Exploring the Dynamics of Impact Investments in Botswana: The Case of Asset Managers and Owners

A Dissertation

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by

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Abstract

Mobilising adequate finance remains an unbending challenge to socio-economic development. And amidst the current recovery from the slow-down that ensued in the last two years because of the Covid19 pandemic, never has there been a greater need to find inclusive, and impactful solutions to funding development. Fortunately, impact investing is a means through which investors *'can put their principal where their principles are'* and still be able to generate both social and financial returns, making it a revolutionary instrument for delivering blended value. Since development in Botswana has largely been financed using public sector funds, to better understand how private capital has been used to create value beyond private profit, the author undertook a phenomenological descriptive qualitative study to identify and provide a detailed description of the market characteristics, investor preferences and measurement practices of Botswana's impact investing sector. Purposive sampling was used to collect data through interviews with 14 participants operating as supply side actors in the asset management industry, the data of which was evaluated using thematic and content analysis.

From the analysis, this study found that; (i) impact investing in Botswana is not a well specified construct, with varying interpretations; (ii) the local market is relatively small, underdeveloped and predominantly led by institutional investors the bulk of which prefer to use private capital to fund impact; (iii) the most frequently used approach to sustainable responsible investing is ESG investing; and (iv) popular impact themes include job creation, financial inclusion, quality healthcare, poverty eradication and infrastructure development. Impact investors are motivated by both monetary and non-monetary incentives influenced by ecological, ethical, political, social, and/or other predispositions, the former of which appears to be a primary consideration. The degree of influence is however dependent on investor specific attributes such as investor type, ownership structure, objectives, and risk appetite. Moreover, whilst considered contextual, local investors seem to favour the use of both customised approaches to impact measurement such as organisational specific theory of change models and standardised approaches with a penchant towards aligning impact goals and measurement frameworks with national and global priorities. Our assessment also revealed that the growth and productive capacity of the sector is limited by definitional, measurement, data, regulatory, governance, market, capital, and capacity constraints amongst others. Our findings suggest that for the impact investment market to function optimally; institutions ought to invest in enabling technologies and implementation frameworks, multi-layered partnerships, as well as establishing requisite policy, structural, governance and regulatory reforms to facilitate evidence-based policymaking, industry standardisation, infrastructure development, and capacity building. Recommendations for future research include conducting a quantitative study to assess the correlation of key variables, a study that is representative of other ecosystem actors as well as others that focus on sector or problem specific factors.

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Table 1: List of Acronyms

Acronym	Description
AfDB	African Development Bank
AIMM	Anticipated Impact Measurement and Monitoring
AU	African Union
BDC	Botswana Development Corporation
BIA	B-Impact Assessment
BoP	Bottom of the pyramid
BSE	Botswana Stock Exchange
BW	Botswana
BWP	Botswana pula
CEDA	Citizen Entrepreneurial Development Agency
CDC	Commonwealth Development Corporation
CIU	Collective investment undertaking
CSR	Corporate social responsibility
DERa	Development Effectiveness Rating system
DFI	Development finance institution
ESG	Environmental, social and governance
GIIN	Global Impact Investing Network
GIIRS	Global Impact Investing Reporting Standards
GDP	Gross domestic product
GRI	Global Reporting Initiative
HIPSO	Harmonised Indicators for Private Sector Operations
IRIS	Impact Reporting and Investment Standards
IFC	International Finance Corporation
JII	Joint Impact Indicators
MFED	Ministry of Finance and Economic Development
MIC	Middle income country
MITI	Ministry of Investment, Trade and Industry
NBFIRA	Non-Bank Financial Institutions Regulatory Authority
NDB	National Development Bank
NDP	National Development Plan
NGO	Non-governmental organisations
PE	Private equity

PRI	Principles of Responsible Investing
SASB	Sustainable Accounting Standards Board
SDG	Sustainable Development Goals
SII	Social impact investments
SOI	Social return on investments
SPO	Social purpose organisations
SRI	Sustainable responsible investments
UN	United Nations
UNDP	United Nations Development Programme
USD	United States dollar
VC	Venture capital

Chapter 1
Introduction

1.1 Background

Purpose and profit need not be two mutually exclusive events, as witnessed by the emerging trend of sustainable and value-aligned investments in the last decade (IFC, 2019). The year 2015 marked the dawn of a new era for global markets, one that saw the international community refocus its efforts towards more sustainable approaches to financing for development and in so doing, promote inclusive socio-economic growth. In the earlier parts of 2015, negotiators reached an agreement on the *'Addis Ababa Action Agenda'* which unmistakably articulates the "reaffirmation of national governments to achieve sustainable development by aligning financing flows and policies with economic, social and environmental priorities" (BSE & UNDP, 2017, p. 8). In that same year, following the conclusion of the eight Millennium Development Goals (MDGs), 179 member states met at the 70th United Nations (UN) General Assembly on the 15th of September to formulate and commit to the *'Sustainable Development Goals (SDGs)'*; a global agenda with 17 priority areas and 169 targets for 2030 (UNDP, 2015). Three months later, on the 12th of December, 196 countries signed the Paris Agreement, also commonly referefed to as the *'Paris Climate Accords'*; a legally binding intercontinental treaty on climate change to limit global warming by reducing greenhouse gas emissions which also functions as a global framework for "providing climate-related-financial, technical and capacity building support to countries in need" (UNFCC, 2015, p. 15). Two years prior to that, the African Union (AU) had developed its own continental '*Agenda 2063'* to support Africa's path towards attaining inclusive and sustainable economic growth; continental integration; democratic governance; peace and security among others (African Union , 2020). Whilst there appears to be irrefutable consensus regarding areas of global priority, studies also show that sourcing and mobilising capital to fund these developmental agendas remains well below the requisite investment needs, and thus continues to be an unyielding challenge to implementation (UNDP, 2015).

Historically, the burden of responsibility for socio-economic development has traditionally lain with government, non-profit or non-governmental organisations (NGOs). The current landscape however warrants a combined effort to facilitate inclusive and sustainable growth, because existing sources of finance are supposedly insufficient to meet the world's needs (Ngoasong, Korda, & Paton, 2015). For example, Rozenberg and Fay (2019) assert that a "recent costing exercise conducted by the World Bank estimated that to meet infrastructure-related SDGs, low- and middle-

income countries would require between $1.5 trillion to $2.7 trillion per year which is approximately 4.5 – 8.2% of their combined GDP between 2015 and 2030" (Vorisek & Yu, 2020, pp. 2-3). Lalu, et al (2019) comment that it is unlikely that these countries will be able to meet their investment needs using their own domestic resources. It is thus apparent that previously employed approaches and strategies are inadequate to facilitate inclusive, equitable, sustainable and resilient growth and development (Inter-Agency Task Force on Financing for Development, 2019). Based on the premise that public spending and international aid will never be enough to adequately fund and scale solutions to address the world's most pressing problems, innovative and sustainable funding mechanisms such as impact investing have grown both in value and volume over the last decade. Impact investing, '*an instrument through which capital can be used purposefully to engender measurable economic, ecological and social impact'* (Rockefeller Philanthropy Advisors, 2007) is a newly developed concept that is still plagued by a multiplicity of views regarding the categorization and measurement of said investments. Even so, it is increasingly being used as a means for governments and the private sector alike to fund socio-economic development meaningfully and accelerate the deployment of capital to optimise social and environmental welfare while earning financial returns (Social Impact Investment Taskforce, 2014). For African countries that are often plagued by underdeveloped financial systems, rising debt risks, and limited financial access amongst others, creating more inclusive and conducive conditions for development is no longer an option but a necessity (AfDB, 2020). Botswana in particular, a country that has garnered significant interest globally as an economic success story, has of late been affected by a steady decline in government and external funding (BITC, 2021) due to its current economic status and fiscal pressures intensified by the pandemic (UN Botswana, 2020), further stressing the need for sustainable and diversified sources of funding. All the same, the country's record of economic transformation remains mixed, as its growth pattern over the years has created a plethora of opportunities and challenges.

Since gaining independence in 1966, Botswana has made great strides in economic, policy, and structural reform. The country's sustained economic growth has been one of the fastest in the world, reaching record growth rates of close to 9% between 1980 and 1990 (World Bank, 2021). Botswana's growth has primarily been driven by diamond revenues, moving the economy from being one of the poorest countries in the region before independence to middle-income status with GDP per capita of US$8,248 in 2019 (ibid, 2021). The country is considered politically and economically stable; it generally has a positive and open investment climate, among the highest sovereign credit ratings and the lowest rates of corruption in sub-Saharan Africa (BITC, 2020;

AfDB, 2021). Individuals have access to free education and good infrastructure and there are a wide range of government welfare and economic support programmes accessible to citizens (UN Botswana, 2020). Furthermore, while diversification efforts are still far from being fully realised, the share of the mining sector's contribution to GDP has decreased from over 40% in the 1980s to less than 20% in 2020 (Statistics Botswana, 2021). Lastly, in localising and aligning national priorities to global objectives, Botswana has developed plans, frameworks and strategies that are fully committed to the 2030 agenda for sustainable development. Botswana's Vision 2036, launched in 2016, has an all-encompassing theme of *achieving prosperity for all* which is entrenched in four key pillars, namely, *sustainable economic development; human and social development; sustainable environment; and governance, peace, and security.* Additionally, the adoption of the eleventh National Development Plan (NDP 11) further reiterates the country's commitment to *inclusive growth* (NDP 11, 2017). Nevertheless, challenges persist, chief amongst them prevailing socio-economic problems, reduced economic activity, declining government revenues, and limited private sector funding to finance development which has restricted growth.

