundation</i>	
Objectives of the foundation	The mission of Rockefeller is to focus on ecosystem change that facilitates the welfare of humanity globally (The Rockefeller Foundation, 2017b)
Location	Headquartered in New York, USA and offices in Bangkok, Thailand and Nairobi, Kenya.
Endowment Capital - Assets as per the audited AFS	\$4,086,668,000 (PKF O'Connor Davies, 2017)
Philanthropic Capital – PRI and grant giving	Grants approved as per last audited financial statements: \$173,694,000 Value of PRI assets as per last audited financial statements: \$23,084,000
Strategies deployed	Focus on using their PRI allocation from their philanthropic capital to develop products and solutions that further the development of the impact investing eco-system. Blended finance model followed: <ul style="list-style-type: none"> • Blended structures that include using the fact that their philanthropic capital can take losses (-100%) and invest in solutions that will create a product pipeline using mainly debt and equity. • Take mezzanine positions to provide comfort to traditional investors who take senior positions on an investment deal.
Results of their strategies	Rockefeller may not invest its own fiduciary capital in impact investing strategies, but has been critical to leveraging the development of a sector by investing in the development of an ecosystem. They identify key blockages (for example, the lack of an investable pipeline for impact investors and the need to connect impact investors with investees) and develop those in the interest of the sector as a whole. They take high risk debt and equity investments, to prove very early stage models to traditional investors that once proven should feel relatively more comfortable investing in that product such that scale can be achieved.
<p><i>“We purposefully back a wide range of impact investing products because we recognise that the market lacks viable product models. Many of them will fail, we know. But we are interested in learning from those failures and the ones that really, really work.”</i> Adam Connaker – Programme Associate: Innovative Finance – Rockefeller Foundation</p>	

<i>Bill & Melinda Gates Foundation</i>	
Objectives of the foundation	The Foundation focuses on health, new technologies for health delivery, advocacy for policy change and education. In emerging markets, the focus is on innovative and high-risk projects to improve health outcomes so that people can address hunger and extreme poverty themselves. In the US, the focus is on providing access to opportunities to succeed for those with the least resources (Bill & Melinda Gates Foundation, 2018)
Location	Headquartered in Seattle, Washington, the Gates Foundation works globally to build impact in emerging markets and has regional offices in regional offices in the US, UK, India, China, East and Sub-Saharan Africa.
Endowment Capital - Assets as per the audited AFS	Rather than an endowment that is reflected on their balance sheet, the endowment that funds the Foundation is independently managed by the Bill & Melinda Gates Foundation Trust, that is used to manage the assets allocated to the Foundation. This interest the Foundation has in the Trust is \$51,852,234,000 (KPMG LLP, 2018). According to the Foundation, staff have no influence on the Trust's investment decisions, and no visibility into the Trust's investment strategies or holdings, other than what is publicly available for example, via published tax returns.
Philanthropic Capital – PRI and grant giving	Grants approved as per last audited financial statements: \$5,867,735,000 This includes programme expenses. According to the Foundation Fact Sheet, the total Direct Grantee Support for 2017 is \$4.7 billion (Bill & Melinda Gates Foundation, 2018). Value of PRI assets as per last audited financial statements: \$392,134,000
Strategies deployed	The Gates Foundation use their PRI allocation from their philanthropic capital to take equity in or provide loans to pharmaceutical companies that are developing innovative health delivery solutions and platforms that solve for disease challenges in low-income countries. They also use their balance sheet to provide volume guarantees so that emerging market governments and consumers can acquire access to medication, vaccinations and other basic health medication (family planning) at scale and reasonable pricing. Blended finance model followed: <ul style="list-style-type: none"> • Blended structures that include guarantees that guarantee volume at price points such that the pharmaceutical company would enter an emerging market that they would otherwise not enter. • Using their philanthropic capital, high-risk investments into long term technological development that would develop vaccines (for example Ebola vaccine) and preventative medicines (for example reproductive and Tuberculosis) for use in emerging markets. They use debt (at interest rates ranging from zero to market rates) and equity (patient capital).
Results of their strategies	Volume guarantees have been successful in opening markets and stimulating private pharmaceutical companies that previously would not entertain entering such markets and ultimately become mainstream in emerging markets (Brest, 2016).
<p><i>“... we become a reference point for the [investee] company to signal to the market and other investors for them that Gates is investing, supporting their technology. I am sure that you will appreciate that while a grant is a better deal for the company because its non-dilutive financing often times companies prefer to get an equity investment because it is better to ‘get married by equity’.”</i> Alex Siegel – Programme Related Investments – Bill & Melinda Gates Foundation</p>	

<i>The Gatsby Foundation</i>	
Objectives of the foundation	Specifically, the Gatsby Africa programme focusses on the development and scaling of sustainable industries that incorporate emerging farmers and entrepreneurs in East Africa (The Gatsby Foundation, 2017).
Location	London, United Kingdom
Endowment Capital - Assets as per the audited AFS	£346,773,000
Philanthropic Capital – PRI and grant giving	Grants approved as per last audited financial statements: £41,496,000
Strategies deployed	<p>The Gatsby Foundation focuses on funding innovation in a variety of sectors, but specifically in Africa have invested in a number of initiatives to foster the development of resilient business models.</p> <p>Blended finance model followed:</p> <ul style="list-style-type: none"> • Blended structures that take risk reward positions (mezzanine to the traditional investor’s senior position) and thereby reducing the risk for the traditional investor. • Developing the sector by offering patient capital such that the emerging farmers and the agricultural value chain can mature to a point of attracting traditional capital.
Results of their strategies	An initial foray into The Africa African Agricultural Capital Fund to leverage funding from a traditional mainstream investor (JP Morgan) using a risk-reward structure resulted in key learnings. These learnings resulted in a shift in strategic focus. Using their grant capital to provide long terms loans and equity (patient capital) into the development of economically viable agricultural sectors (tea, forestry and aqua-farming) with the emerging farmers as shareholders. This sector development has been more impactful in that they had greater potential to scale when ready to attract traditional investors.
<p><i>“... unblock constraints in a completely coordinated way. And if you do all of that we believe that we will be the catalyst that will create a pioneering industry that will have the inputs in place, have demonstration farms ... commercial investors looked at this and said ‘Hey we can do this’ and trundled off and replicated. And aqua culture proliferated. Once you got the industry over the hill, the industry takes off.”</i></p> <p>Robert Jenkins – Investments Director Africa Programme – Gatsby Foundation</p>	

4.2 International case study findings

Interviews to develop the case studies were conducted using the Charlton et al (2014) and Business & Sustainable Development Commission and Convergence (2017) suggestion that foundations may have specific concerns before engaging in impact investing or blended finance strategies. These concerns include:

- Whether these **strategies are permissible in terms of a mandate or legislative limitations**;
- Whether there is **leadership skill within the foundation to implement these strategies**;
- Whether there is adequate **skills capacity within the foundation** to implement and manage an impact investing strategy;
- Whether there is **sufficient absorptive capacity in the market** (there is enough investable pipeline or product to absorb the foundation's intention to invest); and
- Whether there is sufficient **support infrastructure** within the foundation to facilitate impact investment strategies.

In interviews each of these concerns was explored with informants to assess approaches the international foundations had taken to mitigate them. Each of these concerns is discussed in turn.

4.2.1 Strategies permissible in terms of mandate or legislative limitations

Here Charlton et al (2014) and Business & Sustainable Development Commission and Convergence (2017) suggest that foundations might not engage with impact investing and blended finance strategies because the foundation mandate or relevant legislation, specifically tax legislation, may not permit it.

None of the foundations interviewed cited any mandate or mission restrictions that would prevent them from committing to impact investing strategies. In Annie E Casey Foundation's case, a Board resolution was sought to allow for an apportionment of their endowment capital to allocate it to strategies that might be sub-optimal so as to ensure that trustees were not operating in dereliction of their fiduciary duty.

The United States Internal Revenue Service (IRS) published guidelines in 2015 for foundations that indicated that impact investing strategies that align with mission are not jeopardising investments in relation to fiduciary duty (Internal Revenue Services, 2015) . It was these guidelines that prompted the Ford Foundation to embark on a strategy to invest a portion of their endowment capital in impact investing strategies.

“the IRS had also recently released guidance effectively saying that it is OK for private foundations to consider mission when investing their endowments. That was important from a policy perspective.

And this guidance from the IRS was saying: No, these are not jeopardizing investments. To the extent that you are conducting due diligence, you are making strong investment decisions, you can absolutely take mission into consideration. They even said that even if you are taking less of a (financial) return, then that is fine too. This strong guidance alleviated any concerns that foundations could have from a fiduciary duty perspective.”

~ Foundation A

Notwithstanding these two influences (foundation mandate and tax legislation) assumed by Casey and Ford, all the other foundations examined in the case studies claimed that permission in terms of mandate and relevant legislation were not an impediment. In the case of the FB Heron Foundation, the motivation to implement these strategies came from a key question posed by the then chair of the board of trustees, namely: “Shouldn’t we be more than a private investment company that invests its excess cashflow for good?”. This question resulted from the board being frustrated by the time committed to discussing Heron’s endowment investment portfolio compared to the time spent discussing programmatic work. When management considered how this question should be answered relative to their portfolio of investments, there was nothing in their mandate or local legislation that prevented them from exploring these strategies.

4.2.2 Leadership skill to implement strategies

Charlton et al (2014) and Business & Sustainable Development Commission and Convergence (2017) claim that a lack of leadership vision or skill may prevent a foundation from pursuing

these strategies. Here consideration is given to how leadership capability facilitated the implementation of these strategies.

Whether it is the leadership displayed by trustees of the case study foundations or the executive management, it appears to have played a crucial role in forging ahead. The Annie E Casey Foundation recognised that for themselves as well as other foundations that work similarly, leadership support at the highest level has been critical to the foundations' pursuit of these strategies.

“What has been really important for Casey, Heron, Ford is that they have all had strong high-level leadership and support of these strategies – impact investing, social investing, mission driven investing or whatever you call it.” – Senior Investment Analyst

Ford Foundation's CEO, Darren Walker led the discussion with trustees, despite their reticence, to persuade them to pursue committing a portion of their endowment to impact investing strategies over a 10 year period (Bank, 2017).

“...having Darren Walker as president of the foundation was absolutely critical to all of this happening. Without him, as a leader and a champion, as we look to scale similar strategies throughout other philanthropies, with our board, someone needs to be a leading advocate and voice on keeping the drumbeat going and move it forward.” ~ Foundation A

As CEO, Walker motivated to Ford trustees that if there was a chance that they could do more with their endowment to align with their philanthropic programme work, they should make the attempt to do so. Doing something was better than maintaining the existing investment strategy that focused on capital preservation growth regardless of programmatic mission. In other words, Walker convinced trustees to depart from the investment principle of remaining agnostic to their programmatic work (Brest & Born, 2013).

“...it was about convincing trustees that we could achieve impact in this strategy. Ultimately, this is why they made the decision. If there was a chance that we could achieve impact, then we should give it a try.” ~ Foundation A

Heron on the other hand, scrutinised their portfolio out of the board's frustration with a disproportionate amount of time considering a neutral investment portfolio that did not relate to their grant making programmatic work. This frustration evoked a much deeper discussion of who they were as a foundation and if they should not be more than an investment vehicle that generates income for charitable purpose given their commitment as a foundation to society at large.

Investment professionals within philanthropic foundations describe the style of leadership as unlike that which they have experienced in a traditional investing environment. Alex Siegel from Gates states that there is latitude to innovate and try different things.

“I went to him [the head of the PRI team] a couple of months ago and said, this seems odd to me. Here is what I think we should do. And he said: ‘Great! Go for it.’ It’s culturally very different.” ~ PRI Investment Professional

The culture of experimentation implies courage among the foundation's leadership to subordinate an ego and the value extraction that is a feature of a traditional capital investment environment in favour of finding the best solution in the interest of meeting the mission of the foundation. Even though many of the skills on the foundation's investment team hail from traditional investment management houses, the management and leadership approach are not the same. Siegel amplifies this point further by saying:

“we view ourselves [the investment team] as a tool to realise the foundation’s objectives. We try not to have the biggest egos in the room. Be the smaller ego in the room. We don’t have [investment performance] targets. I am not pounding the table looking for origination [saying], ‘Hey we need to deploy capital’. Personally, I must tell you that it has been one of the nicest and [most] refreshing things about joining this team is that it is so ego-less.” ~ PRI Investment Professional

Adam Connaker from The Rockefeller Foundation says this to illustrate the point that the investment culture at the foundation is different from that of a traditional environment:

“I am not chasing value extraction – rather I want my team to challenge the status quo, try new things and see what we learn when what we thought would happen, doesn’t.” ~

Programme Associate Innovative Finance

At Gatsby, the founder’s vision drives innovation and adoption of economic development approaches that facilitate the implementation of large scale ideas that lead to the development of an entire value chain within the tea and fishing sectors in east Africa to benefit emerging farmers.

“..the real drive behind this is David Sainsbury himself and Justin Highstead whom he recruited to work on this ...David is besotted (and he would hate me to use that word to describe it) with the introduction of innovation to drive forward sectors. It’s not just finding a comparative advantage, it’s also about driving innovation. Driving best practice in quality management. Justin came along and conceptualized all of this into what I have just described as Msingi.” ~ Investments Director Africa Programme

It seems that leadership vision and courage are key features of these foundations’ capacity to explore at the boundaries of possibility and in so doing, they have forged new innovative paths to achieve their mission.

4.2.3 Absorptive capacity of the market

In this sub-section, attention is given to how foundations that have successfully implemented these strategies have addressed the possibility of originating limited investable opportunities that are aligned to their mission. Charlton et al (2014) and Business & Sustainable Development Commission and Convergence (2017) suggest that this might be a factor that prevents uptake especially considering that the impact investing sector is still nascent.

Two of the foundations, Ford and Heron, expressed concern that the market may not have sufficient impact product to meet their demand for it. Albeit a much smaller foundation in terms of assets in comparison to Ford, Heron was able to use this fact to leverage relationships with asset managers to develop bespoke investment mandates.

“One of the luxuries of philanthropy is that we are small ... but big enough to have separate managed accounts. So most often, we were dealing directly with the managers. So, we were able to be in relationship with our managers, having pretty granular conversations about this and what we would love to see. And them saying, ‘here is the data and the deal flow that is available’. And then having that interchange about what is fixable and what is not. We continue to do that quite aggressively. And I am happy to say, that we have had success working with managers to craft mandates.” ~ VP Capital Markets

Initially, Heron’s foray into impact investing used conventional fixed income instruments, but with the added layer of their foundation’s mission as a lens through which to consider their investments. Specifically, if they were buying property bond (mortgage) loan books, they would ask the manager to examine the postal codes of the underlying lenders. Based on their philanthropic work in low-income communities, the post code information gave Heron a sense of which communities their fiduciary capital was impacting and thus aligned their investments with their mission. As they worked more closely with their asset manager, they asked to target certain post codes and affordability criteria as a way to better support poorer communities with access to finance without over indebtedness and therefore support their economic development mission.

“...in terms of mortgage pools, we had a preference for zip codes. We knew where moderate and low-income zip codes were. It was really pulling the thread of the things we knew as a grant maker.” ~ VP Capital Markets

From the use of post codes, Heron began the process by taking the slow, but iterative steps of examining their portfolio. Considering what assets they held, and if those adequately were aligned to their mission. At the time, this led to the uncomfortable realisation that they held paper that heavily indebted poor people (information gleaned from their programmatic grant making teams, supported this contention specifically when it came to mortgage loans) or invested in private prisons. This began a process of asking their managers to ensure that mortgage paper they held had applied a long-term affordability test and to divest from private prison stocks despite the fact that they were net job creators.

“... moving from unexamined to examined and then once we know that, it became pretty clear that there were positions that we owned that we did not want to own. And some positions were better from a mission lens than others. So, then we started making affirmative shifts and rotating our positions toward impact.” ~ VP Capital Markets

Heron’s trustees had, for fiduciary reasons, to ensure they achieved their impact intentions whilst still preserving capital, thus achieving 100% of their fiduciary capital in investing for impact strategies, which was achieved over a 12-year period in part because they had to work with managers in a nascent market that had limited capacity to absorb their capital (Miller, 2017). The Annie E Casey Foundation did not face a similar challenge as they took a different approach. Trustees had agreed to the carve out allocation to impact investing from their endowment capital with no expectation that it would contribute to the growth and preservation of their endowment.

“...because we have combined concessionary investments with market adjusted returns, there is no expectation that this portfolio [the carve out] would perform at particular thresholds. Therefore, it is not going to feature in the overall growth of the foundation’s assets. [The] focus [is] on a return of capital with some sort of marginal return on top of it and driving programmatic results. The mission lens is very strong when it comes to the social investment portfolio.” ~ Senior Investment Analyst

This low or no performance benchmark approach gives Casey the opportunity to be less rigid in terms of a financial return threshold. They can seek investment opportunities that focus on “*innovative ways to solve problems*” in the first instance rather than be primarily concerned about the absorptive capacity of the market to offer product that could offer a financial return. In spite of this approach, the results have surprised them as they are more positive than anticipated:

“it is proven that you can get your capital back – returned to you by investing in scalable revenue models – that’s a strong lesson learned over and over again at the foundation.”
~ Senior Investment Analyst

It seems that the size of the foundation’s assets to invest does make a difference in terms of the market’s capacity to absorb mission aligned capital. Ford’s asset base is significant at \$11.9

billion compared to the much smaller Heron with a comparative asset base of \$274 million (PKF O'Connor Davies, 2016; PricewaterhouseCoopers LLP, 2017). Therefore, Ford's trustees did not commit to more than a small percentage of assets to impact investing strategies because they believe that the market does not have sufficient performance data or product capacity to absorb their full asset base.

“To be fair, the impact investing sector has yet to deliver on a significant amount of data that says that you can do well in these asset classes and these sectors and to give you the transparency of data that the traditional investment sector has. It's about getting Trustees to move when all you can provide them with are examples – we think that this opportunity offers this with this kind of return profile.” ~ Foundation A

As an additional precaution, Ford has set a very long time horizon of 10 years to achieve the target of placing the portion of their assets in impact investing strategies (Paynter, 2017). Thus, they are hoping to exercise a conservative approach in a market, that in their opinion does not have sufficient capacity. This approach supports success rather than failure to build confidence and trustee comfort.

“I don't know when would be the right time to have failures. As investors we are always nervous of failures. Having said that, yes, the initial set of investments we have brought forward have been with managers that have been doing this for quite a while. In strategies that we are very familiar, with principles that we have known for quite some time. There is comfort in that.” ~ Foundation A

As discussed earlier in this chapter, the Rockefeller, Gates and Gatsby Foundations do not engage in impact investing strategies for their endowment capital. However, these foundations do execute complex and cutting-edge blended models using their philanthropic capital to create viable models that solve global challenges that affect the poor. Respectively, for Rockefeller, Gates and Gatsby, examples include impact investing eco-system development by leveraging traditional capital, access to vaccines in underserved markets using volume guarantees, and emerging market economic development also by leveraging traditional capital, but also by taking subordinate risk positions.

4.2.4 Skills capacity to implement strategies

The model used to frame what may prevent a foundation from engaging in these strategies suggests that the lack of skill or capacity within the foundation to design, develop and implement an impact investing approach or structuring model may be an impediment (Business & Sustainable Development Commission & Convergence, 2017; Charlton et al., 2014). This subsection considers what the case study foundations have done to address this.

All of the foundations interviewed describe a very specific set of skills that they have employed to be able to execute their impact investing and blended finance strategies. Whether they are investing as part of their programmatic work (Programme Related Investment – PRI) or investing their endowment aligned to their mission (Mission Related Investment – MRI), the skill set is different to those deployed on the programmatic side of the foundation’s work.

The Bill and Melinda Gates Foundation is an explicit example of this. Much of their programmatic work involves specific investment into emerging health technologies at the frontier of dread disease prevention and cure in the developing world. Therefore, this skill set is focussed on biologists and scientists to best inform their programmes. The investment team on the other hand, hails from the private equity and venture capital private sector.

“...our roles and titles within the team, while they have an equivalent within the rest of the foundation, they are actually aligned more with what you would find in a traditional investment house. We have associates, principals, partners and managing partners. And if you look at our foundations recruiting page, it says ‘Principal, private equity fund’. Just to attract that type of person.” ~ PRI Investment Professional

Recently, the Gates Foundation’s Programme Related Investment Team changed its name to the ‘Gates Foundation Strategic Investment Fund’ specifically to profile its’ skill set to those companies looking to open markets in the developing world and needing the funding to do so (Cheney, 2018). When Heron embarked on their strategy to invest all of their assets for a positive impact return, their requirement for a different set of skills changed from the traditional skill set they had employed at that time.

“Everything from basic training to the talents that we hired for over time definitely shifted. We need people that had financial acumen and were deeply committed to the movement, the work. So, I would say that it very much changed over time.” ~ VP Capital Markets

For Ford, who are at the outset of transitioning into an impact investing strategy for their foundation, they have relied on the in-house PRI skill set that they use for their philanthropic capital. While they are recruiting for new staff to give effect to their endowment impact investing strategy (mission related investment – MRI), it has been easier to redeploy their PRI staff since these people typically have the investment skills.

“...the staff that were working on our PRI are going to be working on our MRI. We are also in the process of recruiting for a specialist that would oversee our impact investing portfolio as a whole that would have more traditional investment experience. So that was important in terms of thinking about portfolio allocation and investment strategy for our board as part of this. Yes, I mean the people that work on our PRI funds all come out of pretty traditional investments initially so MBAs working in investment functions at big investment banks and transitioned into this work so we had this subset. It wasn't like these were grant making professionals at the foundation.” ~ Foundation A

At times, this strategy of deploying strong financial skills within the foundation's ranks can be overextended. Heron provides a word of caution that by employing skills that have financial acumen and a deep understanding of the foundation's mission does not mean that the foundation has to build an in-house investment capability.

“Quite literally, when we first decided to examine our portfolio, we brought in a bunch of Bloomberg terminals. We as staff went on a very steep learning curve. First, how to use them? And then, what the hell are they telling you? P.S. Do not do that. There is absolutely no reason to do that.” ~ VP Capital Markets

Gates describes this propensity to develop an in-house capability with a similar level of caution. While they did not attempt to re-skill programmatic staff as Heron did, they have found that they need to recognise the limits of their own capability. In their view, the investment team at Gates

is relatively small (12 people) in comparison to the traditional investment environments from which the team all hail. Given their limited capacity both in terms of team size and their limited technical understanding of the programmatic work, the investment team at Gates relies on the programme team to provide the pipeline of investable opportunities.

“We get to be the deal jockeys. I am building up the skills base, but I am not a biologist. The deals are usually sourced from our programme team. They will say, we are talking to a company that has a really interesting delivery mechanism for diabetes and we think it could be used for HIV. And we will say ‘great’ and we will go and talk to them. We come in and work with and talk to the company about structuring, but rely on them [the programme team] as the subject experts. By osmosis eventually, you can build up a lot of knowledge, but you can never have the depth of knowledge... We have the luxury to marry our 12 people with the several hundred programmatic experts with the foundation.” ~ PRI Investment Professional

Despite utilising a skill set within the foundation that hails from the traditional investment sector, these investment teams are embedded within the programmatic work of the foundation. The Heron foundation notes this best:

“We have a single team – what we call the Integrated Capitals Team. I would argue ... that not only should those teams not be separate, they really are inextricably linked. Yes, there were [skills gaps]. It did happen over time. I remember when I joined Heron 12 years ago, I remember the woman, who was our VP of Programmes saying that ‘she had to learn to love and embrace her inner loan officer’.” ~ VP Capital Markets

At Gates they rely on the programmatic team not only to inform pipeline, but also to provide very specific technical knowledge that will inform whether a deal is worth pursuing or not.

“When it comes to approaches to deal with diseases the folks on the programme side know how to deal with that better than anyone on earth. We [as the investment team] are very close to it. You can be flipping sourcing on its head and still not finding investable opportunities because there are technical elements (molecule size) that make the investment unviable from a programmatic perspective.” ~ PRI Investment Professional

The Annie E Casey Foundation sums up the manner in which these foundations have solved for the skills gap and avoid it being an impediment to utilising investing for impact strategies.

“...the previous Director and this current Director came from a traditional investment background. So, the current Director has a strong investment background, but also has developed a programmatic understanding under the mentorship of the previous Director. ...you need to have a fairly strong understanding of the programmatic work [mission], but at the same time, also have the ability to understand a variety of investment tools and strategies both at intermediary level and then direct investing level to help figure out what is the best approach – what is the best use of capital to address the programmatic challenge we are trying to resolve.” ~ Senior Investment Analyst

4.2.5 Support infrastructure

Finally, the last factor that Charlton et al (2014) and Business & Sustainable Development Commission and Convergence (2017) argue may be prevent a foundation from progressing these strategies, is the lack of support infrastructure in the market. The potential lack of advisors, asset managers, deal originators or frameworks to measure impact could inhibit engagement. How then have the case study foundations addressed this factor?

When Heron embarked on their investing for impact approach, the practice was in its infancy and therefore it was their view that the market ecosystem did not have sufficient actors, specifically intermediary asset managers, to manage the foundation’s capital. Heron indicated that at the time, they believed that it was unlikely to find an asset manager that could deploy these strategies. The management at Heron addressed this challenge in a simple, but effective way. They found a manager in another part of the country whose main source of business was managing community funds and suggested to them:

“you are already running community funds for CRA [Community Reinvestment Act] reasons; it’s not that big a shift to think about investing for a foundation in accordance with our mission?” ~ VP Capital Markets

On this basis, this asset manager together with Heron staff formulated a bespoke mandate to start managing assets with the intention of creating a positive social impact. They continue to work

with the same manager today having adapted the mandate over time and refined the impact metrics they seek.

Ford recognises that it may not be easy to find managers with sufficient track record to service their impact investing strategy. Therefore, they seek to take a broader approach, opting instead for any of the investing for impact strategies such as ESG integration, investor engagement, screening and thematic investment.

“Different foundations take different approaches here. Some say, any investment we do must be 100% aligned with what we do on the grant making side. While that’s fine in terms of the fact that you are really catalysing the programmatic impact that you are trying to achieve, it really, really limits your investment pipeline. It gets more and more difficult the narrower you get. Right? And more difficult to find managers with track record. Alternatively, on the flip side, we just want to be responsible investors. We don’t want to invest in anything harmful, but at the same time, we are not going to kill ourselves looking for specific things [pipeline] that are aligned with our mission, we just want to make sure that all these investments are all being made responsibly. That’s a much different strategy, right?” ~ Foundation A

Rockefeller Foundation and Gatsby Foundation have not invested their own endowments in impact investing strategies. Rather, they have invested in the development of the impact investment infrastructure to create a stronger ecosystem for traditional institutional investors and to build market places for emerging market suppliers to gain access to commercial markets at scale.

Rockefeller recognises the significant funding gap that exists to reach the targets set by the SDG and the declining capacity of governments, philanthropy and ODA to reach those targets (Rodin & Madsbjerg, 2017). Their view is that innovative products are needed to attract commercial capital to finance solutions that benefit the poor and their strategy is to fund the research and development as well as the product development that follows. They do this in the full knowledge that many of these products will fail, but some will not, and it is these that are likely to become sustainable product offerings that attract traditional capital.

“we purposefully back a wide range of impact investing products because we recognise that the market lacks viable product models. Many of them will fail, we know. But we are interested in learning from those failures and the ones that really, really work.” ~

Programme Associate - Innovative Finance

Gatsby have invested significantly through their Africa programme developing the full value chain from farmer to market, in commodities such as tea, forestry and aqua-farming in East Africa. As with Rockefeller, through failure, they have developed an understanding of what it takes to develop emerging farmers to scale through co-operative practices such that farmers and production facilities are commercial.

“... you can achieve far greater impact if you specifically go out and support commercial businesses that are not quite ready, using best in class investment principles and practices, but expecting sub-optimal returns. So that you create a push toward the wall of [commercial] capital that is looking to fund for a return.” ~ Investments Director Africa Programme

In both cases, Gatsby and Rockefeller use their philanthropic capital that they have allocated for this purpose. Their logic is that these are funds that might well have been allocated to grant initiatives and therefore the expected return is negative 100%. Leveraging their philanthropic capital in high-risk ventures to establish commercially viable infrastructure has the capacity to catalyse traditional investment funds to take the product to the next stage of commercial development.

Gates discovered when deploying similar strategies that the early-stage businesses that they were investing in, preferred equity or debt funding over grant, because it signalled to the market confidence in their business better than grant ever could.

“... you will appreciate that while a grant is a better deal for the company because its non-dilutive financing, often times companies prefer to get an equity investment because it is better to ‘get married by equity’.” PRI Investment Professional

Crucial to the three foundations (Gates, Gatsby and Rockefeller) that focus on developing an eco-system using blending models, is the role that they play in developing the support

infrastructure for impact investing. While they may at times be using philanthropic capital to take a greater level of risk in the models that they support, they still retain the need for due prudence given that investees will use them as a reference point. In addition, there is the potential for negative reputational implications if the investment approach is ill-conceived. As Gates put it:

"We don't want to be dumb money [and make bad investments], since our investees use us as an investor of reference, but there are times we could be more risk taking and there are times when we do things that no-one else is willing to do. We have done our best work when we are willing to do that." ~ PRI Investment Professional

Foundations appear cautious to create market distortions by expecting their investment partners (asset managers) to do work at a reduced rate. The foundations seek to operate on a commercial basis with their advisors and in this way build and enhance growth in the sector. Again, Gates expresses this sentiment in the following way:

"Choose the best in class companies, best in class managers and we go to them and get them to do something a little bit different. So long as you are not trying to make people do things at no margin or negative margin. Then people are willing to listen. I think there is a lot of opportunity for that." ~ PRI Investment Professional

Because Casey had carved out a portion of their endowment for impact investing strategies and alignment with their mission and they had accepted that this might provide sub-optimal returns, they were less concerned that a support infrastructure might be lacking. They believe that by so doing, they have developed a track record that signals to the rest of the market what is possible.