1.2 Research Problem Statement and Questions

1.2.1 Research Problem Statement

Problems related to resourcing and financing for development have become ubiquitous and complex, requiring interventions that cannot solely be sustained by governments and philanthropic organisations. This has made it necessary for countries and organisations alike to prioritise domestic capital formation and external resource mobilisation efforts to address existing funding gaps. Research shows that impact investments provide an opportunity for the creation of economic and social value that has the potential to improve the quality of life and social outcomes (O'Donohoe et al., 2010). Despite growing interest in the emerging field of impact investing and/or investments, academic research appears to be lagging practitioner reports (Daggers & Nicholls, 2016) and relatively little research has examined these markets at the country level, particularly in Africa even though this type of granular information is indispensable to investors (GIIN, 2016). Key areas of conflict within the field include the lack of consensus on language and terminology especially regarding the *'definitions debate'* as well as inconsistencies in measurement approaches, tools, and systems (Daggers & Nicholls, 2016). Moreover, the discussion about the range of circumstances under which impact investing is considered beneficial, appears to be a new, broad, and contentious issue. And the debate regarding the effects of impact investing in creating conducive conditions for inclusive socio-economic growth has offered many explanations, the majority of which seem to vary including specific deliberations about what impacting investing is,

how it varies across national contexts, what the best role for policy is, and how international collaboration might work (Daggers & Nicholls, 2016). This then necessitates that relevant research be conducted at a national level to contextualise key trends and practices as well as develop country-specific solutions in markets such as Botswana whereby despite there having been significant signs of progress within the country over the years, development is still largely underfunded and disturbingly dependent on state-intervention, making it essential to adopt more inclusive approaches to financing.

For example, even though the presence of natural resources has played a key role in economic development in Botswana thus far, it is unlikely that this will be able to ensure continued success. Firstly, average GDP growth in Botswana appears to be on the decline, such that GDP per capita decreased from 8,279 USD in 2018 to 6,710.99 in 2020, with GDP contracting by 8% between 2019 and 2020 (World Bank, 2021). And while diversification efforts have been many and versatile, the country continues to rely heavily on the mining sector and the state. To illustrate: in 2020 government spending as a percentage of GDP was 35.35%, almost double that of the world average of 17.14%; and Botswana's two major export products, diamonds and beef are traded by state-owned companies. Furthermore, despite Botswana's continued economic growth, the country still faces numerous socio-economic challenges including but not limited to the following. Botswana has one of the highest rates of unemployment in the world which stood at 24.9% in 2020 (World Bank, 2021). Although poverty has fallen significantly over the years, 38.5% of the population are still living on less than USD3.20 a day (UN Botswana, 2020). Other obstacles include growing income inequality, education expenditure that is amongst the highest in the world even though the sector has not created the skilled workforce Botswana needs to diversify its economy (AfDB, 2020) and limited institutional coordination and development of Botswana's financial markets. Equally, the reclassification of Botswana as a middle-income country (MIC) in 1992 made the country ineligible for concessional resources from multilateral development banks (MDBs) and other development agencies, thus, varied forms of development projects, including infrastructure, energy, and education, have mainly been financed using public funds (ibid, 2020). This further emphasises the need to consider unconventional and more sustainable approaches to finance development. Seen by many as an attractive way of financing large-scale social impact, particularly in developing countries, "impact investing has been growing in popularity as a means to bridge the chasmic financing gap" (George & Vera, 2019, p. 1). However, in Botswana, impact investing is said to show low levels of maturity. A 2016 study by the Global Impact Investment Network (GIIN) suggests that in comparison to neighbouring countries, the size and diversity of

impact investments in Botswana seems relatively low, particularly with regards to the total value of assets managed and the number of transactions made within a 15-year period between 2000 and 2015 (GIIN, 2016). The same study revealed that the sector is heavily reliant on "development finance institutions (DFIs) as the dominant asset owner and/or manager, disbursing more than 80% of the investments made in 2015" (GIIN, 2016, p. 234). It is against this background that the prospective study endeavours to define market characteristics, investor considerations and incentives, and impact measurement practices, to establish trends and determine the role of impact investments in meeting inclusive and sustainable growth objectives in Botswana, predominantly in addressing existing funding gaps.

1.2.2 Research Questions

The study endeavours to answer the following questions:

i. What is the current state of the impact investing market in Botswana?
ii. How influential are monetary and non-monetary incentives for impact investors?
iii. How do impact investors evaluate and report on social and environmental impact?

1.3 Research Objectives

The primary objective of this study is to express in detail the market dynamics, decision making criteria and measurement practices of impact investments within the Botswana context. Sub-objectives of this study include:

i. To describe the key demographics and characteristics of Botswana's impact investment market to better understand investor behaviour and preferences.
ii. To establish the significance of financial and non-financial considerations when making impact investment decisions to better understand investor motivation.
iii. To determine how non-financial impact is evaluated when assessing the performance of impact investments.

1.4 Scope and Justifications of this study

1.4.1 Scope and Delimitations

The scope and delimitations (i.e boundaries) of a study are ordinarily influenced by the conceptual framework and research approach which in this study were informed by, the research questions, the research objectives and the type of information that is likely to be available and/or accessible. It is important to note that while reference will be made to the African continent in its totality, this study will focus predominantly on the Botswana market the justification of which is based on the

following: Firstly, Botswana has for decades been burdened by an overreliance on state funding and is now facing "tightening financial conditions and declining fiscal and external buffers even though the demand for financing is mounting thus signalling a grave need for supplementary sources of funding" (Bank of Botswana, 2022, p. 3). Secondly, notwithstanding the fact that impact investing has evolved from a novel investing concept into a mainstream investment approach, it has not yet benefited from both empirically robust and academically rigorous analysis that focuses solely on the Botswana market, the impact investing sector of which seems to be lagging behind regional counterparts. Thirdly, because research focusing specifically on impact investments in Botswana is scarce, and has yet to be expansively explored, key demographics about this market are unknown, which has made it difficult to make informed inferences. The academic contributions to date are scattered and disparate, coming from diverse perspectives and approaching a range of topics that sometimes share little common ground. A key contribution of this paper is, therefore, to lend structure to this space, especially in using Botswana as a case study. Additionally, it reiterates and expands on earlier research conducted by the Global Impact Investment Network (GIIN) and further explores the validity of the conceptual framework and empirical evidence as it relates to the Botswana environment, especially on the ability of impact investments to deliver on their intended promise.

Furthermore, seeing as this study's research questions place greater emphasis on establishing supply side trends, the researcher decided not to include impact investees, but instead limit the unit of analysis to institutions operating within Botswana's financial services sector as supply side actors and intermediaries namely, institutional investors and asset managers. The sample the study referred to are institutional investors that are intentional about generating measurable economic, ecological and social impact in addition to financial returns. Therefore the researcher does not include a detailed account of demand-side trends and/or practices because it is not directly relevant to the study. Our decision to focus on institutional investors and/or asset managers is influenced by numerous factors including ease of access and/or availability of these investors as well as the depth and breadth of skills, knowledge and experience required to provide useful insights to help the researcher make informed conclusions. What is more, due to the qualitative nature of the study, an estimation of causality and/or correlation has been excluded to focus on exploring and describing the phenomenon that is impact investments.

1.5 Constraints of the study

This research is limited by both theoretical and practical constraints which are influenced by theoretical frameworks used, the experience and knowledge of the researcher and the research participants as well as the choice of research design and methodology, namely the sampling procedure, sample frame and size; the type of data collected; the data collection tool used and the analytical framework employed. Some of the theoretical constraints include the appropriateness of the conceptual framework and the limitations imposed by the researcher's understanding of the subject matter. Additionally, it is important to note that resource and logistical constraints have limited the type and volume of data that is accessible and/or available to the researcher. Lastly, the study makes use of non-probability sampling, references a small sample size and secondary data which was not initially collected for purposes of this study all of which make it highly prone to selection, interviewee and researcher bias, thus inferring possible constraints in the generalisability, availability, accessibility, validity and reliability of data used. A detailed list and description of limitations for this study is included in chapter three (3).

1.6 Organisation of the study

Our study is organised as follows: Chapter one has introduced the context and background of the study, describing in detail the research problem(s), questions, objectives, and justifications of the study. Chapter two deliberates on the different schools of thought and the selected literature surveying theoretical foundations underpinning different viewpoints as well as the empirical validity of these propositions. Chapter three details the research approach, and methodologies employed in collecting, analysing, and synthesising the data which is then followed by a detailed interpretation of key findings and observations from our analysis in chapter four. Conclusions and recommendations for policy intervention and future studies can be found in chapter five. A list of relevant references and appendices are included in the subsequent chapters, respectively.

Chapter 2
Literature Review

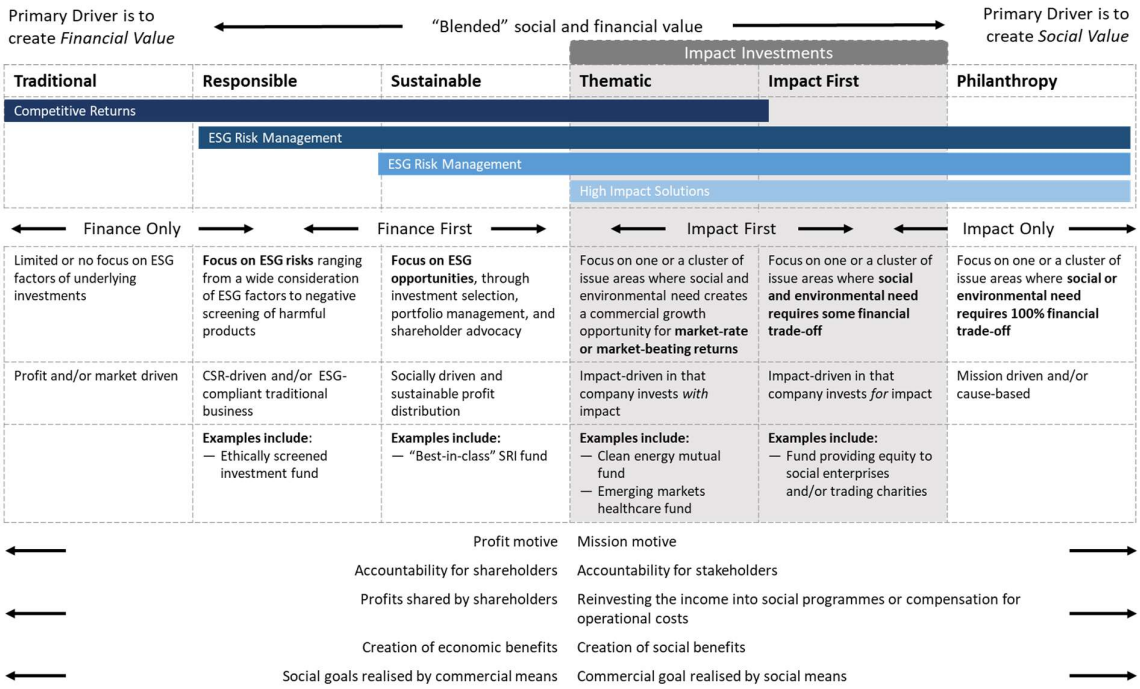
2.0 Introduction

The first section of this chapter defines key terms and concepts related to impact investments whilst the second provides an overview of key characteristics of impact investment portfolios in Botswana. The third section discusses the theoretical framework defining the scope, determinants, considerations, and outcomes of impact investments. Impact measurement is discussed in the fourth section which is then followed by an assessment of the empirical validity of the theoretical propositions in the fifth section. The sixth section is an outline of the conceptual framework which precedes a summary of key findings in the last section.