"private foundations are looking to have impact in multiple fields. Casey stood up and said we are going to be a player in impact investing. [This] has allowed us to garner respect within the investment field, the programmatic field and then the impact investing field. That's been really beneficial for the foundation.... it is proven that you can get your capital back – returned to you by investing in scalable revenue models – that's a strong lesson learned over and over again at the foundation. It has strengthened our

programmatic work – by finding innovative ways to solve problems.” ~ Senior Investment Analyst

Rockefeller and Heron have been key advocates for measurement in the sector. Rockefeller, because it was key to their impact investing eco-system development, incubated the likes of GIIN and the development of the measurement standards taxonomy, IRIS. As impact investors, Heron continue to collaborate closely to achieve maturity of the eco-system.

“At least on a monthly basis we talk to GIIN, GRI, Looking at IRIS, looking at BLab, looking at HIIP. We talk to data service providers at least once a month, if not twice a month. It is both [helpful and frustrating] ...

This is the vagaries of an immature industry. I try to remember that because otherwise it is insanely frustrating on a daily basis. You have competing frameworks, you have people that want to drive adoption by declaring it so.

By the way, I don't know if you have made all the connections, but GIIN was incubated at Rockefeller and the first CEO of GIIN, Luther Ragin came from Heron. So, we try to take every opportunity we can to grow this space.” ~ VP Capital Markets

4.2.6 Summary of approaches used by case study foundations

In summary, this section has set out the findings garnered from interviews of the approaches used to mitigate factors that might prevent foundations adopting impact investing and blended finance strategies. It can be induced that each of these foundations have developed a range of techniques to overcome the challenges that they may face. Table 5 and Table 6 overleaf, are a summary of these approaches discussed in this section.

Table 5: Summary of approaches used to mitigate factors that prevent adoption of impact investing and blended finance strategies (foundations that use investing for impact strategies)

	Concerns ⁸ that are mitigated	Strategies permissible in terms of mandate and legislative framework	Leadership vision and skill to support these strategies	Sufficient investable opportunities (absorptive capacity of the market and product)	Sufficient skills within the foundation	Support infrastructure (advisors and asset managers)
Investing for impact strategies	FB Heron Foundation	<ul style="list-style-type: none"> No change to the mandate. Too much time given to unaligned investment portfolio. 	<ul style="list-style-type: none"> Strong leadership to pursue these strategies. Leadership asked provocative questions as to investment direction. 	<ul style="list-style-type: none"> Very long-term strategy to allow for investable pipeline to develop. Size of endowment is relatively small to allow for adoption over the long term. 	<ul style="list-style-type: none"> Internal skills and capacity drawn from the financial markets. Closely integrated with programmatic team. 	<ul style="list-style-type: none"> Developed the asset managers they sought Advocated for the development of the sector through GIIN
	Ford Foundation	<ul style="list-style-type: none"> No change to the mandate. IRS guideline cited as giving impetus to pursuing impact investing strategies. 	<ul style="list-style-type: none"> CEO convinced the trustees to pursue these strategies. 	<ul style="list-style-type: none"> Very long-term strategy to allow for investable pipeline that may not be available. May only align a portion of their endowment in impact strategies, given size. 	<ul style="list-style-type: none"> Internal skills and capacity drawn from the financial markets. Closely integrated with programmatic team. 	<ul style="list-style-type: none"> Broad investing for impact approach (ESG, screening, investor engagement and thematic)
	Annie E Casey Foundation	<ul style="list-style-type: none"> No change to the mandate. Special resolution acquired for the carve to allow for sub-optimal performance. 	<ul style="list-style-type: none"> Strong leadership to pursue these strategies. 	<ul style="list-style-type: none"> Carve out with agreement to sub-optimal performance if required. 	<ul style="list-style-type: none"> Internal skills and capacity drawn from the financial markets. Closely integrated with programmatic team. 	<ul style="list-style-type: none"> Sub-optimal return commitment allowed the development of a respected track record.

⁸ Listed across the top of the table are concerns suggested by Charlton et al (2014) and Business & Sustainable Development Commission and Convergence (2017) that foundations may raise for not engaging in impact investing and blended finance models. The table summarises the mitigating approaches in each instance.

Table 6: Summary of approaches used to mitigate factors that prevent adoption of impact investing and blended finance strategies (foundations that use blended finance models)

	Concerns ⁹ that are mitigated	Strategies permissible in terms of mandate and legislative framework	Leadership vision and skill to support these strategies	Sufficient investable opportunities (absorptive capacity of the market and product)	Sufficient skills within the foundation	Support infrastructure (advisors and asset managers)
Blended finance strategies	Rockefeller Foundation	<ul style="list-style-type: none"> No change to the mandate 	<ul style="list-style-type: none"> Management creates a culture where the learning from experimenting is permissible. 	<ul style="list-style-type: none"> Not seeking investable product for their endowment. Create blended models to attract traditional investors. Models are catalytic and ground breaking. 	<ul style="list-style-type: none"> Closely integrated with programmatic team. Internal skills and capacity drawn from the financial markets. 	<ul style="list-style-type: none"> Built the impact investing eco-system including IRIS. Product failure provides opportunities for learning.
	Bill & Melinda Gates Foundation					<ul style="list-style-type: none"> Built health/vaccine eco-system. Product failure provides opportunities for learning.
	Gatsby Foundation					<ul style="list-style-type: none"> Built emerging market economic development eco-system. Product failure provides opportunities for learning.

⁹ Listed across the top of the table are concerns suggested by Charlton et al (2014) and Business & Sustainable Development Commission and Convergence (2017) that foundations may raise for not engaging in impact investing and blended finance models. The table summarises the mitigating approaches in each instance.

In summary, international foundations that have deployed investing for impact strategies have used a Total Portfolio Management (TPM) approach applying it to all their assets, or are in the process of applying it to all their assets. Taking this approach means that a foundation uses or attempts to use its entire asset base (endowment capital *and* philanthropic capital) to further their mission. The international foundations in this sample that have deployed TPM by applying investing for impact strategies, have found ways to mitigate the concerns suggested in the literature that may constrain a foundation. In each instance, these foundations have addressed any limiting potential of mandate or legislation, leadership vision, capacity of the market to provide suitable investment opportunities, skills needed to execute and the support infrastructure required.

Of the international foundations in this sample that have applied innovative blended funding models to leverage traditional investors, their results are typically eco-system wide, catalytic and ground breaking. To affect this level of systemic change, leadership vision and courage appears to be an enabling factor. Thereafter the skills capacity within the foundation to give practical application to this vision and to structure these models is a constraint that they have overcome.

4.3 Findings from South African foundations

In this section, the findings relative to the practices and approaches of South African foundations with respect to impact investing and blended finance strategies are presented. The literature review uncovered that there are very few foundations that have engaged significantly with these strategies (Gastrow & Bloch, 2016). Therefore, the purpose of studying South African foundations was to reveal current practices being utilised and what was preventing them from utilising these strategies. By appreciating how international foundations actively engaged these strategies and addressed barriers, it is anticipated that South African foundations could extract learnings that could be deployed in a local context.

Trustees or Executive Management of fourteen foundations agreed to participate in a one on one interview. This interview was structured around an interview schedule developed based on the theoretical framework offered by Charlton et al (2014) and Business & Sustainable Development Commission and Convergence (2017) as well as insights offered in the case study development.

The survey questionnaire is found in Appendix B. This personalised manner of completing the questionnaire allowed for the appreciation of subtleties that were peculiar to each foundation's circumstances and to clarify responses especially when an interviewee did not understand the terminology or definitions. In general, there was a low level of understanding when it came to terms such as 'guarantee', 'leverage', 'risk mitigation', and 'ESG'. These are terms that may be more familiar in a financial context than that of civil society.

4.3.1 Overview of foundations interviewed

Together, these foundations hold approximately R14.9 billion of assets under management. This figure has been calculated based on the data available. Only two of the foundations publish their audited annual financial statements on their websites. Audited statements were requested from the others either during the interview or post interview. Two complied with this request and three indicated that they were not permitted to share them, no matter what assurances of confidentiality were provided. The remaining foundations ignored requests to share their financial statements. Of the ten foundations that were not able to or declined to provide their statements, assets under management was either disclosed verbally in the interview or they had shared enough data (philanthropic capital amounts and withdrawal rates) or there was published research such as the Theobald et al. (2017) that provided a secondary source of data.

Through a process of triangulating the data from both primary sources and secondary sources as well as what was shared in questionnaire interviews, approximations of the portfolio of assets could be made. It is thus estimated that private endowed foundations and B-BBEE foundations hold an asset base of approximately R45 billion (Gastrow & Bloch, 2016; Levy, 2015; Theobald et al., 2017), the assets in the interview sample represent 34% (R14.9 billion) of those assets.

57% (n=8) of the survey informants were Executive Management, but in each case, held a position on the board of trustees. Therefore, it could be reasoned that the Executive Management would have a good appreciation of the foundation's mission and strategic objectives in order to lead the operationalisation of the mission. The remaining 43% (n=6) were non-Executive trustees and similarly would have a strong appreciation of the mission and strategy of the foundation by virtue of their position.

Half of the foundations were founded more than 21 years ago and six being established between 10 and 20 years ago. One foundation is relatively young, having been founded 5 – 10 years ago. While all of the foundations were structured as registered PBOs with SARS to secure their tax-exempt status, three of the foundations had an additional trust structure for which the operational trust was the beneficiary, effectively creating an investment vehicle for the foundation's assets and an operational arm. The reasons for doing so are multi-faceted, but mainly result from how the assets were endowed in the first place and the desire to protect the assets from the operational activities of the foundation. This ring fencing is a prudent risk mitigation strategy.

Of the funds that are used for the foundations' mission, 79% of philanthropic capital is generated through the proceeds of investments made by the foundation's endowment capital. The balance is derived from donations from other foundations, corporate donations and individual donations. Eleven foundations, therefore fulfil their mission entirely through the effective investment of their endowment – their fiduciary capital without any supplementary funds. 86% (n=12) of the informants only deploy philanthropic capital using grant. One foundation exclusively uses debt, specifically concessional loans (below market rates of return) and another foundation uses a third of their philanthropic capital for patient capital with a below market rate of return. Two foundations deploy their philanthropic capital to significant operational activities such as paying suppliers to effect capital building projects and mentorship development programmes for their beneficiary development programmes.

Table 7 overleaf, presents a summary of the organisational data of each of the South African foundations interviewed.

Table 7: Summary of South African foundations interviewed

Foundation Number	Sector	Type	Years in existence	Philanthropic capital	Generate philanthropic capital from endowment capital only ¹⁰	Endowment capital	Value of endowment assets disclosed or estimated ¹¹	AFS published or available
1	Arts	Non-profit trust	21 years or longer	R1 - 10 million per annum	Yes	R100 million to R500 million	Disclosed	No
2	Education and enterprise development	Hybrid non-profit trust	11 - 15 years	R51 million or greater	No	R1 to 3 billion	Disclosed	No
3	Education	Non-profit trust	21 years or longer	R51 million or greater	No	R100 million to R500 million	Disclosed	Yes
4	Education	Non-profit trust	11 - 15 years	R51 million or greater	Yes	Greater than R3 billion	Disclosed	No
5	Education	Non-profit trust	5 - 10 years	R1 - 10 million per annum	Yes	R100 million to R500 million	Estimated	No
6	Environment	Non-profit trust	21 years or longer	R11 - 20 million per annum	Yes	R100 million to R500 million	Disclosed	No
7	Education	Non-profit trust	16 - 20 years	R11 - 20 million per annum	No	R501 million to R999million	Disclosed	Yes
8	Housing	Non-profit trust	21 years or longer	R51 million or greater	Yes ¹²	R100 million to R500 million	Disclosed	No
9	Education and enterprise development	Non-profit trust	16 - 20 years	R31 - 40 million per annum	Yes	R501 million to R999million	Estimated	No

¹⁰ Foundations generate their philanthropic capital by drawing down from the proceeds of the investments made by the portfolio of investments held by their endowment capital. However, 4 foundations in this sample take on additional donations from corporates, other foundations and individuals to augment their philanthropic capital.

¹¹ Two foundations publish their audited Annual Financial Statements (AFS). Two additional foundations shared their AFS on request. In cases where the AFS were not published, this data was sourced from confidential disclosures in interviews or shared with this researcher confidentially or from publicly available research. When informants chose not to disclose the information, it was estimated via publicly available research, or by estimating the assets based on withdrawal rates and philanthropic capital available.

¹² Rather than use donations from other sources, these foundations (foundation 8 and 13) augment their philanthropic capital by using asset classes (mainly debt) other than grant. Therefore, they generate an income from their philanthropic capital investments as well as from their endowment capital investments and the amount of philanthropic capital available is disproportionate to their endowment capital.

Foundation Number	Sector	Type	Years in existence	Philanthropic capital	Generate philanthropic capital from endowment capital only	Endowment capital	Value of endowment assets disclosed or estimated	AFS published or available
10	Education	Non-profit trust	21 years or longer	R51 million or greater	Yes	Greater than R3billion	Estimated	No
11	Social Justice	Non-profit trust	16 - 20 years	R51 million or greater	Yes	R100 million to R500 million	Disclosed	No
12	Health	Hybrid non-profit trust	21 years or longer	R51 million or greater	No	Less than R100 million	Disclosed	Yes
13	Youth development	Non-profit trust	11 - 15 years	R11 - 20 million per annum	Yes ¹³	R1 to R3billion	Disclosed	No
14	Education	Hybrid non-profit trust	21 years or longer	R51 million or greater	Yes	R1 to R3billion	Disclosed	Yes
						14,875,556,139¹⁴		

¹³ As for note 10. above.

¹⁴ With reference to footnote 9, this figure represents the estimated total endowment capital for the 14 foundations that participated in interviews. This figure is calculated based on audited AFS (4 cases) or figures disclosed confidentially in interviews. In cases where participants chose not to disclose the information, it was estimated via publicly available research, or by estimating the assets based on withdrawal rates and philanthropic capital available.

4.3.2 Current investing for impact and blended finance activities

The current investing for impact and blended finance activities of the South African foundations is set out in Table 8 below.

Four foundations are engaged in a SRI or RI investment strategy using their fiduciary capital. Negative screening is used in all four cases with one using both screening and proxy voting. In addition, only one foundation is involved in impact investing (seeking intentional impact and measuring the impact outcomes of investments). This limited focus on any investing for impact strategy is supported by the fact that only three of the fourteen foundations have a formal investing for impact strategy (in other words, a position or policy to implement the practice agreed by the board of trustees). Of these three foundations, one publishes their responsible investment strategy on their website as well as the manner in which they are exercising their proxy votes. The specific purpose of this published impact investing strategy was a purposeful attempt to align investments of the endowment with the foundation's mission.