2.1 Definition of Terms and Concepts

Views regarding the definition and scope of impact investments are found to differ amongst academics and practitioners (Rockefeller Philanthropy Advisors, 2007, 2017; O' Donohoe, et al., 2010, 2021; Reeder & Colantonio, 2013; Höchstädter & Scheck, 2015; IFC, 2019). The impact investment market can thus best be described as a "disorganised market of diverse participants, standards, and concepts" (IFC, 2019, p. xi). A systematic review of the literature suggests that there is no consensus on the precise definition of the term *impact investing* such that it is referred to by some as an *asset class* (O'Donohoe et al., 2010), to others it is an *investment approach*, to a select few it is a combination of the above, and to some it is a transformational vehicle for delivering *blended value* throughout the investment spectrum (Social Impact Investment Taskforce, 2014). The prevailing literature also seems to lack unison in so far as identifying and explaining the differences between impact investing and other investment approaches. For many years, philanthropy and investing have been thought of as two separate disciplines: one championing social change, the other, financial gain. Before impact investing, one would have never imagined a world where the two approaches could be integrated, in essence, delivering both financial and social returns (Rockefeller Philanthropy Advisors, 2007). The investment landscape has since evolved, first taking the form of traditional 'financial returns-based' investing, thereafter, shifting to ethical or value-based investing, different types of sustainable and socially responsible investing and now impact investing. ***Figure 1*** below provides a high-level overview of the different types of approaches across the investment spectrum (list not exhaustive).

Figure 1: Impact Investment Spectrum



Source(s): Asset Allocation Working Group of the Social Impact Investment Taskforce (2014)

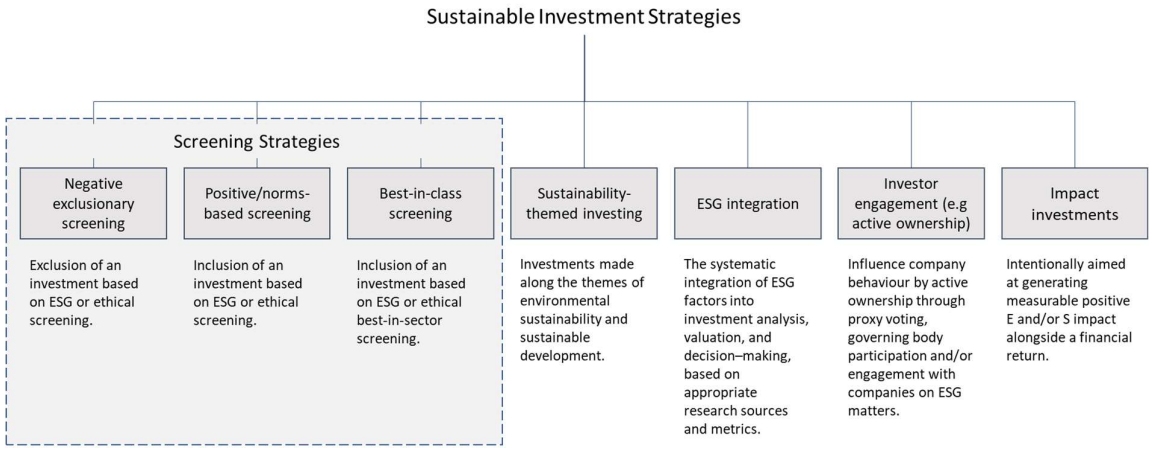
2.1.1 From Ethical Investing to Impact Investing

The history of impact investing can be traced as far back as the 1800's; an era that witnessed a growing movement towards aligning investments with personal, moral or ethical codes of conduct because of an increasing desire to conform to a set of values that transcended beyond economic gain (Sherwood & Pollard, 2019). Ethical or value-based investing is said to have been an extension of faith-based investing, which is largely influenced by religious values rooted in the principles of Judaism, Christianity, and Islam, among others (ibid, 2019). Faith or mission-based investors consciously avoided harmful sectors or undesirable investments that they labelled as 'sin stocks', including a range of industries such as tobacco, alcohol, gaming, and weapons manufacturing. This concept of issue-specific negative screening was founded by the Quakers when they intentionally chose to avoid investments in the slave trade (Höchstädter & Scheck, 2015; Busch, et al., 2021). Similarly, sharia-compliant investing was borne out of a desire to align investment values with those of the Islamic religion (e.g. Islamic Equity Funds). As ethical investing continued to grow in prominence in the early 1900's, so did the desire to promote economic, social and political activism.

After the events of the Great Depression and World War II there was a shift in expectation with regards to the role of organisations in effecting positive social change for all stakeholders, not just

shareholders. Corporates were increasingly expected to prioritise social value in addition to financial and economic value. This concept of a steward-like obligation to the communities these organisations operated in, led to the emergence of new forms of socially responsible investments or funds (e.g. Common Growth Funds, Empowerment Funds etc.) thereby bringing elements of social responsibility into mainstream portfolio theory (Hill, 2011). By the late 1990s, investors started to move their attention to responsible investing, an approach that incorporates environmental, social and governance (ESG) factors into investment decisions which was heavily influenced by the principles of fiduciary capitalism and the Universal Owner Theory (UOT). Emphasising the need to integrate ecological and economic considerations into the decision-making process, the concept of sustainable investing emerged a few years later, the definition of which was originally published in the UN's Brundtland Report (Brundtland, 1987). This type of investing was founded on two inherent concepts; (i) prioritising the basic needs of the present, particularly the poorest and most vulnerable "without (ii) compromising the future generation's ability to meet their own needs" (Brundtland, 1987, p. 41). ***Figure 2*** below defines some of the most utilised sustainable investment strategies.

Figure 2: Sustainable investment strategies



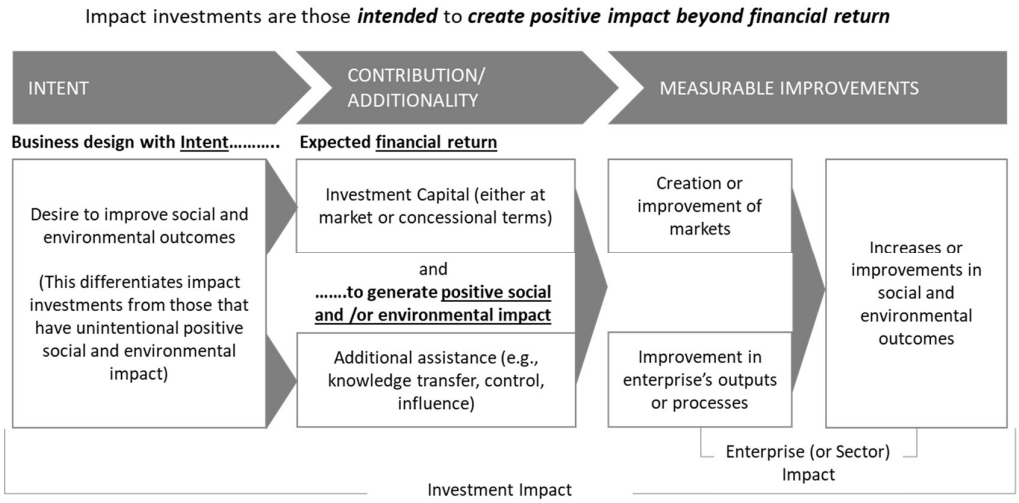
Source(s): Bertha Centre (2020)

The term "impact investing was coined in 2007 by the Rockefeller Foundation as the allocation of capital into enterprises, funds and/or organisations with the expectation to generate positive environmental or social impact alongside financial returns" (GIIN, 2019, p. 1). In other words, impact investing is a specific type of *value-based* or *ethical* investing that integrates social, environmental, moral, or religious values with financial goals. For Freireich and Fulton, (2009), the terms 'socially responsible investments (SRI)' and 'impact investments' can be used interchangeably. To authors like Ashta (2012), SRI is a type of impact investment, to Hill (2011)

impact investment is a type of SRI, and to some SRI is viewed as a concept similar to, but not congruent with, impact investment (Radjy & Cejnar, 2010). For the last group, SRI and impact investing are two distinct types of value-based investing, whereas the focus of the former is to do no harm through negative screening, the latter uses positive screening to invest in entities that generate a positive social impact. Impact investing is also said to differ from sustainable investing which emphasises the need for investments to focus on long-term value creation, sustaining natural and financial assets and financial innovation that would serve the poor (Busch, et al., 2021; Boffo & Patalano, 2020); as well as venture philanthropy, another distinct approach to investing whereby entities provide grant based funding for social purpose organisations (SPOs) (Höchstädter & Scheck, 2015).

Other authors have also gone to the extent of distinguishing between 'impact-aligned investments' and 'impact-generating investments', by suggesting that the former apply a "comprehensive set of exclusion criteria and combine at least one pre-and one post-investment decision approach" (Busch, et al., 2021, p. 6), whereas impact-generating investments may use different strategies. Key differences in the approaches mentioned above lie in the nature and size of investments, returns expectations, investment objectives, and funding mechanisms. What essentially distinguishes impact investing from traditional financial investing and earlier forms of value-based, purpose-driven, socially aligned or socially responsible, investments are intentionality *(driven by the desire to create a positive impact*), additionality *(seeking both financial and social returns*) and measurability *(generating measurable returns and impact*). This definition of impact investments is the most widely accepted and referenced by both academics and practitioners, the explanation of which has been adopted throughout this study. ***Figure 3*** below is a depiction of the *'impact thesis of impact investments*', a conceptual framework that illustrates the relationships that exist between intent, additionality and measurement as per the classification above.

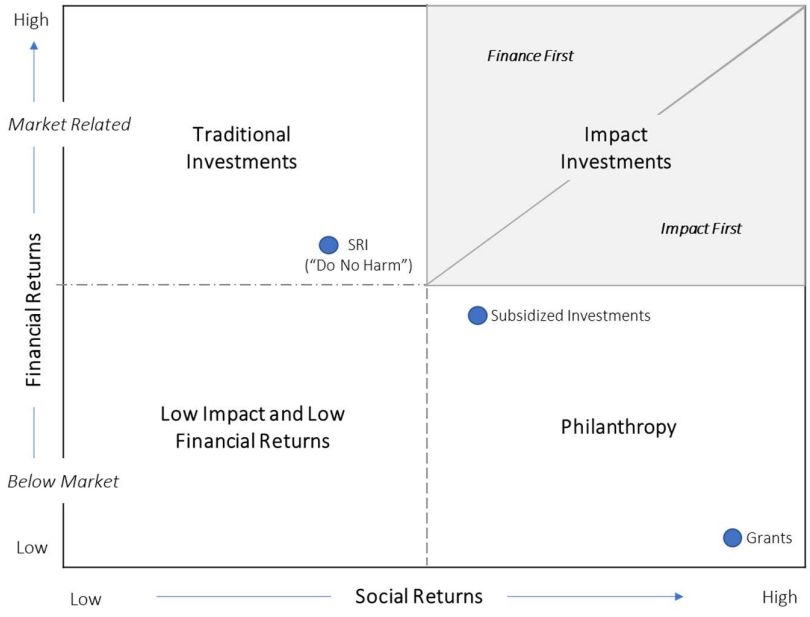
Figure 3: The impact thesis of impact investments



Source(s): J. P. Morgan (2010), Rockefeller Philanthropy Advisors (2007) and IFC (2019)

According O'Donohoe, Leijonhufvud, and Lamy (2021) impact investors are by definition socially motivated even if their goals differ. The inherent subjectivity of goals for different impact investors is a recurring topic amongst the literature, often spurring the *finance first versus impact first* debate which suggests that the focus can shift in either direction between social or environmental impact generation and financial yield (O'Donohoe, Leijonhufvud, & Lamy, 2021). ***Figure 4*** below is a visual representation of where impact investing fits along the financial - social return matrix.

Figure 4: Financial - Social Return Matrix



Source(s): "Investing for social and Environmental impact: A design for catalysing and emerging industry", Monitor 2009

Some of the literature further delineates impact investments from other investment strategies using differentiating criteria such as Höchstädter & Scheck's (2015) five dimensions of impact described below.

2.1.2 Defining impact investments through five dimensions

According to Höchstädter & Scheck (2015), five distinct dimensions are said to differentiate impact investments from other investment approaches and/or strategies. This includes the following:(i) demography and geographic location of the end beneficiaries of impact investments; (ii) sector and impact objectives; (iii) the asset-class and financial instruments that are used in impact investments; (iv) the financial and/or organisational structure of the investee company or recipients; and (v) organisational processes.

2.1.2.1 Demographic and geographic context

Under the first dimension, Arosio's (2011) definition of impact investments emphasises the deliberate focus on "end beneficiaries, particularly people at the bottom-of-the-pyramid (BoP)" (Arosio, 2011, p. 18; Höchstädter & Scheck, 2015, p. 457) as a distinguishing factor of impact investments, implying that impact investors often target under-developed and under-served markets, focusing mainly on marginalised members of communities such as the poor, disabled, indigenous, youth, and women, amongst other minorities. Other definitions of impact investments, particularly those that focus on environmental impact, such as O'Donohoe, et al, (2010) view impact investments as those that can benefit a broader population not just a targeted under-served population making them independent of a person's socio-economic status. With regards to the geographic location of beneficiaries, several definitions imply that these types of investments need not be limited to deprived areas. Even though the literature points to impact investing being more closely associated with developing and emerging markets, several practitioner texts have also shown that impact investing can span geographies, including the developed world.

2.1.2.2 Sector and impact objectives

With regards to the second dimension, impact investments are thought to have a broad range of social and environmental objectives, and usually these impact objectives are deeply rooted in a specific sector or several different sectors. Generally, impact investments are thought to have a specific sector focus, with some of the most cited sectors being infrastructure development, healthcare, financial services and microfinance, agriculture, housing, clean technology and renewable energy. In contrast, Höchstädter & Scheck's study (2015) shows no indication of impact

investing being limited to specific sectors. Impact investments are also said to pursue a broad-spectrum of impact objectives. For example, Rubin (2009) asserts that the objectives of these investments "can be categorised as corrective or additive and need not always be linked to a particular sector" (Höchstädter & Scheck, 2015, p. 458; Rubin, 2009, p. 340). Some of the most cited impact themes and/or objectives include employment creation, energy efficiency, financial access or inclusion, quality healthcare, and other essential services (O'Donohoe et al., 2010)

2.1.2.3 Asset-class and financial instruments

The third dimension focuses on the asset-class and financial instruments that are used in impact investments. Numerous studies (O'Donohoe et al., 2010; Addis et al.,2013; Höchstädter & Scheck, 2015) have shown that impact investing can occur across a wide variety of asset classes as can be seen on ***figure 5*** below. Other studies suggest that "private debt or equity (PE) (Conway et al., 2012) and venture capital (VC) (Trelstad, 2009) are some of the most widely used impact investment asset classes" (Höchstädter & Scheck, 2015, p. 459). And the most frequently used financial instruments consist of a combination of equity, debt, and mezzanine financing.

Figure 5: Impact investing asset class - return rate spectrum

Source(s): GIIN and Cambridge Associates (2016)

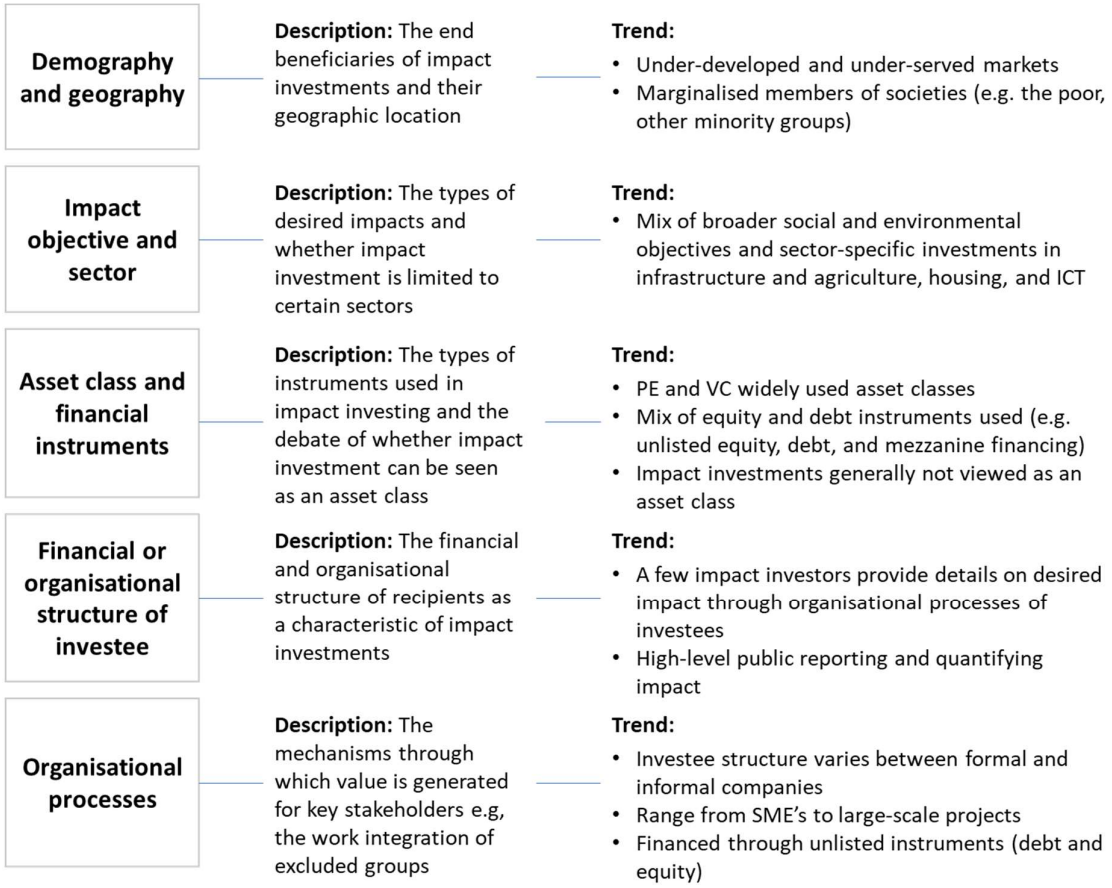
2.1.2.4 Financial and/or organisational structure

With respect to the fourth dimension, different views have been expressed regarding the characteristics that constitutes an impact investee and an impact investment. These views fall into one of three broad groups. The first group refers only to the impact investor's motivation to achieve impact while generating financial returns (Mac Cormac & Haney, 2012). The second group does make mention of the impact investee but does not specify any requirements regarding the organisational or financial structure of these investees (Freireich & Fulton , 2009). The third group does provide some detail regarding the required structure and impact goals of these entities, emphasising the need for them to deliver on both social and environmental good (Chua et al., 2011; Höchstädter & Scheck, 2015).

2.1.2.5 Organisational processes

Höchstädter & Scheck, (2015) describe the fifth dimension as the organisational processes through which an impact investee can generate value for key stakeholders. According to Dalberg Global Development Advisors (2011), an impact investee can create impact in one of two ways, to create needed employment through organisational operations and processes as well as to increase access to essential social services such as good healthcare or education through products and services. ***Figure 6*** below is a summary view of Höchstädter & Scheck's (2015) five dimensions of impact, providing an explanation of each dimension and key trends that have been observed in that regard.