In terms of blended finance activities, there is a greater involvement in these activities foundations compared to investing for impact strategies. When it comes to blended finance structuring, the foundations that participated in the structured interview indicated that they had implemented some collaborative practices. Collaboration, both financial and non-financial is considered to be the precursor for blending capital (Johnson, 2018; Quélin et al., 2017; Smeets, 2017). 58% (n=8) of the foundations in this sample have worked collaboratively with another foundation in the past financial year to fund an initiative. In prior financial years only 35% (n=5) had worked collaboratively with another foundation to jointly fund an initiative. Only 14% (n=2) foundations had worked with another impact investor, corporate or DFI to co-fund an initiative, demonstrating a low propensity to work outside of familiar institutions. Half of the foundations (n=7) provide some sort of technical assistance to the organisations that they support. The practice of assisting and supporting the organisations that a foundation may support with technical advice, is common place in the philanthropic sector (Smith & Jennings, 2016).

When it comes to the more complex blended finance activities, only one foundation is involved in developing an investment track record such that they can signal to a traditional investor what

is possible in terms of investment return, both financial and impact returns. This is the same foundation that is aligning their endowment capital to their mission through their investment practices. While there are 5 foundations that are engaged in using their funds to leverage additional funding, only 3 of the fourteen are taking some sort of risk position to provide comfort to a traditional investor to invest in a sector that delivers a social solution. Only 2 foundations are engaged in a SIB (pay-for-success model) and none of the foundations has engaged in any guarantee mechanism. Table 8 below presents a summary of current practices of the 14 foundations in this sample.

Table 8: Current investing for impact and blended finance strategies used by South African foundations

Foundation number	Investing for impact strategies								Blended finance strategies								
	None	Examined portfolio	ESG integration	Investor engagement	Screening	Thematic investing	Impact investing	Open to these strategies in future	None	Collaboration	Provide technical assistance	Develop a track record	Leverage	Risk/reward positions	Fund/invest in pay-for-success models	Provide guarantee	Open to these strategies in future
1	X								X								
2	X							X			X		X				
3					X					X	X		X				
4	X									X	X						X
5	X									X					X		X
6	X									X	X		X				X
7	X								X								
8						X	X	X				X		X			X
9					X			X		X	X			X			
10	X										X						
11				X	X			X		X	X						X
12					X								X				
13	X									X	X		X	X	X		X
14	X							X		X	X						X
Tot	9	0	0	1	4	1	1	5	3	8	9	1	5	3	2	0	7

4.3.3 Reasons for not engaging in investing for impact and blended finance practices

The main reasons offered by the remaining 11 foundations that do not engage in SRI, RI or impact investing strategies, for not following an investing for impact strategy were (informants could select more than one option):

- The foundation's investment advisors have not advised or recommended a responsible investing or impact investing strategy. n = 8
- Following a responsible investment or impact investing strategy may not offer optimal performance for our foundation's assets. n = 7
- Our Trustees/Directors are satisfied that the foundation's investment portfolio provides adequately to enable the foundation's mission. n = 7
- Over and above financial performance, our Trustees/Directors do not need to concern themselves with the composition of foundation's investment portfolio holdings. n = 6

The next highest reasons cited all have to do with willingness, capacity, skills to implement, as follows:

- Our Trustees/Directors do not have the willingness to implement a responsible investing or impact investing strategy for our foundation. n = 5
- There is limited human capital within the foundation to design, implement and manage a responsible investment or impact investment strategy. n = 5
- Our Trustees/Directors do not have the capacity to implement a responsible investing or impact investing strategy for our foundation. n = 4
- Our Trustees/Directors do not have the skills to implement a responsible investing or impact investing strategy for our foundation. n = 3

Figure 6 overleaf shows all the responses foundations selected as well as the frequency of selection.

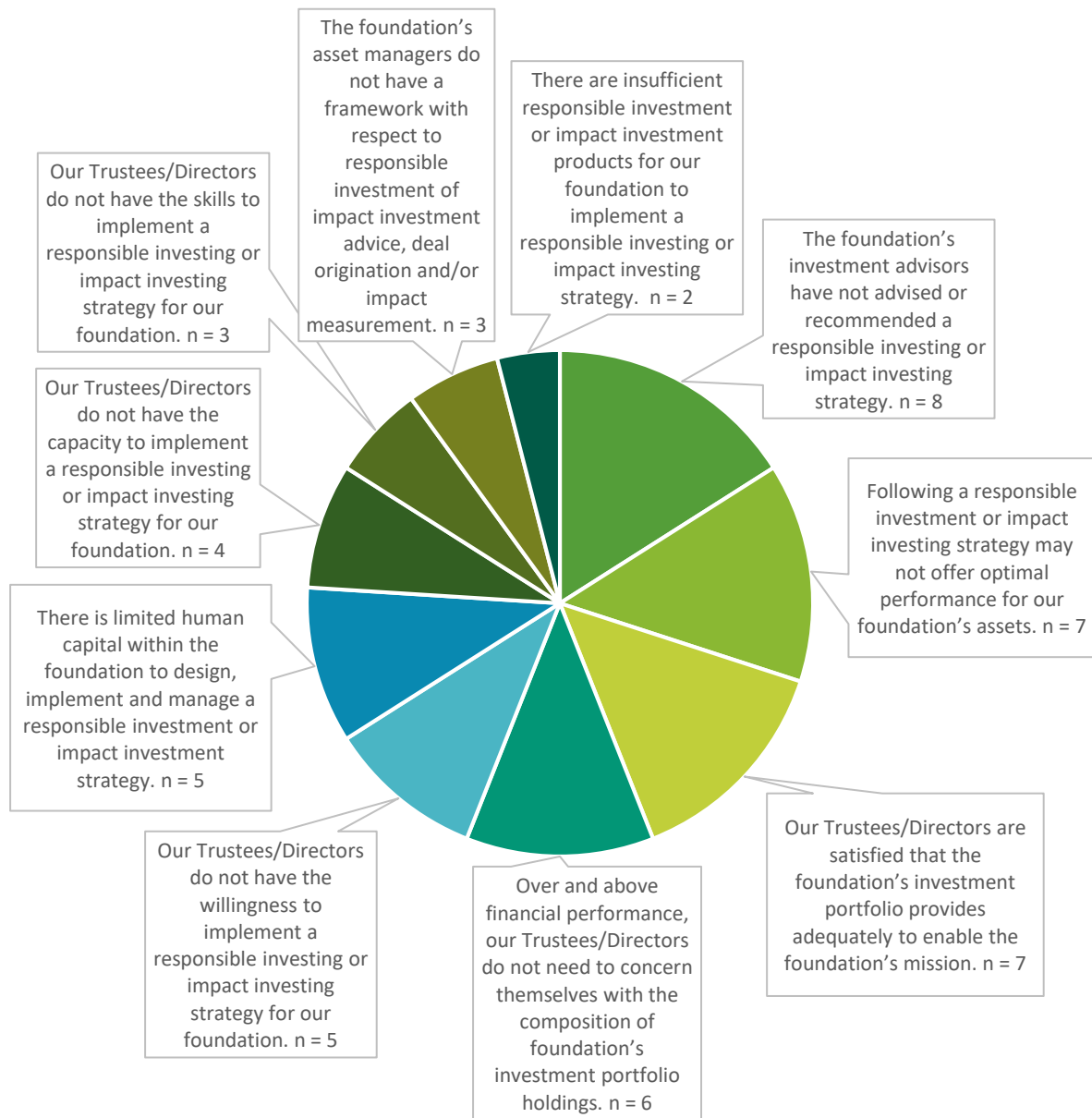


Figure 6: Reasons for not engaging in an investing for impact strategy

4.3.4 Propensity for engagement in the future

Once an overview of existing investing for impact and blended finance strategies had been established, foundations were asked a series of questions designed to establish what their likelihood would be for engaging in these practices going forward. Encouragingly, 5 foundations stated that they are likely to continue or introduce investing for impact strategies in going forward. Seven foundations indicated that they are likely to continue or introduce blended finance models in the future. These foundations are highlighted in grey in Table 8.

In terms of what these future practices may be, each foundation was asked to indicate on a Likert scale their likelihood of engaging on each of investing for impact strategies as well as blended finance practices.

Going forward, 43% (n=6) of the responding foundations are very likely to apply an ESG screen to their fiduciary capital's investment portfolio, 29% (n=4) remain neutral and a further 29% (n=4) are very unlikely or will never apply an ESG screen. 43% (n=6) believe that they are likely to screen out investments that are harmful to society or the environment. In contrast, 29% (n=4) are unlikely to negative screen and a further 29% (n=4) are remain neutral on the likelihood. 50% (n=7) of informants are unlikely or will never screen in investments that have a positive impact on society or the environment and 21% (n=3) are neutral on the possibility of screening in. 43% (n=6) of informants are unlikely or will never engage with their investee companies and a further 29% (n=4) remain neutral on the possibility of engaging with investee management as a practice to encourage positive societal impact. Encouragingly, 43% (n=6) are likely to divest from an investment because of social or environmental concerns over that company's practices. However, 36% (n=5) remain neutral on the idea. By implication, neutrality suggests that the foundation is unlikely to divest from an investment even if the company's practices are contrary to the foundation's social or environmental mission.

More foundations indicate that they are more likely to convene a multi-stakeholder group to work on funding a challenge in the eco-system (64%; n=9), to use their funds to leverage additional funding and to provide technical assistance to entities that they support (71%; n=10 in each instance), (64%; n=7). In contrast, 64% (n=9) are very unlikely or will never participate in pay-for-success (impact bonds) models and similarly the same proportion of informants (64%;

n=9) are very unlikely or will never use their funds or balance sheet to support a guarantee. These latter two strategies (pay-for-success and guarantees) are more complex, unfamiliar structuring strategies. The lack of inclination in these instances seems to suggest that while the informants are comfortable with collaborative approaches and the provision of technical assistance being more common place in a philanthropic environment, the more nascent options are a step too far.

4.3.5 Conclusion

This section sought to set out findings uncovered from questionnaires administered via personal interviews with 14 South African foundations.

As suggested it might be the case in the literature, most South African foundations in this sample are not engaging investing for impact strategies or blended finance models. Many of the foundations interviewed are actively collaborating with their foundation peers as co-funding partners and providing technical assistance to their grantees. These activities are typical of what a foundation would do in any event as part of their standard grant based philanthropic activities. Collaboration and technical assistance are considered the pre-cursor to blended finance models that by their nature, require a high focus of working in partnership and the provision of support to funding partners to make these models work. Thus, the fact that many of the foundations interviewed are engaging in these activities, might suggest that there is capacity to engage in blended finance models that have a stronger capacity to unlock traditional capital. Notably there are a small number of foundations in this sample that are grappling with the complexity of impact bonds, leveraging and risk/reward positions.

The chief reasons provided for not engaging include: investment advisors that have not proposed these strategies for foundations; concerns over performance of the portfolio if investing for impact strategies are deployed; and satisfaction that the existing investment strategy of the foundation provides adequately for the proceeds needed to execute the foundation's mission. The next most frequent reasons cited for not engaging in these strategies were mainly skill and capacity related. In other words, the foundation expressing the view that the foundation does not have the skill or capacity within the foundation to implement these strategies and would thus be unwilling to proceed.

Of interest is the fact that these findings do reveal that foundations have an interest, albeit conservative in considering these strategies in future.

The next phase of the research field work involved focus group discussions to explore what the rationale may be behind these findings. The next section discusses the findings that emanated from focus group discussions.

4.4 Focus group discussion findings

The rationale for choosing to execute the questionnaire for South African foundations in a personalised one-on-one interview setting was to uncover the nuanced reasons why a foundation might or might not engage in these strategies. While there are patterns that could be observed in the response to each direct question in the questionnaire (which have been set out in section 4.3), there were also patterns that were observed in the explanations offered by informants during these interviews. Similarly, patterns were also noted when informants were uncertain as to how to answer a question.

Focus groups were held to test the noted patterns to deepen understanding as to why these patterns may occur and what tools may be helpful for foundations to facilitate engagement in these strategies.

The patterns noted in questionnaire interviews were collated into themes and these themes formed the basis for a focus group discussion guide (see Appendix C). The themes covered four areas, namely:

- The **foundation's accountability to mission versus accountability to the management of their endowment capital** and how this might be limited by trustee's understanding of their fiduciary duty;
- The **role of financial advisors as well as the skills capacity within a foundation** to advise on impact investing or blended finance models;
- The **understanding that foundations have of the regulatory environment**, specifically the tax legislation as to what may be permitted or not in terms of investment strategies; and

- The **nature of the interaction** between a foundation’s management team that facilitate the deployment of their programmatic work and those trustees that are responsible for the investing the foundation’s endowment.

Findings emanating from focus group discussions against each of these four themes are set out in the sections below.

4.4.1 Accountability to mission versus accountability to the management of endowment capital

Participants in the focus group discussions were able to understand the main purpose of an endowment to grow the capital sufficiently to provide for operational cost, but at the same time preserving the capital base of the endowment. This was embodied in comments such as this one:

“...fiduciary duty basically is to grow that portfolio as much as possible and then [from] some of the money they earn, the interest income they earn on the current portfolio is to support the [foundation’s] operational cost. So, then the fiduciary duty is to grow the portfolio via long term sustainability”

There was also an understanding that there needed to be an investment approach that countered the eroding effects of inflation. One advisor to philanthropic foundations said this:

“...foundations ... will look at growth because they’ve got to deal with issues like inflation and if they don’t do that then the impact gets less and less”

Only occasionally could participants link the idea that a foundation might also need to consider the philanthropic mission as a factor in investment decisions. After some discussion among participants in the focus group this issue would be raised.

“I think differently from you. Because I see a trust having fiduciary responsibility and there are a whole range of things that fall into it. The money is one thing, [but] the primary thing in a non-profit is your purpose.”

Furthermore, participants also recognised that aligning an investment strategy to the purpose or mission of the foundation might be challenging in that it may require specialist skills or capacity. One trustee expressed this view by saying this:

“it requires quite a lot of research as well, so it’s all very well to say well we’re not doing alcohol, we’re not doing tobacco, we’re not doing this or that... So, it often requires research to actually access the values of the company [asset], and do those values resonate with your values...”

In one of the focus groups, the discussion took a tangential turn. Participants also interpreted the question of accountability to incorporate being accountable to the broader community affected by the work of the foundation. A discussion ensued as to why foundations, despite being registered *Public Benefit Organisations* appeared reluctant to publish or disclose their investment holdings or their annual financial statements to the public they seek to benefit. Participants expressed the view that fear of personal exposure to demands for funding, personal safety in the case of family foundations, privacy being compromised and being considered self-important as reasons for not being willing to share a foundations’ financial information. A trustee said this:

“... my sense is people are afraid, reluctant to even talk about how much their total grant making is. They certainly wouldn’t disclose what their endowment is. They might hint that their endowment is in the region of x and we grant in the region of y percent. If you want to do the arithmetic, you can. That would be considered transparent in the extreme.”

Participants expressed the view that fear of personal exposure to demands for funding, personal safety in the case of family foundations, privacy being compromised and being considered self-important as reasons for not being willing to share a foundations’ financial information.

4.4.2 The role of financial advisors and in-house skills to advise

Participants in the focus groups recognise the role that financial advisors and investment professionals play in influencing the investment decisions that the foundation makes with its endowment capital. It seems that investment professionals and advisors are drawn into the working committees of the foundation. While the trustees correctly identify that they remain responsible for the final investment decision, these investment professionals can influence decision making. A trustee remarked as follows:

“Our investment committee has external members who work for investment companies. We’ve got investment houses who we invest with, you know xxx [name of asset manager] and all of those ... they don’t make decisions, but they influence your decisions.”

It appears the manner in which investment advisors give feedback to trustees on investment performance can give rise to a reconsideration as to whether an investing for impact strategy might have been the correct course of action. Trustees seem conflicted by the financial performance they desire for their endowment capital and the decisions that they have made to apply a screening strategy because holding a certain stock may not be aligned to their foundation’s mission.

“Oh my goodness I tell you... Every quarter when they’re [the financial advisors] presenting our things [financial performance] saying and this is how much we have earned [on the portfolio] and saying, if you would have invested in xxx [sin stock], you would have made this much.”

For more complex blended finance models, participants suggest that there are specialised skills that may be required. They also suggest that these skills are available and may be more independent (as opposed to influencing a particular direction) in their approach.

“There’s a whole market for organisations who serve as intermediaries for these kinds of transactions. So, they perform the role [similar to] that in the private sectors that are performed by an investment bank. The structuring, advisory, performance management, fiduciary role in overseeing the setup and the implementation and along the life of these transactions, as almost a neutral party, an independent party standing between the investors and the implementers.”

An added perspective to the view of being able to draw on skills to advise, is the leadership within the foundation to determine what advice the foundation’s management heeds and assimilates into the direction they visualise for the foundation. It seems as if the strategic leadership role is key to appreciating what advice is sought and how that aids the vision. One CEO expressed this by saying:

“We will find who is familiar and understands all these structures to be presenting a structure to us. We will say this is how we want to do it, and we’ll say yes or no, makes sense or not. It’s not an in-house thing. On issues around what we can do with the money in terms of this whole public benefit stuff, in the past I’ve gone to a lawyer, to get a legal consultant to actually unpack that, to say you know would that work, wouldn’t it work etc. We’ve got no capacity just to think of the best structure. We’ll differ in terms of who’s [advisors] pulling us in, do you want to and we say yes. We like this, but we’ll change a bit of that, so it’s up to us and our vision for what we want.”

Specialist advice can be unhelpful if there are insufficient skills within the foundation’s ranks to meaningfully engage with the advice that is received. In response to whether foundations have sufficient skills internally to understand deal structuring, risk and capital structures, participants indicated that foundations seldom have these skills in-house. One participant expressed this challenge succinctly.

“You very seldom see those [skills].”

With respect to legal advice specifically on the South African PBO legislation, participants expressed the view that lawyers are conservative in their approach and not familiar with the innovative blending structures that a foundation may be wanting to explore. One participant expressed it in this way:

“So they’ve [tax advisors] got a very vanilla understanding, when you come with something that is slightly more complex or innovative.”

4.4.3 The understanding that foundations have of the tax environment

Added to the tax advice that foundations receive discussed in the previous sub-section, participants expressed the view that foundation’s management and trustees are overwhelmed by the tax legislation related to PBOs. They appear flummoxed by what may be permitted in terms of the legislation and what is not.

“Having personally look through schedule 9 [of the tax legislation], I was blinded after four pages of the things that I could and could not do. Finally, I came across a clause or

something which neatly captured my [activity]. The relief was palpable. I just punched the air. I think it's highly prescriptive."

Other participants expressed dismay at their own lack of knowledge. Especially in light of the idea that their lack of understanding of the legislation may limit the foundation's capacity to deploy investing for impact strategies or blended structures.

"Look I think for me... my background is law, so the fact that I don't know this is shocking."

Participants in focus groups seem to be unsure if they could use other asset classes other than grant for their philanthropic capital. These could include sub-optimal or patient loans or convertible loans to grant on delivery of agreed social impact outcomes. Some participants were adamant that these activities were not permissible in terms of the tax legislation, while others shared their practical experiences of using these debt instruments with their philanthropic capital.

4.4.4 The nature of the interaction between a foundation's programmatic teams and the investment activities of the foundation

Participants in the focus groups expressed the view that the operational function of the foundation is often separate from the team that makes decisions related to how the endowment is invested. One participant expressed this separateness in this way:

"In my experience, sometimes the grant making or the giving side, the structure of the foundation is split. Actually, the investing of the money and the grant making of the money are controlled by two completely different boards or entities. There really is no meeting there, or very difficult, you'd have to actively work to get those aligned."

Furthermore, apart from alignment, it seems that separating the two functions also has an operational constraint in terms of budgetary planning for the foundation's programmatic work. This observation was expressed in this way:

"The grant making entity goes and says 'Hallo we're think we're going to spend this much this year, can you please open the sluice gates for us'. And we've got no idea how and when and why those sluice gates would or wouldn't be open at any given time."

4.4.5 Conclusion

The focus groups were a useful tool to uncover some of the dynamics that may be underpinning the limited uptake of impact investing strategies and blended finance structures by foundations.

Four main thrusts were explored and each of them revealed a deeper understanding to these patterns. Specifically, in the first area, there seem to be different views as to the duty that trustees have to the protection of the foundation's mission and its capital. The additional perspective that was added was the idea that the foundation too may have an accountability to the foundation's beneficiaries.

In the second area, advisors play a role in influencing financial decisions as well as how to structure innovative models within the frame of the law. This advice seems conservative and requires some skill within the foundation to assess the utility of it. In addition, the role of the foundation's leadership to marry up the advice to the foundation's vision appears to play a role.

In the third area, it seems that trustees and advisors to foundations are overcome by the complexity of the tax framework and what is permissible.

Finally, there appears to be little integration between teams that are responsible for programmatic work and those that determine investment strategies for foundations.

4.5 Conclusion of findings

Considering the original research question: *What are the key drivers or constraints that would foster or limit the adoption by philanthropic foundations in South Africa of impact investing strategies and blended finance structuring?*, the findings revealed in the field work are summarised in this section.

The six international foundations that were sampled for cases studies present a useful contrast against which to consider the South African foundations. These case studies provide practical examples of the key drivers that would overcome some of the challenges which the literature suggest might constrain adoption of impact investing strategies and blended finance models.

As a consequence of the way in which trustees in South African foundations apply their understanding of fiduciary duty, the value placed on the advice provided by investment advisors

and the application of the tax dispensation may constrain a foundation from applying a Total Portfolio Management (TPM) approach to their endowment capital. Furthermore, it seems as if the skills capacity within this sample of South African foundations or their access to external skills that can assist with the innovation required to implement blended finance models may be a limiting factor. It seems that leadership vision is a factor that has fostered engagement with these models in instances where South African foundations are attempting to apply blended finance.

Chapter 5 – discussion of findings

“...we have come to believe that if we expect to overcome the forces of injustice and inequality, we need to expand our imaginations and our arsenals.

In short, we must begin to more deliberately leverage the power of our endowment.”
(Walker, 2017, n.p.)

The findings suggest that trustees understanding of fiduciary duty in the context of a philanthropic foundation, the role of investment advisors and an understanding of the tax dispensations for foundations are key constraints for a foundation to adopt a Total Portfolio Management (TPM) approach to the investment of their assets. These findings may explain the limited up-take by South African foundations of investing for impact strategies. Beyond a TPM approach, the skills needed and leadership vision further constrain a foundation’s capacity to implement blended finance structures.

This chapter discusses these findings in contrast to the international case studies who have explored these strategies. By appreciating the context of South African foundations relative to the experience of international foundations, praxis is developed. This framework provides practical steps for South African foundations to implement such that they are able to unlock their capacity do more for their mission by using, as Walker (2017) suggests, the potential of the endowment and their ingenuity.

5.1 The use of Total Portfolio Management

In contrast to the international case studies, there seems to be little understanding of the concept of Total Portfolio Management (TPM) among trustees of South African philanthropic foundations in this sample. Foundation trustees in South Africa divorce the practice of investing their endowment capital from their philanthropic giving. In particular, they consider it their fiduciary duty to preserve and grow their endowment capital without much alignment to their mission.

This challenge is not unique to South African foundations in this sample. Despite their significant work in the funding and development of the impact investing eco-system, some of the

international case study foundations (Rockefeller, Gates and Gatsby) have a similar challenge – linking their mission aligned activities to the investment strategy of their endowment. It is thought-provoking to note that despite the misalignment of the endowment capital investment strategy to the programme strategies, it is these international foundations that have been particularly innovative in their use of blended finance structures using their philanthropic capital to advance their programmatic work.

In South Africa, much consideration is given to applying the principles that underpin the foundation’s mission to deployment of philanthropic capital predominantly through the use of grant. The foundation’s philanthropic purpose is set out in the object of the trust deed and executive management’s execution of that mandate, governs how philanthropic capital is deployed. Yet the same consideration, that is, applying the principles of the foundation’s mission, is not applied when considering the investment mandate of the foundation’s capital. Jenkins (2012) argues that when mission is applied to both the endowment capital and philanthropic capital (the ‘total portfolio’) then the foundation can achieve greater impact because it is using all its capital.

It appears that mission aligned investment of a foundation’s endowment is challenging to implement in a South African context. Three reasons have been found for this: the role of financial advisors to philanthropic foundations; trustees’ understanding of fiduciary duty; and understanding what is possible in terms of tax legislation.

5.1.1 The role of financial advisors to philanthropic foundations

Trustees of South African foundations reflected in interviews and focus group discussions that financial advisors to foundations seem not to be aware of the potential of mission aligned investment. Trustees report that it is seldom the case that financial advisors would offer alignment advice. Further they see their fund management role as separate from the philanthropic and operational activities of the foundation. In one case, several of the trustees of a foundation with a health-related mission that had introduced a screening strategy to exclude tobacco and alcohol stocks from their investment portfolio, relate how their financial advisor would report on financial performance to the investment committee citing two scenarios. The first being the portfolio’s performance with the screening applied and the second being what the

portfolio would have achieved had the foundation included the sin stocks. By providing this comparison, the financial advisor takes little cognisance of the role of mission in an investment strategy. Presenting these two scenarios, implies for trustees that mission aligned investing may offer sub-optimal performance. Yet the scenarios are related to a single stock position, therefore the argument of sub-optimal performance generalised to the rest of the portfolio should not be made.

Even though Brandstetter and Lehner (2015) advocate for more multi-variate quantitative research to adequately satisfy the performance question for the rational investor, the early literature on this question indicates that there is little material difference in performance between a conventional portfolio and one that uses investing for impact strategies (Patel, 2016; Viviers & Eccles, 2012). Some international impact investing practitioners describe the suggestion of sub-optimal performance in investing for impact strategies as a “red-herring” (Weatherly-White, 2017, p. 67) and proponents suggest that there does not need to be a trade-off between impact return and financial return (Trelstad, 2016). The Slegten (2013) study indicates that for institutional investors, investing for impact offered lower volatility and modest returns. This could offer comfort to foundation trustees that following such an approach might not necessarily be sub-optimal, but a good building block in an overall portfolio of assets. Further if there are differences in performance returns between a traditional portfolio and an impact portfolio, these are often because of systemic risks (for example, market volatility or stages in the economic cycle) as opposed to attribution to following specific investing for impact strategies (Patel, 2016). Despite the growing body of performance data, financial performance remains the primary concern of 40% of impact investors globally according to the GIIN annual survey of impact investors (Mudaliar et al., 2018).

There is an argument that foundation trustees alluded to in focus group discussions, that the endowment’s investment strategy should not always benchmark performance off the traditional market hurdles. Mission aligned investing is introducing a third dimension to the two existing dimensions of risk and return in Modern Portfolio Theory (MPT) (Emerson & Smalling, 2017). If the portfolio is constructed within the range of the efficient frontier for risk and return with the added dimension of mission aligned impact strategies, and performs adequately enough to

provide for the foundation's operational activities, then this may constitute sufficient performance (Jenkins, 2012).

The example cited earlier, of the advisor presenting the foundation with a health-related mission with two scenarios, is an example of how crucial it is to choose advisors carefully or be willing to critique the advice provided. In this instance, this foundation has continued with their screening strategy as the reputational risk of not doing so looms large. Stakeholders have taken this particular foundation to task for previously investing in alcohol companies as contradictory to their mission. Another foundation may have found itself swayed by the advisor's presentation.

South African trustees remarked that their financial advisors had seldom if ever raised the issue of responsible investment or investing for impact strategies. Despite every effort to have philanthropic advisors participate in the focus groups, most did not attend and thus it is only possible to posit that their reason for not offering mission aligned investing for impact strategies is either because they themselves do not know what products or strategies to recommend or because they do not have the expertise or because they believe that doing so does not fulfil the fiduciary duty of the trustees.

International foundations that formed part of the case study group act differently to South African foundations. Both Casey and Heron argue strongly for finding advisors and asset managers that could advise them on aligning their endowment investment strategy to their mission. Rather than taking investment advice at face value, they searched until they found advisors that were prepared to consider these strategies. Then they worked closely with these advisors to co-create the strategies that would achieve the alignment they sought.

5.1.2 Understanding of trustees' fiduciary duty

One of the reasons cited by foundation trustees for not implementing investing for impact strategies was that trustees do not need to concern themselves with the composition of the portfolio over and above financial performance. By implication, trustees are applying fiduciary duty only as it applies to prudent financial management of the foundation's assets.

The most common investment mandate noted by South African trustees was to preserve and grow their capital. Up until a landmark case in the South African courts in 1999, the approach to fiduciary duty (specifically capital preservation and reasonable growth) meant that most investment mandates were conservative and used fixed deposit and money market type instruments (Smith, 2000). In the case of *Administrators, Estate Richards v Nichol and Another* 1999(1) SA 551 SCA, the court found that trustees could be considered derelict in their duty by taking a conservative approach. The judgement made it clear that trustees needed to apply MPT to risk and return and due consideration of the context of a particular trust (Smith, 2000).

A conservative approach in cash-based instruments can in fact erode a portfolio because of an inflationary effect, thus diversification, and the use of more risky instruments such as derivatives and equity provide ways to outperform the market. Most significantly, the judgement gave trustees the guidance that the object of the trust needed to be factored in when considering a trust's investment strategy. Therefore, trustees are required to apply an appropriate risk adjusted return strategy to their assets in keeping with the purpose of the trust. By extension, it could be argued that trustees of South African foundations have a fiduciary duty to protect their endowment capital by investing prudently given the risk and return profile. However, this judgement sets out that because South African foundations are structured as philanthropic trusts, trustees must also consider the philanthropic object of the trust in their investment decisions. Applying a mission lens to their endowment capital is part of their duty of care.

It is important to note that all of the South African foundations interviewed appear to be applying due care to achieve portfolio performance such that they can withdraw between 4-5% of the earnings each year to support their philanthropic activities. However, if one considers that fiduciary duty extends not only to due care, but also loyalty to the objectives of the foundation (Black, 2001), then most of the trustees interviewed are not considering this feature of their care. Jenkins (2012) argues that trustees of philanthropic foundations have a different obligation to beneficiaries than that of pension funds where the obligation must consider the long term liability to beneficiaries in the future. Philanthropic foundation trustees have an obligation (or prudent loyalty) to the object of the foundation and not individual beneficiaries or the family founders.