Figure 6: Five dimensions of Impact



Source: Höchstädter & Scheck, (2015)

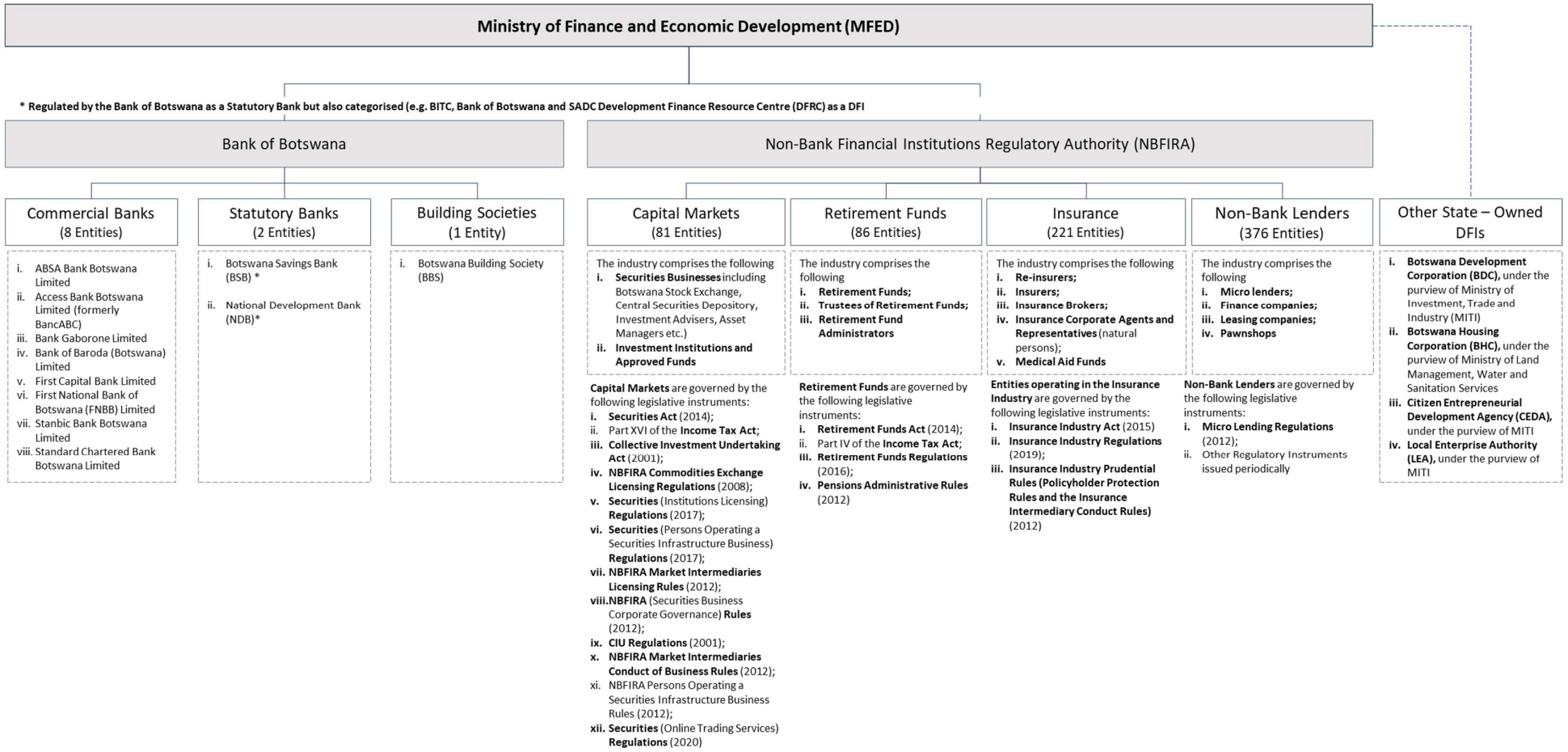
2.3 Overview of Botswana's Financial Services Sector

2.3.1 Regulatory framework

Financial markets in Botswana are controlled by the Ministry of Finance and Economic Development (MFED), the mandate of which includes the administration, management, and mobilisation of economic and financial resources; the review and formulation of economic policy; as well as planning for and coordinating national development. The licensing and regulatory framework of this sector has two distinct categories. Banks and bank related business are regulated by the central bank, the Bank of Botswana established under the Bank of Botswana Act in 1975 (Bank of Botswana, 2021), whereas non-bank financial institutions (NBFIs) are governed by the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) established under the NBFIRA Act in 2006 (NBFIRA, 2021).

NBFIs in Botswana are broadly classified under four sectors, "namely, capital markets, retirement funds, insurance, and non-bank lenders" (NBFIRA, 2021, p. 38). These entities are ruled by the provisions of the NBFIRA Act, CAP 46:08, other sector specific Acts and subsidiary legislation such as the Securities Act (2014); the Collective Investments Undertaking (CIU) Act (2001) and Regulations (2001); the Retirement Funds Act (2014) and Regulations (2012); the Insurance Industry Act (2015) and Regulations (2019); Micro-Lending Regulations (2012), and supporting regulations including but not limited to the Companies Act (2003), Parts IV and XVI of the Income Tax Act, Competition Act (2018), the Financial Intelligence Act (2019). A review of the literature suggests that Botswana's regulatory framework, currently does not have a formal definition and/or commonly recognised classification of impact investments and/or investors, nor is there a legal instrument in place to govern the conduct of the institutions that operate in this sector (Bank of Botswana, 2021). The regulatory structure of Botswana's financial services sector has been illustrated in ***figure 7*** below highlighting the public body (i.e Ministry) that oversees this sector, the regulators, the categories and/or types of businesses they regulate as well as the legal framework and legislative instruments that govern these businesses

Figure 7: Regulatory framework of Botswana's financial services industry (FSI)



Source (s): Bank of Botswana (2021); NBFIRA Annual Report (2021); SADC DFRC (2022)

It is important to note that even though the Botswana Savings Bank (BSB) and the National Development Bank (NDB) are classified as statutory banks, regulated by the Bank of Botswana, they are both listed by the Bank of Botswana in another document and the SADC Development Finance Resource Centre (DFIs) as national Development Finance Institutions (DFI), suggesting that there seems to be some irregularity in regulation and in the delineation of these institutions from other financiers (SADC DFRC, 2022). For example, a number of these DFIs are supervised by the MFED whilst others fall within the purview of the Ministry of Investment, Trade and Industry (MITI) but are not governed by either one of the regulators stipulated above, further demonstrating disparities in Botswana's regulatory framework.

2.3.2 Structure and size of Botswana's financial services sector

The literature suggests that a majority of the institutions that seem to have an inclination towards impact investing are IFIS, DFIs and numerous categories of non-bank financial institutions (Höchstädter & Scheck, 2015; Barber, Morse, & Yasuda, 2019). Unfortunately information about the performance and/or practices of DFIs in Botswana is scarce and scattered, the bulk of which has not been verified therefore making it fragmented and highly prone to subjectivity. Information about the banking and non-banking segments of Botswana's financial services industry is regularly published by the regulators thus making it more reliable. In December 2020, the NBFI sector made up approximately 54% of total assets in Botswana's financial services industry, whereas the remaining 46% was attributable to the banking sector (NBFIRA, 2021). The annual growth rates for the non-bank sector for the years 2019 and 2020 were 4% and 2.5% respectively, whereas the banking sector exhibited an annual growth rate of 9% and 3.7% (NBFIRA, 2021). ***Table 2*** below provides a detailed overview of the structure and size of Botswana's financial services industry as of December 31st, 2020 based on the number of institutions and total assets per segment.

Table 2: Structure and size of Botswana's financial services industry (FSI)

Financial Institutions	# Institutions 2020	Assets in P' Million		% of Total Assets	Annual % Change
		2019	2020		
Banking Sector	**13**	**107, 510**	**111, 446**	**46.3%**	**3.7%**
Commercial banks	10	98, 685	103, 259	42.9%	3.6%
Statutory banks	2	4, 184	4, 078	1.7%	(2.5%)
Botswana Savings Bank (BSB)	*N/A*	*3, 133*	*2, 846*		
National Development Bank (NDB)	*N/A*	*1, 051*	*1, 232*		
Building societies	**1**	**4, 641**	**4, 109**	**1.7%**	**(11.5%)**

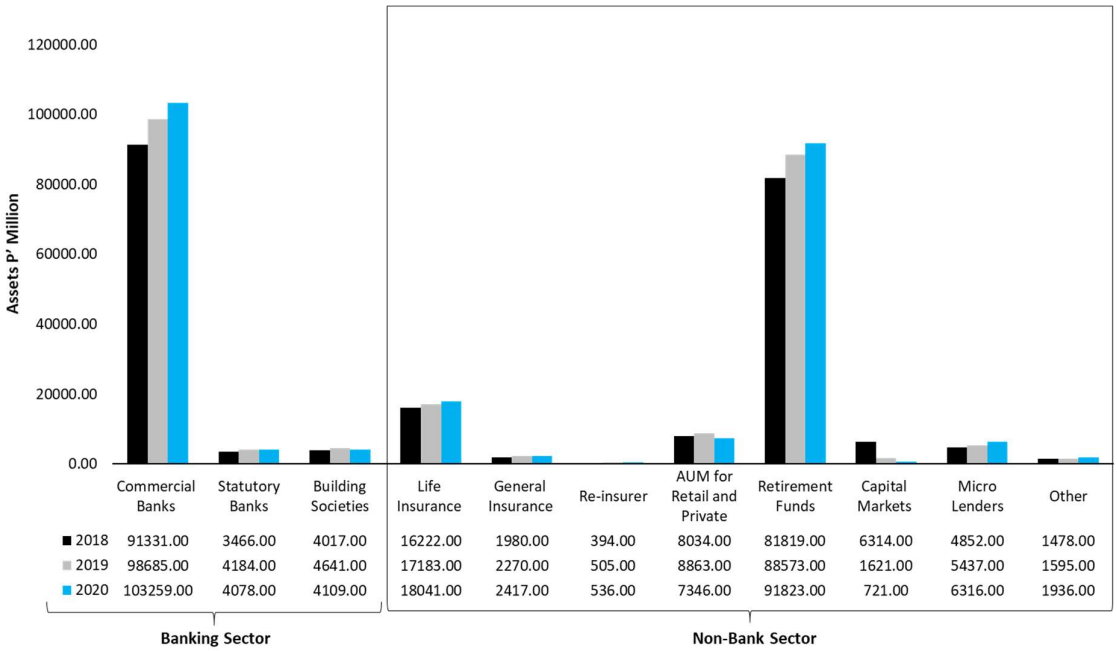
Financial Institutions	# Institutions 2020	Assets in P' Million		% of Total Assets	Annual % Change
		2019	2020		
Non-bank Sector	**786**	**126, 047**	**129, 136**	**53.7%**	**2.5%**
Life insurance	8	17, 183	18, 041	7.5%	5.0%
General insurance	12	2, 270	2, 417	1.0%	6.5%
Re-insurers	4	505	536	0.2%	6.2%
AUM for retail and private clients	N/A	8, 863	7, 346	3.1%	(17.1%)
Retirement funds	87	88, 573	91, 823	38.2%	3.7%
Capital markets	37	1, 621	721	0.3%	(55.5%)
Microlenders (top 20)	20	5, 437	6, 316	2.6%	16.2%
*Others (estimate)	618	1, 595	1, 936	0.8%	21.4%
Grand Total	**799**	**233, 557**	**240, 582**	**100%**	**3.0%**