As such, South African trustees could afford better consideration of investing for impact strategies that are aligned to the foundation's mission (Jenkins, 2012).

This lack of understanding of the duty of care and loyalty was evident in focus group discussions. Some participants were adamant that fiduciary duty extended only to a consideration of capital preservation and growth without any concern for the alignment of underlying assets to the mission of the foundation. Others were surprised that mission and the foundation's context should (and must) be considered and that this may not necessarily compromise returns. Despite limited progress in South Africa for mission aligned investing of endowment capital, it is pleasing to note that one foundation in the interview sample has a published responsible investing statement and engages with investees against this statement using its proxy votes. Another South African foundation has committed its entire endowment to its mission as well as a significant proportion of philanthropic capital using asset classes other than grant. Further, four other foundations apply screening strategies. Thus, the idea of alignment appears to be gaining traction.

In a context of challenging social problems, it is increasingly intolerable for any investor to avoid consideration of investing for impact strategies (Weatherly-White, 2017). Therefore, foundation trustees have significant potential to wield the power of their endowment and appreciate that a deeper understanding of fiduciary care gives them an effective opportunity to do so.

5.1.3 Understanding of what is possible in terms of the tax legislation

A key moment in the investment conduct of foundations in the United States (US) was the guide provided by the IRS for the investment of a foundation's endowment capital (Internal Revenue Services, 2015). This provided clarity for the risk that trustees could take to align their investments to their mission and that by doing so, albeit at additional risk so long as trustees were taking due care, they would not be considered derelict. Nothing had changed in the legislation and the fact that the FB Heron Foundation and the Annie E Casey Foundation had been comprehensively deploying these strategies for decades prior is testament to what was possible within the existing US legal framework (McCarthy, 2017; Miller, 2017).

In the South African context, the Davis Tax Committee was commissioned in July 2013 to comprehensively review the tax system and its related legislation and completed its reports to the Minister of Finance in April 2018 (Davis Committee, 2018). This review considered all aspects of the tax legislation in South Africa including those elements that relate to PBOs.

The specific brief to the Committee was “*to assess [the South African] tax policy framework and its role in supporting the objectives of inclusive growth, employment, development and fiscal sustainability*” (Davis Committee, 2018, n.p.). As argued through the literature review, one of the thrusts of investing for impact strategies is the alignment of commercial interests with global sustainability (as expressed via the SDGs). In turn, each philanthropic foundation has a mission that is aligned to the sovereign development agenda. In South Africa this means each foundation has a mission that in one way or another addresses the triple constraint. The Country’s tax dispensation drives this motivation¹⁵. It makes sense for a foundation’s assets through its endowment capital investment strategy to be aligned to its mission.

The Committee’s report on PBOs restricted itself to the basis upon which a philanthropic foundation registers as a public benefit entity to render its revenue non-taxable, and the inefficiencies in the PBO system (Davis, 2018). It missed the opportunity to provide impetus to the opportunity that a foundation has to align investment strategies to mission.

In addition, the Committee adhered to the view that the deployment of philanthropic capital should by its nature be irrevocable and therefore the only asset class that can be used to adhere to this principle must be grant (Davis, 2018). This grant-only assumption is an interpretation made by the Tax Exemption Unit (TEU) as opposed to embedded in the law. Participants in focus groups confirmed that the TEU, at times, extends their interpretation too far and has not considered innovative approaches that could be deployed within the framework of the legislation and its philanthropic intent. The Davis Tax Committee report on PBOs confirms that there are a wide variety of interpretations of the legislation by the SARS Tax Exemption Unit on the

¹⁵ The 9th schedule of the South African Taxation Laws Amendment Act 30 of 2000 sets out activities that each PBO should follow to be awarded tax exemption. These activities are directly aligned to the National Development Plan (Davis, 2018). Thus, a registered not-for-profit cannot register for tax exempt status as a PBO unless the mission listed in their founding documents fits the list of activities listed in the 9th schedule. This list of activities is derived from the National Development Plan.

meaning of irrevocability (Davis, 2018). Similarly, foundations and their advisors interpret irrevocability to mean that grant is the only asset class that adheres to this principle. Whereas patient capital or sub-optimal loans could provide an opportunity for foundations to recycle funds for greater impact. In this instance, ‘irrevocability’ could mean that the full amount may not be recoverable.

It seems that the Davis Committee may have missed the opportunity to provide more innovative recommendations to unleash more capital deployed by foundations in support of their mission and therefore to the Country’s development and growth agenda. Unlike the IRS, the Davis Committee is silent on investment strategies for mission aligned investment strategies for a foundation’s endowment.

Focus group discussions revealed that the use of grant for irrevocable and altruistic giving is not the only asset class that can be deployed within the realm of the South African tax legislation. One South African foundation in the interview sample is a registered PBO and is using patient debt and convertible debt with their philanthropic capital as opposed to grant. Again, participants within the focus group discussions were enlightened to hear of this example of a creative way to deploy capital without compromising PBO status.

Increasingly there are innovative blended finance structures that three South African foundations in the sample are in the early stages of exploring that require deploying different forms of capital to traditional grant making. These include loans (including sub-optimal loans) to nascent pay-for-success models (social impact bonds -SIBs) that leverage traditional capital in two instances and in the other case, venture capital loans to establish start-up businesses for the beneficiaries of the foundation’s bursary programme.

One of the foundations that has invested in a SIB using their philanthropic capital explained in the interview that she needed to find ways to make the foundation’s capital to go further. By providing a sub-optimal loan to the SIB, she was confident that she would be able to re-cycle these funds into other programmatic work when the loan was repaid, therefore increasing the foundation’s mission.

As was the case with the IRS in the United States, the South African Revenue Services would do well to provide a similar guide to South African foundations. Such guidance has the potential to provide clarity and open the door to unlocking the potential for more innovative approaches both for mission aligned investment of endowment capital and to deploy philanthropic capital in more effective ways than grant alone.

5.2 The use of blended structures

As discussed earlier in section 5.1, three of the international case study foundations did not align their endowment capital investment strategy to their mission. However, it was these foundations that seemed to have followed innovative blending solutions as an integral part of their programmatic work. Using their philanthropic capital, The Rockefeller, Gates and Gatsby foundations all use blending strategies to move beyond grant, recycle their funds and leverage traditional capital to effectively do more than their own philanthropic capital will allow.

There appears to be a similar development within South African foundations. There is limited research to suggest that there is wide use of blended finance structuring in South Africa, yet through the interview fieldwork with South African foundations, the developments using blended finance models were notable. This, despite the fact that the TPM approach may not be widely implemented using investing for impact strategies with their endowment capital.

The literature suggests that there are four chief blending strategies for philanthropic foundations, being: the use of impact investing strategies to develop a track record attractive to commercial investors; leveraging commercial investors by standing alongside or seeding an investment; taking a risk-reward position in the investment stack alongside commercial investors to de-risk; and risk mitigation or enhancement to a commercial deal (McCarthy, 2017; Miller & FB Heron Foundation, 2012; Paynter, 2017; Roman et al., 2014; Schiff & Dithrich, 2017; UK Ministry of Civil Society, 2013; Walker, 2017). This research has suggested that all but two South African foundations in the sample are using collaboration and providing technical assistance with their co-funding partners and their grantees. These practices (collaboration and technical assistance) are typical of what a not-for-profit grant making organisation would do in any event. The Business and Sustainable Development Commission (2017) argue that these activities are the

pre-cursor activities for more complex blended finance activities that seek to leverage traditional capital.

The primary purpose of blended structures is to co-mingle funding such that traditional capital, of which there are far more significant pools, can attract more traditional investors at market rates to impact investing. The fact that there are 12 foundations in South Africa that are using elementary blending (collaboration and technical assistance) provides hope that more advanced use of blended finance models might become more common place. The South African foundations that are using leveraging (n=5) and de-risking (n=3) techniques are only leveraging and de-risking philanthropic capital from their foundation peers. In short, there are only three foundations in the South African sample that are engaging in blended models to leverage traditional capital – one that is developing an impact investing track record and 2 others that are participants in a pay-for-success model.

The two South African foundations' engagement in these models has successfully attracted the likes of traditional investors (Hollard Insurance and FutureGrowth Asset Managers). In both instances, the philanthropic foundations have taken a sub-optimal return and subordinate position in the capital stack so that the traditional investors can earn a reasonable, but competitive return and take a senior position. The result is likely to be a measurable social impact outcome (job creation and early childhood development outcomes in the respective impact bond models), but more importantly has attracted capital at a scale beyond what each foundation would be able to do alone.

These two examples are in stark contrast to the stance of most of the South African foundations interviewed. In response to the question on the likelihood of engagement in impact bonds, one trustee expressed the view that these are models that “we try to stay as far away from as possible”.

Rather than the use of more conservative blended structures, the model of choice from the South African foundations that are using these strategies and models, are SIBs. Yet it is SIBs that are the most nascent, complex to implement, cost inefficient and untested (Arena et al., 2016; Berndt & Wirth, 2018; Giacomantonio, 2017; Jackson, 2013a; Mulgan et al., 2011; Schinckus, 2017). Engaging in a model that seems risky because of its embryonic nature is an example of exactly

where a philanthropic foundation should engage. Impact bonds are controversial because of the fact that they have little track record, but there is an increasing body of knowledge and experience developing globally (Mulgan et al., 2011; Schinckus, 2017). However, foundations have the capacity to deploy risk capital to further test these models.

As the literature suggested, guarantees are the most underutilised blended finance tool with a deeper track record and are far easier, more cost effective and less complex to implement (Arping, Lóránth, & Morrison, 2010; Barder & Talbot, 2015; Schiff & Dithrich, 2017). Yet none of the South African foundations interviewed are exploiting this tool, although those that have engaged in impact bonds have expressed an appetite.

Despite this sentiment to explore more risky models, by far the common standpoint is to avoid these models altogether. When one contrasts the attitudes of the foundation trustees that have engaged in these strategies in South Africa to those that would prefer to avoid these models, two possible reasons for the different perspectives emerge. The first is visionary leadership of the trustees to inspire innovation; and the second is the extent of the structuring skills within a foundation to implement. To further an understanding of what would enable foundations to engage in blended finance models, these reasons are amplified below.

5.2.1 Visionary leadership of trustees to inspire innovation

One powerful observation emanating from the interviews conducted with South African foundations was the difference in leadership vision and style for those foundations that were prepared to try an innovative blended model to those that were not.

Leadership skills to implement impact investing strategies, are cited by the Charlton et al (2014) and Business & Sustainable Development Commission and Convergence (2017) as one of the impediments for foundations. It seems that the specific skill of building a movement by creating a vision and having the courage to follow through is key. This is a process described by Scharmer (2007) in his work on Theory U as ‘presencing’. It is a process of deep humility and inner awareness that allows a leader to focus less on the rules, hierarchy and individual ego than that of creating a collective movement that allows teams, organisations and the wider eco-system to think differently about how to solve a problem (Nilsson & Paddock, 2014; Scharmer, 2007).

Therein lies the capacity to innovate creatively with less of the fear that might come from the prospect of an unsuccessful innovation.

While this depth of leadership capability and what it takes to establish a movement was not the specific subject of this research and may be an area of further research, it was interesting to be able to explore this to the extent that time allowed in the South African interviews. Two examples stand out.

One foundation trustee that is allocating a significant portion of their philanthropic capital to impact bonds, kept deflecting the attribution of success from herself. Yet it was clear from the interview (as well as others that had cited this foundation's work in their own interviews) that she had been pivotal to getting this foundation to support this untested and risky blended finance model. She was keen to attribute the ability to garner support from a wide range of stakeholders to more than just herself. She did not come from a traditional social development or CSI background and thus was able to apply her mind to how to best use the funding available to the foundation for its programme in an unencumbered way. It seems that the "quality of attention and intention" (Scharmer, 2007, p. 1) that she brought to bear may have given rise to the willingness to fund impact bond models when more conventional forms of funding would have been easier and more palatable to her fellow trustees.

Sizwe Nxasana, chair of the FirstRand Foundation describes his personal mantra as "humility with confidence" (Maggs, 2018, p. 67). Both in his role as a trustee of this foundation and as a key operant in the difficult space of education in South Africa in his personal capacity, Nxasana seems to function with an inner awareness of his own motivations as well as the limitations thereof (a process that Nilsson and Paddock (2014) call 'inscaping') such that the resulting social innovation moves away from one initiative to several inter-linked ones that change an entire eco-system. Leadership vision in international foundations that were part of the case studies developed in this research, was cited as a key enabler that allowed these foundations to scale their solutions that change the eco-system for the greater good.

In contrast, trustees from foundations that follow more traditional altruistic philanthropy and typically focused on a single asset class (grant) with their philanthropic capital, seem to be more perfunctory and rule bound. For example, less willing to explore what may be permissible in

terms of their mandate or the legislation. Clearly this is an area that will require more research, but it is nonetheless suggested that it is this lack of leadership vision and style that limits the capacity of the foundation to be more innovative in their programmatic work and therefore their funding models.

5.2.2 Blended finance (structuring) skills within foundations

A key observation of international case studies was the skills composition of the teams that focussed on impact investing and blended finance models. Unlike most South African foundation trustees interviewed, the trustees and senior operational staff of international foundations had a fundamentally different talent profile.

In international foundations, most staff hailed from the investment banking, venture capital or corporate finance environments. It is these finance skills base that together with programmatic experts (doctors, social workers, engineers, agriculture technologists) can develop innovative and cutting-edge blended models that have the capacity to leverage traditional capital. Very few South African foundations interviewed have corporate financing skills within their internal talent pool or consider drawing on them from external sources. It was pointed out in the focus group discussions, it is not always necessary to have these skills in-house. Those South African foundations that have engaged in SIBs, have drawn on external consultants heavily. In this way they ensure that the nuances of setting up or investing in what is essentially a structuring model, are understood and in each case have had sufficient internal skill (and leadership support) to be able to assess and manage the advice of the external consultant.

It appears in South Africa, unlike the United States or the United Kingdom, that financiers do not see moving into the employment of or consulting to philanthropic foundations as a viable career option. To the extent that this is not the case, it seems that South African foundations, may be limited in their capacity to follow more innovative structured finance solutions to make their capital work more efficiently.

5.3 The start of a toolkit: How to use TPM – a journey through investing for impact strategies

In interviews with South African foundations five of the informants expressed the view that they were likely or very likely to apply one or other investing for impact strategy. A concern expressed in focus group discussions was how to execute on this interest in deploying the strategies. It makes intuitive sense to take a TPM management approach, but how to proceed is unclear.

The task for a philanthropic foundation to fully engage in SRI, RI or impact investing can seem daunting and it is suggested in focus groups that uncertainty about ‘where to begin’ and ‘how to begin’ is a large part of the reason for not engaging.

Error! Reference source not found. below suggests a framework to implement impact for investing strategies.

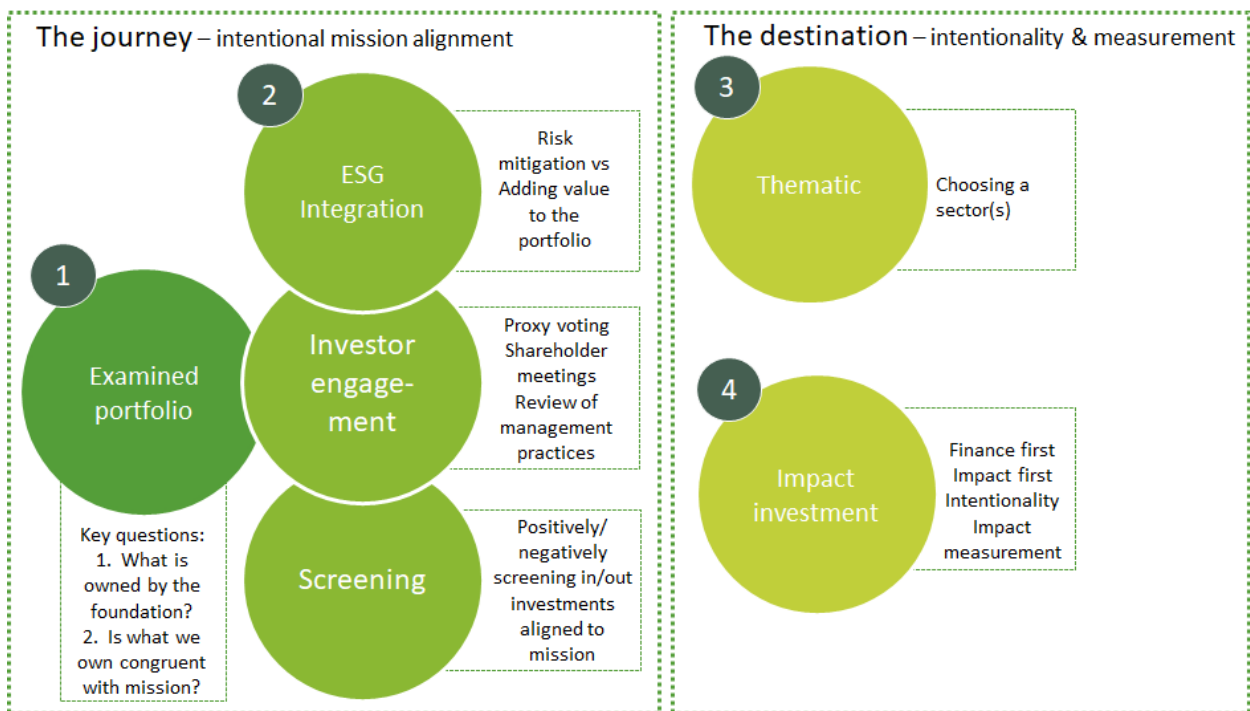


Figure 7: Applying the TPM approach – adapted from Dhlamini et al (2017), Miller (2012) and Emerson and Smalling (2017)

The lessons provided from the international case studies together with the literature provide a potential solution for a journey from an examined portfolio through to a portfolio that is 100% invested in these strategies.

Following Figure 7, there are 4 steps in the process:

1. **First step:** The FB Heron Foundation commenced their journey to investing for impact by asking the question: What do we own? Initially in recognition of their trustee's view that the social context had changed such that they needed to respond more adequately to the way they invested their endowment (Miller & FB Heron Foundation, 2012), they asked a seemingly simple question of what stocks their portfolio owned. Once they knew, it was easier to consider if these stocks were aligned to their mission. Thus, the starting point for a foundation wanting to consider these strategies would be to examine their portfolio.
2. **Second step:** In this step, trustees could consider aligning their portfolio by deploying one or more of the following impact for investing strategies, namely:
 - a. ESG Integration – typically a risk mitigation strategy, but the consideration of environmental, social and governance factors that broadly align to mission may add impact value to the portfolio;
 - b. Investor engagement – using proxy voting, participating in shareholder meetings and reviewing management practices against an IPS; and
 - c. Screening - positively/ negatively screening in/out investments according to the principles that reinforce mission (Dhlamini et al., 2017).
3. **Third Step:** Here the trustees could allocate a portion of the portfolio to themes that are in alignment of their mission such as a green portfolio or education. In this step and in the fourth, it would be important to measure the outcome of the original intention of the investment to avoid anecdotal or assumed outcomes known as 'green washing' or 'impact washing' (Jackson & Harji, 2014).
4. **Fourth step:** In this step, the trustees would select an investment on the basis of an intended positive social outcome that is measured. In certain instances, a decision may be made to invest with an impact return first intention or a finance first intention. Not to

trade off one intention against each other, but rather to determine up front which intention is most important. The importance is often determined by the type of capital (endowment or philanthropic) used to make these investments (Trelstad, 2016). For example, if philanthropic capital is deployed, then trustees may decide that the impact return is more important and that return of the principle only is an acceptable financial return.

Apart from a starting point of an examined portfolio, it should be understood that the experience expressed in the case studies is that these strategies are best deployed in combination and are not to be seen as sequential steps. Furthermore, FB Heron, Annie E Casey and Ford Foundations have all deployed these steps over the very long term and successfully carved out elements of their endowment portfolio (and at times in combination with their philanthropic capital as part of their PRI strategies) and applied one or other of these steps to the carve out. Carve outs provide trustees that want to consider converting their portfolio to these strategies with a conservative way to test and understand their tolerance for investing for impact strategies (Allman & De Nogales, 2015; Bloomberg Reports, 2017; Brandstetter & Lehner, 2015).

5.4 Conclusion

In summary, this chapter has discussed the opportunity for foundations to align their endowment investment strategy with their mission using a TPM approach. To do so may require a more nuanced view of fiduciary duty and considered use of investment advisors. In this way, mission can be considered an added dimension to the typical dimensions of risk and return. Therefore, fiduciary duty may be applied to the foundation's mission (the object or purpose) for the benefit of the public it serves as well as to the preservation of capital.

This discussion suggests that SARS could assist the process of aligning investing strategies with mission by providing clarity and consistency in the application of the legislation. Trustees and the TEU would also do well to see the tax dispensation as an opportunity to do more rather than as a limiting framework.

The discussion also revealed the nature of leadership vision that was a key success factor in international foundations, but also for the South African foundations that have engaged in more advanced blended finance models. Finally, a defining feature of international foundations in this

study when contrasted with South African foundations, is the composition of the talent pool. To advance the practice of using blended finance models to unlock traditional capital pools might require the acquisition of structuring skills from the financial sector and to integrate this talent into the traditional philanthropic programmatic skills within the foundation.

Providing a clear step-by-step process to achieving a TPM approach might assist foundations to engage. This represents the initial attempt at setting out a tool-kit for South African foundations.

Chapter 6 – conclusion and future research

This exploratory study has induced a number of areas that limit South African foundations' capacity to consider impact investing and blended finance models. With research of this nature, there are a number of areas highlighted for further research.

6.1 Future research

Further research into the style of leadership that it takes to integrate a very specific talent pool within a foundation that combines the head of a corporate financier with the heart of a programmatic implementor to effect stronger, faster societal change, may be helpful to advance this initial research. For the investment advisors, additional multi-variate longitudinal studies on the performance of investing for impact portfolios in South Africa may be needed to provide impetus to the argument. It seems that despite the growing body of research in SRI and RI, quantitative research, especially in impact investing strategies may be required to assist advisors in their role.

6.2 Conclusion

With thoughtful planning, impact investing and blended finance presents an opportunity for philanthropic foundations to utilise more of their endowment capital to achieve their broader mission to society. With careful implementation, the strategy can facilitate working with a larger community of like-minded stakeholders to achieve mission aligned solutions and act as a stimulus to leverage additional capital from new sources to achieve greater impact. This study has presented practical cases of international foundations that have grappled with the challenges of changing course to a new way of investing their capital for the greater good of their mission.

Considering how charitable foundations in other jurisdictions have adopted impact investing strategies, they fall into two broad categories – investing for impact and structured blending of capital. Each provides for a different propensity for risk and appetite of the trustees. None is more desirable than the other. Rather each (or a combination of them) is an opportunity for a foundation wanting to do more, to 'start somewhere'.

In South Africa, philanthropic foundations are not deploying these strategies on any significant scale.

South Africa's National Development Plan sets out a much-needed vision for the country to aim for by 2030. Government plays a key role in facilitating these priorities as they are crucial to address the Country's triple constraint. Civil society augments the vision through its contribution to practical implementation.

Increasingly, civil society and charitable foundations that provide funding to affect this work are looking for new ways to stretch their capital further, making a stronger impact in line with their mission. As an investment strategy, mission aligned investing for impact presents a potent addition to the tools that charitable foundations have to effect greater impact above and beyond traditional grant making. Blending capital provides compelling models to leverage traditional investors to unlock the Country's significant savings to solutions that benefit the development vision.

Investing for impact asks the foundation to take an active interest in aligning the endowment investment mandate to their mission. Examining what the portfolio owns; a consideration of ESG factors; screening; investor engagement; and thematic investing are all tools that can be used on the journey to alignment of the investment mandate to an intentional, measurable social impact outcome together with a financial return.

An additional benefit to this strategy is that the foundation demonstrates viability of impact investing that achieves the sweet spot of social and financial return. This may provide an investment performance track record over time for traditional investors to emulate thus encouraging more investment from new sources to address some of the Country's pressing challenges.

Blended finance models present a significant opportunity to assist in mitigating risk for traditional investors that seek responsible investment opportunities. Foundations can play a specific role as the actor that tests nascent models such that other traditional investors are inspired to follow. Blended models also present an opportunity for foundations to explore the

use of other forms of funding (sub-optimal loans or patient debt) other than grant. Because funds are recycled (through the repayment of loans), they can be used for additional loans or grants.

In using these strategies, trustees might leverage their foundation's capital to scale at a level that would not have been possible had they adhered to grant making alone. By combining the foundation's capital with traditional capital, there is the potential to do more to benefit South Africa's 2030 vision.

The challenge lies in knowing how to implement such a strategy and having a pioneering spirit to execute. The initial tool-kit provides some guidance on how to proceed.

For South African foundations to take a mission aligned Total Portfolio Management approach this study suggests that it takes: choosing investment advisors carefully such that they are able to pro-actively add to investing for impact strategies rather than negate them; a nuanced understanding of trustee's fiduciary duty such that mission is considered together with risk and return objectives of an investment portfolio; and to work with the tax legislation not as a limiting framework, but as an opportunity to consider what is possible. Further, this study indicates that it takes courageous leadership especially in the face of nay-sayers and the capacity to integrate financial structuring skills working together with programmatic implementors to execute blending models.

Finally, the foundations both internationally and in South African that have taken on investing for impact strategies and more complex ways to re-cycle or make funds go further are testament to what is possible. Their brave examples serve as a beacon to achieve a more inclusive, poverty free world we all desire.

"A poverty-free world would not be perfect, but it would be the approximation of the ideal.

We have created a slavery-free world, a polio-free world, an apartheid-free world. Creating a poverty-free world would be greater than all these accomplishments while at the same time reinforcing them. This would be a world we could all be proud to live in"
Muhammad Yunus (Muhammed Yunus & Jolis, 1998, p. 289)

Appendices

Appendix A – Interview framework for international foundations

Interview framework for international philanthropic foundations:

Questions to be asked after acquiring informed consent from the informant.

- Describe your experiences with impact investing and blended finance structures.
- What was the motivation for their implementation?
- Did you have to consider any legislative compliance issues when considering these approaches?
- Were there any endowment mandate restrictions that you had to consider when considering these approaches?
- What were the leadership considerations that were taken into account prior to adopting such an approach?
- Were there skills gaps that you had to manage either within in the foundation or at trustee level that you had to consider?
- How did you address those gaps?
- Did you provide training or workshops on the approaches?
- How did you approach an impact investment strategy? (or: How did you approach a blended finance structuring offering?)
- What factors did you take into account when considering the development of an investment mandate and/or portfolio construction? What did you hope to achieve?
- How did you go about finding (or: how will you go about finding) investable pipeline for your portfolio?
- With whom did you partner (if any) to implement this strategy?
- How do you measure your impact of your investment approach?
- What have been the results?
- If you had the opportunity to re-do or re-visit your approach, what would you do differently?

- What has been the most rewarding/positive outcome for the foundation as a consequence of your approach?
- If you were advising a foundation in another geography to consider such approaches, what advice would you provide?

Appendix B – Interview guide for South African foundations

Interview guide used in interviews with South African foundations:

Welcome to this interview

Thank you for agreeing to participate in this interview to assist in my research. Your participation will assist me to understand the impact investment and blended finance strategies (or lack of them) of South African foundations. Thank you in advance.

By way of background, I am a Masters of Philosophy (Inclusive Innovation) student at the University of Cape Town's Graduate School of Business. I am conducting research on the practical experiences of philanthropic foundations that have deployed impact investing strategies and blended finance structuring and if those experiences could be applied in a South African context.

I have interviewed international philanthropic foundations that have implemented such approaches and wish to understand if the challenges and opportunities they faced are similar or different to those that South African philanthropic foundations may have and to appreciate what it would take for South African foundations to consider adoption of such strategies.

To assist in this research, your participation in this interview would be greatly appreciated. You should note that this research has been approved by the Commerce Faculty Ethics in Research Committee of the University of Cape Town. Your participation in this interview is voluntary and as such you can choose to withdraw from the research at any time. The interview should take about an hour to complete. You will not be requested to supply any identifiable information, ensuring anonymity of your responses. Any specific information will be used on an aggregate basis to understand the sample composition. The data collected from this interview will be used for the purposes of this research only. Should you have any questions regarding the research at any stage, please feel free to contact me.

Definitions to guide you

Terms are sometimes used interchangeably to mean the same thing. Other frequently used terms may not be commonly understood. Thus, for the purposes of this survey, the following definitions are used.

Foundation

While there is no such legal form in South Africa as a 'Foundation' it is used frequently to describe any philanthropic or charitable entity (constituted as a Trust, Association or Non-Profit Company – “NPC”) that provides funding (in kind or in cash, be it in the form of grants, loans or equity) in support of a particular social or environmental mission.

Typically, such Foundations have an endowment portion of assets. This endowment capital is invested to generate enough cash so that either the operational activities of the Foundation can be paid for or to provide funding to causes that meet their mission requirements or both. A Foundation may have an endowment that pays for operational costs from the proceeds of

investments and then raise funds from individuals, corporates or other donors for specific projects.

Internationally, examples of these include: The Ford Foundation, The Rockefeller Foundation and The Bill & Melinda Gates Foundation. In South Africa, examples include: The FirstRand Foundation, The Red Cross Children's Hospital Trust, The Raith Foundation and The Allan Gray Orbis Foundation.

Socially Responsible Investment (SRI)

Also known as 'social investment', 'socially conscious', 'green' or 'ethical investment', this is an investment strategy which seeks to avoid harm (a passive investment approach) and by so doing, bring about social good over and above a financial return.