State Owned DFIs		Assets in P' Million		Year – on-Year
		2019	2020	% Change
Botswana Development Corporation (BDC)	*N/A*	*3, 603*	*4, 225*	*17.3%*
Citizen Entrepreneurial Development Agency (CEDA)	*N/A*	*2, 295*	*1, 808*	*(21.2%)*

Source(s): NBFIRA Annual Report (2021)

It is worth noting that whilst the NBFIRA makes mention of the existence of 10 licensed commercial banks in 2020, the central bank only reference eight instead. The number of active entities within Botswana's NBFI sector increased to 786 in 2020, a 2.9% increase from the prior year's 764. Of the 786 NBFIRA-regulated entities, Botswana has 112 licensed to operate in capital markets, 87 retirement funds, 231 insurance companies and 356 registered non-bank lenders. The NBFI sector remains dominated by the country's retirement funds representing roughly "71% (91,823 million of 129,136 million pula) of the market share of NBFI assets in 2020. In December 2021, assets held by retirement funds amounted to P105 billion and the ratio of total assets of retirement funds to GDP was 45%" (NBFIRA, 2021, p. 38). ***Figure 8*** below shows changes in the size of Botswana's financial services industry from 2018 and 2020 based on the total pula value of assets.

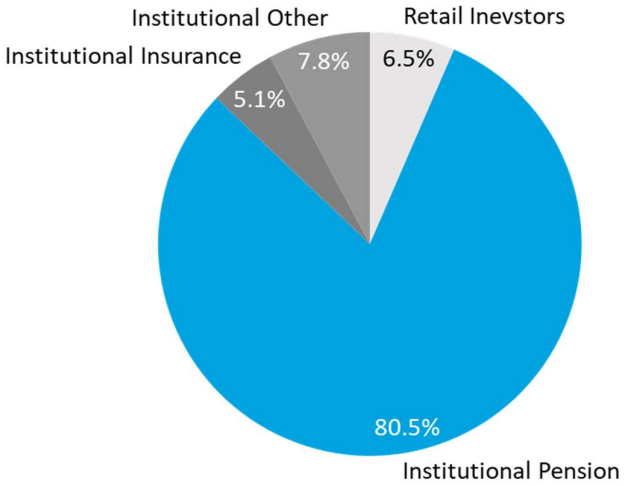
Figure 8: Illustrative overview of Botswana's financial services industry



Source (s): NBFIRA Annual Report (2021)

With assets under management (AUM) amounting to roughly 39 billion pula in 2020 institutional pension funds accounted for the largest share (80.5%), followed by other institutional investors with AUM valued at five billion pula (7.8%), retail investors (6.5%) and lastly insurance companies (5.1%). **Figure 9** below shows the percentage split of AUM by investor type in 2020.

Figure 9: AUM by Type of Client



Source (s): NBFIRA Annual Report (2021)

2.3.3 Sustainable practices in Botswana

Sustainable development is a key tenet of Botswana's growth agenda, so much so that the domestication of the SDGs resulted in the formulation of sustainability-focused national development strategies and plans. As such, mobilising sufficient capital has become vital in effecting the required change to drive tangible results. Government and several private-sector actors in Botswana's financial services sector have been playing a pivotal role in driving the transformation towards a more sustainable future.

A BSE & UNDP (2017) study indicates that ESG investing seems to be the preferred approach to responsible investing in Botswana, however the country currently does not have an ESG reporting framework. The local bourse, the BSE, formally established in 1989 is a member of the UN's sustainable stock exchanges (SSE) initiative. In 2019 the BSE, in collaboration with the UN SSE initiative, facilitated a Responsible Investing and ESG workshop to promote stakeholder awareness, engagement and activism around ESG issues. As an SSE partner the BSE is required to produce annual sustainability reports. The local bourse has also developed ESG reporting guidelines for listed companies which prescribes publishing integrated reports and the adoption of the Botswana Corporate Code of Governance invest (BSE & UNDP, 2017). According to the UN SSE Initiative (2021), ESG reporting is not required as a listing rule in Botswana, moreover, the Botswana market is not covered by a sustainability-related index nor does it have a sustainability bond-listing segment. In the latter part of 2022, the BSE has in its capacity as the Secretariat and Chairmanship of the Committee of the SADC Stock Exchanges (CoSSE) "pioneered the implementation of the SADC Green programme in partnership with CoSSE and FSD Africa and also embarked on an initiative to draft and inculcate the rules for sustainable bonds into the existing framework of the BSE Debt Securities Listing Requirements" (BSE, 2022, p. 3).

It is suffice to say that we are increasingly seeing deliberate efforts being made within the private sector towards sustainability-themed and socially responsible investments. For example, two of the BSE's largest listed companies, the Botswana Insurance Holdings Limited (BIHL); and Letshego Holdings Limited, continue to incorporate ESG considerations in how they conduct their businesses and choose to invest (BSE & UNDP, 2017). Furthermore, asset managers such as the Botswana Insurance Fund Management (Bifm) have gone to the extent of developing sustainability-aligned and socially responsible investment products and solutions in response to increasing investor demand (Bifm, 2021). ***Table 3*** below details key ESG, and sustainability interventions employed by the BSE, Bifm and two of the BSEs listed entities.

Table 3: Examples of sustainability practices in Botswana

Organisation	Description	Sustainability Practices
Botswana Stock Exchanges (BSE)Limited	**Stock Exchange:** The BSE is a statutory body formally established in 1989 as Botswana's sole stock exchange known as the Botswana Share Market and then later transformed into the BSE by an Act of Parliament of 1994.	**Key interventions include:** • Member of the UN's sustainable stock exchanges (SSE) initiative. • Facilitated a Responsible Investing and ESG workshop to promote stakeholder awareness, engagement and activism around ESG issues in 2019 in collaboration with the UN SSE initiative • Signatory to the Marrakech Pledge • Pioneered the implementation of the SADC Green Programme, a joint initiative between CoSSE and FSD Africa to accelerate the development of the green bond markets in the 14 SADC Stock Exchanges which are CoSSE members. This programme has helped develop guidelines for listing green bonds, which can be incorporated into the listings requirements of member exchanges • Embarked on an initiative to draft and inculcate the rules for sustainable bonds into the existing framework of the BSE Debt Securities Listings Requirements
Botswana Insurance Holdings Limited (BIHL)	**Investor/Funder:** Listed on the BSE in 1991, BIHL is a leading diversified financial services group established in 1975 with subsidiaries and associates in the long-term (life) insurance, short-term insurance, asset management, and micro-finance segments.	**Key interventions include:** • Focus on continuous and transparent stakeholder engagement • Integration of sustainability reporting in the organisation's annual report. • Allocated a sustainability budget that focuses on social sustainability • Investing in development projects and/or infrastructure • Literacy and capacity-building programmes for teachers and students • Sponsoring a graduate scholarship programme (Thomas Tlou Scholarship Programme) as well as secondary and tertiary education placements for underprivileged children
Botswana Insurance Fund Management (Bifm)	**Asset/Fund Manager:** Bifm is an asset management firm (75% of which is owned by the BIHL group) with more than P23 billion assets under management, established in 1975 to service both institutional and retail investors	**Key interventions include:** Launched the Bifm Global Sustainable Growth Fund in 2021, an offshore equity fund that incorporates significant ESG analysis into the fund's construction to identify companies that are capable of delivering long-term sustainable growth and value creation.
Letshego Holdings Limited	**Investee**: Incorporated in 1998 with a strong focus on micro-lending, Letshego is a Botswana-based financial services institution that has operations in 11 sub-Saharan African markets.	**Key interventions include:** • Reporting on sustainability initiatives and impact in the company's annual report • Publishing its first annual impact report in 2019 that specifies the organisation's impact goals, overall approach to sustainable development, the outcomes of key initiatives and includes an illustration and explanation of the organisation's impact model or value chain • Establishing a Group Sustainability Committee tasked with managing all matters related to sustainability • Adopting sustainability mapping and due diligence practices

Source (s): Advancing Sustainable Development and Green Finance (BSE, 2022); BSE Sustainability Practices Report (2017); Letshego Impact Report (2019); and BIHL Integrated Annual Report (2021)

Other asset managers in Botswana such as those listed in ***table 4*** below are signatories of the UN's Principles for Responsible Investment (PRI) a UN-supported network of investors that works to promote sustainable investment through the incorporation of ESG criteria (UNPRI, 2021).