Here an investment manager/mandate takes a stance, normally through negative screening or the application of ethical standards. Thus, a foundation concerned with health in its programmatic work, will either not invest in or seek to divest from tobacco stocks.

Responsible Investment (RI)

An active investment strategy which aims to generate both financial and sustainable value. It consists of a set of investment approaches (or sub strategies, impact investing being one) that integrate environmental, social and governance ("ESG") and ethical issues (these being seen as risk mitigation strategies) into the investment approach, financial analysis, decision-making and voting.

An investment manager appointed by the Foundation considers several risks associated with an investment and either actively screens in investments (might use an index such as the JSE SRI index) or screens them out to mitigate those effects. Typically, this is done only if they will offer the requisite performance benchmarks set in the investment mandate. There is no attempt to measure impact outcomes as a consequence of investment. Here the investment mandate might ask the manager to align the selection of investments with the programmatic work of the Foundation with the caveat of 'where possible to do so'.

Impact Investment

An investment strategy that is a sub-set of Responsible Investment, that encompasses investments made into companies, organisations, and funds with the intention to generate measurable social and environmental impact (return) alongside a financial return.

The investment manager is both intentional in this investment strategy and measures the impact outcomes. They also seek a rate of financial return on the investment. Impact investors tend to be 'finance first' or 'impact first' giving priority to one return or the other without seeking a trade-off between one priority or the other.

Here a Foundation whose programmatic work is focused on a philanthropic theme (such as education or environmental protection), might intentionally instruct an investment manager to choose investment instruments (via equity or debt or some other appropriate instrument) in commercial entities e.g. low cost schooling, or alternative energy supply such that the programmatic work and the endowment's investments are complementary to the overall development of the thematic ecosystem.

Blended Finance structuring

This is the strategic mingling of development capital, endowment capital and/or philanthropic capital to leverage private or fiduciary capital to flow to emerging markets or impact investing strategies for the purposes of achieving positive returns for both investors and communities impacted by the investment.

Here a foundation may choose to use their philanthropic capital (the funds that might be used for grant making) to leverage commercial capital to create a greater pool of capital to achieve much more impact. This could take the form of a guarantee, investing alongside a commercial investor and taking a first loss position, providing technical assistance such that the commercial investor takes greater comfort given the support/training that is being provided by the foundation or taking mezzanine/senior investor positions to reduce commercial investor exposure to the counterparty's balance sheet.

1. I agree to participate in this interview of my own free will

Yes

No

Section 1: Background information on your philanthropic foundation (“Foundation”)

2. Please describe your role at the Foundation

Director/Trustee

Employee (Executive Management)

Employee (Management)

Employee (Operational)

Advisor to the Foundation

Other (please specify)

3. How long has the Foundation been in existence?

Less than 5 years

5 - 10 years

11 - 15 years

16 - 20 years

21 years or longer

4. How is the Foundation structured?

A non-profit Association

A non-profit Trust

A Not for Profit Company (NPC)

A hybrid structure that incorporates more than one of the above structures

A hybrid structure that incorporates more than one of the above structures plus a commercial structure such as a for profit Company or Trust

Other (please describe)

5. What is the year end for the Foundation's latest audited financial statements?

DD/MM/YYYY

Section 2: Generating funds for the Foundation's mission

6. As at the Foundation's last audited financial year end, how much money did your Foundation provide for your direct mission activities (excluding operational costs) via grants, loans or equity, for the year?

Less than R1 million per annum

R1 - 10 million per annum

R11 - 20 million per annum

R21 - 30 million per annum

R31 - 40 million per annum

R41 - 50 million per annum

R51 million or greater

7. As at the Foundation's last audited financial year end, what percentage of the funds that you provide

for your mission fall into the following categories?

Grant

Patient capital (a concessionary loan with extremely long-term repayment periods)

Convertible debt (a concessionary loan which may be converted into grant or another form of finance (e.g. equity) at some point in time)

Loans (at interest rates ranging from 0% to below the prime lending rate)

Loans (at interest rates ranging from the prime lending rate and above)

Equity (a stake in an entity on mutually agreeable terms) that you will seek to exit at some point in the future)

Other

8. As at the Foundation's last audited financial year end, what percentage of the funds that you provide

for your mission were generated by: investments that your Foundation's endowment made; funds that

the Foundation raised from individuals; funds raised from corporates; funds raised from other foundations; and funds raised from other sources?

Investment proceeds generated from the Foundation's endowment

Donations from individuals

Corporate donations

Donations from other Foundations

Other sources

Section 3: SRI, RI and impact investment strategies

9. What is your Foundation's approach to Socially Responsible Investment (SRI) strategies for the Foundation's assets?

Fully engaged in this strategy
Actively seeking to introduce this strategy
Open, but not actively seeking
Would consider under unique/specific circumstances
No plans to consider this strategy

10. What is your Foundation's approach to Responsible Investment (RI) strategies for the Foundation's assets?

Fully engaged in this strategy
Actively seeking to introduce this strategy
Open, but not actively seeking
Would consider under unique/specific circumstances
No plans to consider this strategy

11. What is your Foundation's approach to Impact Investment strategies for the Foundation's * assets?

Fully engaged in this strategy
Actively seeking to introduce this strategy
Open, but not actively seeking
Would consider under unique/specific circumstances
No plans to consider this strategy

12. Does the Foundation have a SRI, RI or impact investment strategy for the Foundation's assets that are used to generate an income for the Foundation's operations and/or funds that are used to exercise the Foundation's mission?

Yes

No

If 'Yes', please briefly describe in which way the investment strategy is aligned to the Foundation's mission

13. Is the SRI, RI or impact investing strategy for the Foundation's assets aligned to your Foundation's mission?

Yes
No

14. Why does the Foundation not have a SRI, RI or impact investment strategy for its assets.
Please tick
all that apply.

- A. A responsible investment or impact investment strategy is not permissible in terms of our Articles of Association or Trust Deed
- B. A responsible investment or impact investment strategy is not permissible in terms of legislation that applies to our Foundation
- C. Our Trustees/Directors do not have the capacity to implement a responsible investing or impact investing strategy for our Foundation
- D. Our Trustees/Directors do not have the willingness to implement a responsible investing or impact investing strategy for our Foundation
- E. Over and above financial performance, our Trustees/Directors do not need to concern themselves with the composition of Foundation's investment portfolio holdings
- F. Our Trustees/Directors are satisfied that the Foundation's investment portfolio provides adequately to enable the Foundation's mission
- G. Our Trustees/Directors do not have the skills to implement a responsible investing or impact investing strategy for our Foundation
- H. There is limited human capital within the Foundation to design, implement and manage a responsible investment or impact investment strategy
- I. There are insufficient responsible investment or impact investment products for our Foundation to implement a responsible investing or impact investing strategy
- J. The Foundation's investment advisors have not advised or recommended a responsible investing or impact investing strategy
- K. Following a responsible investment or impact investing strategy may not offer optimal performance for our Foundation's assets
- L. The Foundation's asset managers do not have a framework with respect to responsible investment of impact investment advice, deal origination and/or impact measurement
- M. Other (please explain)

15. What prompted the Foundation to implement a SRI, RI or impact investment strategy for its assets.
Please tick all that might apply.

- A. A responsible investment or impact investment strategy was permissible in terms of our Articles of Association or Trust Deed
- B. A responsible investment or impact investment strategy was permissible in terms of legislation that applies to our Foundation
- C. Our Trustees/Directors have the capacity to implement a responsible investing or impact investing strategy for our Foundation
- D. Our Trustees/Directors have the willingness to implement a responsible investing or impact investing strategy for our Foundation

- E. Over and above financial performance, our Trustees/Directors were concerned with the composition of Foundation's investment portfolio holdings
- F. Our Trustees/Directors were not satisfied that the Foundation's investment portfolio provides adequately to enable the Foundation's mission
- G. Our Trustees/Directors have the skills to implement a responsible investing or impact investing strategy for our Foundation
- H. There is sufficient human capital within the Foundation to design, implement and manage a responsible investment or impact investment strategy
- I. There is sufficient responsible investment or impact investment products for our Foundation to implement a responsible investing or impact investing strategy
- J. The Foundation's investment advisors advised or recommended a responsible investing or impact investing strategy
- K. Following a responsible investment or impact investing strategy does not adversely affect our Foundation's investment performance targets.
- L. The Foundation's asset managers have a framework with respect to responsible investment of impact investment advice, deal origination and/or impact measurement
- M. Other (please explain)

16. How likely is the Foundation to facilitate interaction between Foundation management responsible for mission related projects and/ grant making and Trustees that set the investment strategy for the Foundation's assets?
 Always Very likely Neither likely nor unlikely Very unlikely Never

17. How likely is the Foundation to apply an ESG screen to your Foundation's investment portfolio?
 Always Very likely Neither likely nor unlikely Very unlikely Never

18. How likely is the Foundation to screen out investments that are potentially damaging to society and/or the environment?
 Always Very likely Neither likely nor unlikely Very unlikely Never

19. How likely is the Foundation to screen in investments that relate in some way to your foundation's mission?
 Always Very likely Neither likely nor unlikely Very unlikely Never

20. How likely is the Foundation to engage with the companies your Foundation invests in, either directly or through your investment manager?
 Always Very likely Neither likely nor unlikely Very unlikely Never

21. How likely is the Foundation to withdraw or divest your Foundation's capital from an investment because of social or environmental concerns?
Always Very likely Neither likely nor unlikely Very unlikely Never

Section 4: Blended Finance approaches

22. In the last audited financial year, has the Foundation worked collaboratively with another Foundation to jointly fund a particular initiative?

Yes

No

If 'Yes', please can you briefly share the circumstances

23. In prior financial years, has the Foundation worked collaboratively with another Foundation to jointly fund a particular initiative?

Yes

No

If 'Yes', please can you briefly share the circumstances

24. In the last audited financial year, has the Foundation worked collaboratively with a corporate, an impact investor and/or a development finance institution to jointly fund a particular initiative?

Yes

No

If 'Yes', please can you briefly share the circumstances

25. In prior financial years, has the Foundation worked collaboratively with a corporate, an impact investor and/or a development finance institution to jointly fund a particular initiative?

Yes

No

If 'Yes', please can you briefly share the circumstances

26. How likely is the Foundation to convene a multi-stakeholder meeting to establish ways to collaboratively fund parts of the ecosystem related to your Foundation's mission?
Always Very likely Neither likely nor unlikely Very unlikely Never

27. How likely is the Foundation to use the funds it has at its disposal for its mission to de-risk an initiative that creates a positive social or environmental impact?

Always Very likely Neither likely nor unlikely Very unlikely Never

28. How likely is the Foundation to use the funds that it has at its disposal for its mission to leverage

additional funding for initiatives that create a positive social or environmental impact?

Always Very likely Neither likely nor unlikely Very unlikely Never

29. How likely is the Foundation to provide technical assistance to social/environmental enterprises or

not-for-profit initiatives that your Foundation supports?

Always Very likely Neither likely nor unlikely Very unlikely Never

30. How likely is the Foundation to participate in a pay-for-success model (such as a social impact

bond) for an initiative that your Foundation supports?

Always Very likely Neither likely nor unlikely Very unlikely Never

31. How likely is the Foundation to use the funds that it has at its disposal for its mission, to provide

guarantees to social/environmental enterprises or not-for-profit initiatives that your Foundation supports?

Always Very likely Neither likely nor unlikely Very unlikely Never

Closing and thank you

Thank you for your participation in this research. It is greatly appreciated. Should you have any questions regarding the research

at any stage, please feel free to contact me.

Appendix C – Focus group guide

Questions to be asked after acquiring informed consent from the groups.

- What do you understand are the fiduciary duties of foundation trustees in respect of endowment capital?
 - Prompt: Do you think that there is a duty to act responsibly toward the capital or toward the mission?

- As a registered PBO, what do you understand of the investment restrictions, if any on the endowment assets of your foundation?
 - Prompt: If you have entered into any blended finance structures (guarantees or pay-for-success models, what PBO/tax/NPO considerations have you had to take into account when putting those structures together?
 - Prompt: What legal considerations have you had to take into account to develop these structures?
 - Prompt: Did you consider any other models?
 - Prompt: Do you believe there are ways within the current legislation parameters that allow a foundation to use their philanthropic capital for loans and equity beyond grant and operational costs? If not, what would it take?

- If you don't have the skills in house, what investment advisory services have you used to assist you with an impact investing (or any other investing) strategy and/or blended structures?
 - Prompt: Did you find the necessary skills?
 - Prompt: Could they adequately advise you on how to build a structure or a impact investing portfolio across asset classes?

- How much interface does your executive management have with your board’s investment committees? How does that interaction unfold? To what extent does mission shape the conversation?
- What might work to assist foundations to consider impact investing strategies?
 - Guidelines on fiduciary duty and what constitutes jeopardising investments?
 - A change in SARS view of PBO’s?
 - Wealth management workshops?
 - A primer?
 - Trustee workshops and training?
 - Asset class guidelines linked to available product sets?

Appendix D – List of research participants

International foundations		
Name of Foundation	Interview participants	Role
Annie E Casey Foundation	James Wahls	Senior Investment Analyst
Bill & Melinda Gates Foundation	Alex Siegel	PRI Investment Professional
FB Heron Foundation	Dana Bezzera	VP Capital Markets (now CEO)
Ford Foundation		
Gatsby Foundation	Robert Jenkins	Investment Director Africa Programme
Rockefeller Foundation	Adam Connaker Caleb Ballou	Innovative Finance Lead Programme Associate Innovative Finance

South African Foundations		
Name of Foundation, advisors and focus group participants	Interview participants	Role
Abe Bailey Charitable Trust	Ann-Maree Tippoo	Trustee
Allan & Gill Gray Philanthropy	Anthony Farr	Trustee
Allan Gray Orbis Foundation	Yogavelli Nambier	CEO
Anna Vayanos Philanthropies	Anna Vayanos	Director
DG Murray Trust	David Harrison	CEO
First National Bank Philanthropies	Michelle Starke	Trustee
First Rand Empowerment Trust	Sizwe Nkosana	Trustee/Chair
Grindrod Family Centenary Trust	Sarah Rennie	Trustee
Independent Philanthropy Association of South Africa	Shelagh Gastrow	Director
Lewis Foundation	Lindy Rodwell	Trustee
Mothers 2 Mothers	David Torres	Director
Mandela Rhodes Foundation	Shaun Johnson	CEO
NewHco	Jill Strelitz	Trustee/CEO
Old Mutual Foundation	Millicent Maroga	CEO
Oppenheimer Memorial Trust	Clare Digby	CEO
Raith Foundation	Dugan Fraser	Director

Red Cross Children's Hospital Trust	Louise Driver	CEO
	Joanne Duncan	CFO
	John Bester	Trustee
Shine Literacy	Kathryn Torres	Chairperson
Tourism Conservation Fund	Paul Zille	CEO
Tutuwa Community Foundation	Zanele Twala	CEO
Zenez Foundation	Gail Campbell	CEO
	Paresh Govind	CFO
	Marion Steward	Advisor

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