Table 4: UN PRIs signatories from Botswana

Organisation	Category of Business	HQ Country	Signature Date
Morula Capital Partners (Pty) Ltd	Investment Manager	Botswana	23/08/2021
Africa Lighthouse Capital	Investment Manager	Botswana	15/04/2020
Aleyo Capital	Investment Manager	Botswana	08/01/2019
NORSAD Finance Limited	Investment Manager	Botswana	15/08/2017
Kgori Capital (Pty) Ltd	Investment Manager	Botswana	26/06/2017
Imara Holdings Limited	Investment Manager	Botswana	28/01/2013

Source (s): UN PRI Signatory Directory (UNPRI, 2021)

2.2.3.1 Impact investments

A high-level review of the literature suggests that the impact investing sector in Botswana is informal, not well regulated and relatively underdeveloped, showing low levels of maturity especially in comparison to other countries in the region (GIIN, 2016), key highlights of which are described below.

2.2.3.1.1 Impact investors and funds

Botswana is said to have a plethora of impact investors. These have been categorised as follows: (i) local private investors and/or funds comprising both retail and institutional investors; (ii) regional or global private funds and/or financiers with an impact mandate such as Norsad; (iii) national DFIs such as the Botswana Development Corporation (BDC), the Citizen Entrepreneurial Development Agency (CEDA), and the National Development Bank (NDB) the latter of which is also categorised as a statutory bank by the Central Bank (Bank of Botswana, 2021); (iv) bilateral, multilateral and/or international finance institutions (IFIs) including but not limited to the AfDB, the World Bank, and the British International Investment (previously referred to as the Commonwealth Development Corporation (CDC) Group); and (v) intergovernmental organisations and/or foundations that have an ESG and/or impact mandate, such as the UNDP.

A study conducted by the GIIN (2016) found that in 2015 the country had received the second-smallest share of impact investing capital disbursed in the region (GIIN, 2016). In total, 19 transactions worth approximately USD 250 million are said to have taken place in the 15-year period between 2000 and 2015 (GIIN, 2016) which suggests an average of 1.27 transactions per annum. According to the GIIN (2016), most of these investments were made by DFIs (85% by capital and 90% by number of investments). These were predominantly in the financial services sector, but also included investments in agriculture, extractives, water, sanitation, and hygiene (WASH). Correspondingly, less than U$D 40 million had been disbursed by non-DFI investors into financial services and information and communication technologies (ICT) (GIIN, 2016).

Since then, there has not been a traceable record of other studies being conducted with a particular focus on the Botswana market. Nevertheless, a review of publicly available information suggests that a similar trend has been observed in recent years, whereas a large portion of the capital disbursed in impact investments is from DFIs and the remainder from private investors (AfDB, 2021). Norsad Finance Limited (Norsad), a privately owned Norwegian fund that was recently awarded impact investor of the year by the UNPRI provides direct financing through private debt and has invested over U$D 31.5 million in the Botswana market since inception (30 years ago). Norsad currently has three active investments in Botswana valued at U$D 19.5 million in the financial services and renewable energy sectors (Norsad, 2020). In aligning their investments with national priorities, local DFIs such as the BDC, CEDA and NDB have made sizable investments in the agriculture, manufacturing, non-diamond mining, financial services, education, property, and tourism sectors (BITC, 2020). Regional and global DFIs that have active investments in Botswana include the AfDB which has funded over 60 projects dating as far back as 1972, most of which have been in the areas of infrastructure, agriculture, and finance (AfDB, 2021). British International Investment (BII) (formerly referred to as the CDC Group), a UK based DFI has had two active investments in Botswana since 2010 in the consumer business and financial services sectors (BII, 2022). With regards to documented transactions, financial services, agriculture, education, energy, and the ICT sectors seem to be some of the most preferred sectors of investment for local and regional DFIs. ***Table 5*** below highlights some of the most well-documented impact investment deals in the Botswana market.

Table 5: Documented impact investment deals in Botswana

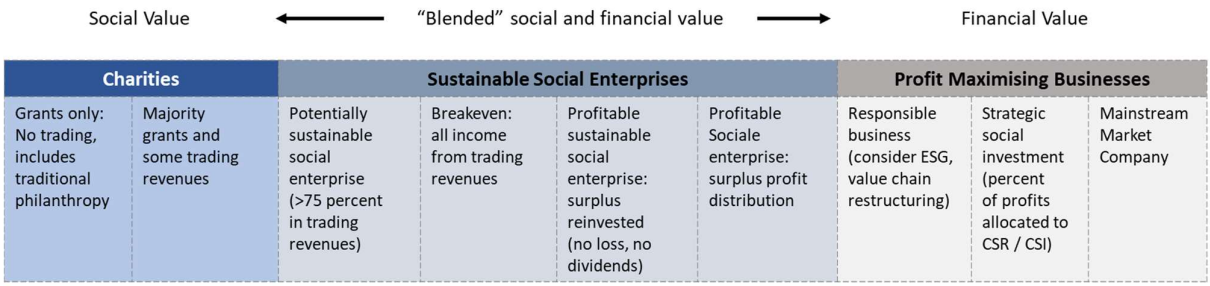
Year	Investor	Investee	Sector	Investment Instrument/ Type	Fund	Fund Manager
2019	Norsad	Invest Solar Africa (ISA)	Renewable Energy	Private Debt	Not known	MHMK Capital
2018	Norsad	Ecsponent	Financial Services	Private Debt	Not known	MHMK Capital
2018	TPG Growth	Wilderness Safaris	Eco Tourism	Private Equity	The Rise Fund	Satya Capital
2017	BII (previously known as CDC Group)	Kamoso	Consumer Services	Intermediated Investment	Ninety-One Africa Private Equity Fund 2	Investec Asset Management
2013	Norsad	ABC Holdings	Financial Services	Debt	Not known	MHMK Capital
2010	BII	Letshego Holdings	Financial Services (Micro-lending)	Intermediated Investment	African Development Partners I	Development Partners International

Source (s): Norsad Impact Report (2020); BII (2022)

2.2.3.1.2 Impact investees

From a demand side perspective, receivers of impact investments tend to vary in size, structure, mandate, and scope. ***Figure 10*** below illustrates the "investment spectrum of enterprises that are likely to receive investment capital relative to the type and specific blend of value the investors are seeking to create" (UNDP, 2015, p. 3)

Figure 10: Spectrum of impact investees



Source (s): UNDP (2015)

In the Botswana context the list of active impact investees includes early-stage entrepreneurs, SME's, microfinance institutions, infrastructure project developers, cooperatives and associations and social enterprises such as These Hands Global Social and Sustainable Enterprise (GSSE), Now-for-Tem, Women's Finance House, Modisar, Letshego Holdings Limited, Invest Solar Africa (ISA) a sample list of which is illustrated in ***table 6*** below (list not exhaustive).

Table 6: Sample list of documented impact investees in Botswana

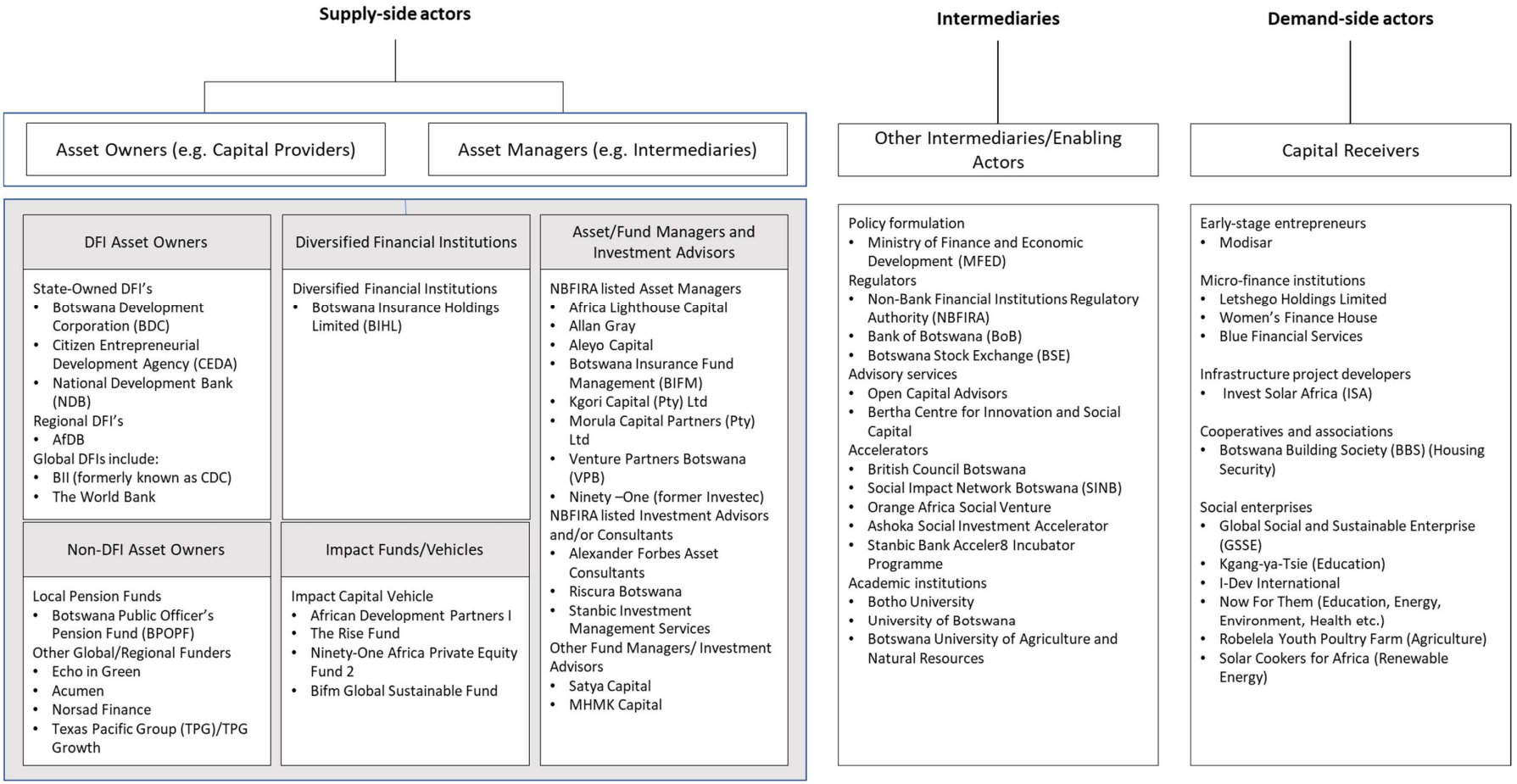
Name of Investee	Classification Criteria	Impact Sector or Theme
These Hands Global Social and Sustainable Enterprise (GSSE)	Social enterprise	SME development/technology
Now for Them	Social enterprise	Various sectors (e.g. renewable solar energy, education, health etc.)
Solar Cookers for Africa	Social enterprise	Renewable energy
Botswana Building Society	Cooperative/ subsidised lending	Housing security
Women's Finance House	Social enterprise	Financial services
Blue Financial Services	Social enterprise	Financial services
Robelela Youth Poultry Farm	Social enterprise	Agriculture
I-Dev International	Social enterprise/ Micro-finance institution	Financial services
Kgang ya Tsie	Social enterprise	Education
Modisar	Early-stage technology entrepreneur	Agriculture/agribusiness
Letshego Holdings Limited	Micro-finance institution	Financial services
Invest Solar Africa (ISA)	Project developer	Renewable energy

Source (s): Author's own compilation from various sources

2.2.3.1.3 Summary overview of Botswana's impact investment ecosystem

Figure 11 below is the author's illustrative summary of Botswana's impact investing ecosystem, including a list of relevant players (lists not exhaustive):

Figure 11: Ecosystem players in Botswana's impact investing market



Source (s): Author's own compilation from various sources

2.4 Theoretical Framework

2.3.1 Motivation and decision-making criteria of impact investments

2.3.1.1 Investment theories: From Modern Portfolio Theory to behavioural finance

Even though impact investing has quickly become one of the fastest growing trends in driving social and environmental change globally, being a moderately new field, there is relatively little academic literature available that sheds light on the decision-making processes within the field in general. This still has not limited the growth of this phenomenon. The increased awareness in impact investing stems from the broader movement and growth of purposeful capitalism, ethical consumerism, CSR, and the growing trend towards sustainable responsible investments. The blending of the social, environmental, and economic or financial spheres and the blurring of the for-profit and non-profit sectors is further illustrated by the recent surge in social entrepreneurship activity (Höchstädter & Scheck, 2015).

The ideological basis of conventional finance is based on theories such as Modern Portfolio Theory (MPT) founded by Markowitz in the 1950s; the Capital Asset Pricing model (CAPM), which is an extension of the former; the Efficient Market Hypothesis (EMH) formulated in the 1960s as the backbone of contemporary financial theory; and the Cumulative Prospect Theory (CPT) which was introduced in the 1970s as an expansion of investment decision making theory focusing on utility maximisation (Peylo, 2011). Many others have been developed since. Most of these theories were based on several key assumptions: (i) markets were perfect and/or efficient; (ii) investors had access to all available information; and (iii) investors were rational beings that were able to process information in an unbiased manner and as such would always want the highest return for the lowest level of risk (Peylo, 2012). According to these rational decision theorists, the average human being is motivated exclusively by financial benefits, making ethical or any other considerations insignificant. They argue that by introducing moral or ethical considerations into the investment decision-making process one is likely to reduce the number of investment options, diversity and profitability of investment portfolios therefore, investment decisions should only be governed by financial considerations (McWilliams, Siegel, & Teoh, 1999).

While these theories helped explain investment decision making for purposes of portfolio maximisation and the risk-return dichotomy of traditional investments, many were based on assumptions that were often not observed. Because they exclusively used *risk and return* as their only criteria for decision making, “they dismissed the idea that people’s psychology could influence investment decisions and thus did not take predispositions, social preferences, ethics,

morality or moral undertaking into consideration" (Peylo, 2011, p. 15). Since then, however, the structure of capital markets has evolved beyond what economic theory suggests it ought to be. The emergence of behavioural finance has revealed that the investment decision is in fact influenced by several emotional, psychological, cognitive, sociological, and situational factors most of which were not accounted for in MPT. Contrary to traditional finance, behavioural finance asserts the following: (i) markets are volatile and imperfect; (ii) information asymmetries exist in markets; and (iii) investors are irrational and often make decisions based on biases, emotions, and other psychological factors (Gul, 2016). For example, the salience theory, developed by Bordalo, Gennaioli & Shleifer (2012), asserts that "decision makers *do not always* consider all available information due to their cognitive limitations" (Bordalio, Gennaioli, & Shleifer, 2012, p. 1245). Theories proposed by Hong & Stein (1999) and Barberis, Shleifer, & Vishny (1998) posit that investors are likely to have heuristic biases and irrational mental frames when making decisions; and Kahneman, Slovic, and Tversky's (1982) prospect theory postulates that "investors are likely to be exposed to biases which cause deviation of their expectations from rational expectations" (Shantha, Xiaofang & Gamini, 2018, p. 5).

2.3.1.2 Management Theories: The shift from shareholder value theory

Conversely, traditional management theories have largely been founded on the principles of Milton Friedman's Shareholder Value Theory which postulates that as agents of assets owners' managers, have a fiduciary duty to serve the shareholders interest above all others, thereby implying that in maximising shareholder wealth, they are obliged to prioritise financial returns (Sherwood & Pollard, 2019). Building on, and as a direct alternative to the Shareholder Value Theory, the Stakeholder Theory, stated that because most companies produce both negative and positive externalities, there was a growing need for investors and managers alike to be responsible for and responsive to the needs of a broader set of stakeholders not just shareholders (Donaldson & Preston, 1995). Other theories that have been developed since include the Good Management Theory, the Business Ethics Theory, and the Social Impact Hypothesis, all of which emphasise the social obligation and the moral duty that a business has towards society (Vogel, 2005).

2.3.1.3 Incorporating non-monetary considerations into investment decision-making

Since then, there continues to be a shift in investment decision making theory which has resulted in the development of various theoretical models such as (i) the Multiple Attribute Utility Theory (MAUT); (ii) Adaptive Market Hypothesis (AMH) (iii) the Theory of Planned Behaviour; (iv) the Issue Contingent Model of Ethical Decision Making; and, (v) Tobias' SRI Approach to Portfolio Theory, that incorporate expectations into the investment decision making process as well as

integrate ethical, moral and ESG considerations to explain ethical, sustainable, and/or socially responsible, investment behaviour (Hofmann, Hoelzl, & Kirchler, 2005). These theories have been further explained below.

2.3.1.3.1 Multiple Attribute Utility Theory (MAUT)

The multiple attribute utility theory is based on key assumptions of the rational choice theory. According to Hofmann, Hoelzl, & Kirchler (2005), it presupposes that when assessing different alternatives, individuals value the option with the highest utility, which, in this theory, is separated into attributes. An investor will therefore invest in a portfolio that maximises their utility (Hofmann, Hoelzl, & Kirchler, 2005).

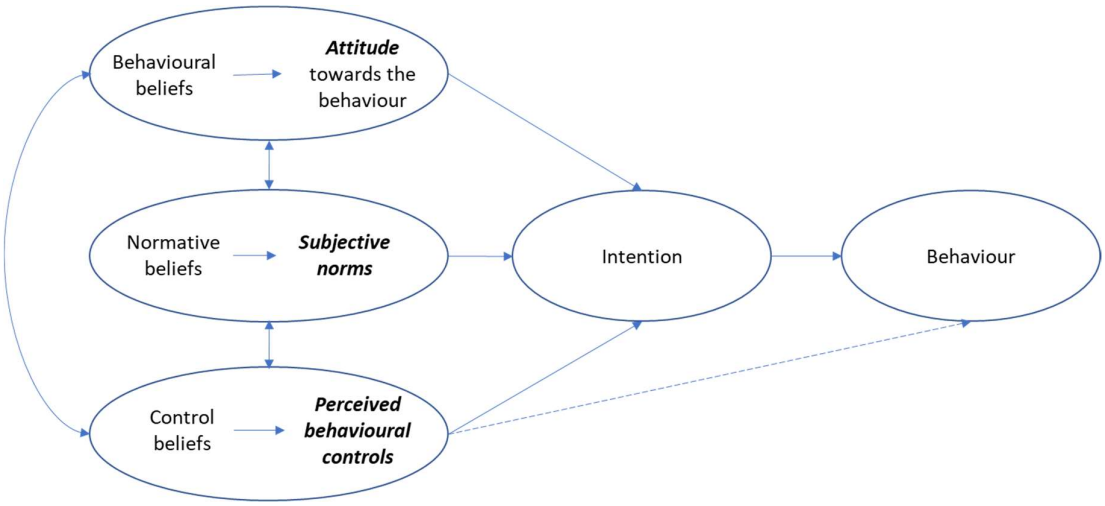
2.3.1.3.2 Adaptive Market Hypothesis (AMH)

In merging traditional economic theories with modern behavioural finance theories the adaptive market hypothesis proposed by Lo (2004) applies three principles of evolution to financial interactions, namely adaptation, competition and natural selection. It speculates that because individuals act rationally and irrationally, financial markets are governed by the laws of biology and economics (Lo, 2004).

2.3.1.3.3 Theory of Planned Behaviour (TPB)

Ajzen's (1991) theory of planned behaviour used to explain environmental preservation, health promotion and ethical investments amongst others is loosely based on the theory of reasoned action or reasonable expectations. It suggests that a person's behaviour is driven by their intentions which are said to be a function of three factors; attitude, subjective norms relating to social pressure; and perceived power and behavioural control which is contingent on earlier experiences and expected obstructions (Azjen, 1991). The conceptual framework for the theory of planned behaviour has been provided for in ***figure 12*** below.

Figure 12: Theory of planned behaviour



Source (s): Ajzen (1991; 2005)

2.3.1.3.4 Issue Contingent Model of Ethical Decision Making

The issue contingent model of ethical decision making presupposes that investment behaviour is influenced by the utility of morality, the intention to invest, and the moral intensity of investment, more than profitability. It suggests that social consensus is one independent factor affecting the decision-making process as well as subjective norms (Hofmann, Hoelzl, & Kirchler, 2005).

2.3.1.3.5 Tobias' SRI approach to Portfolio Theory

Tobias' SRI approach to portfolio theory is a synthesis of modern portfolio theory and sustainable investment theory. This concept of *multi-dimensional decision making* enhances Markowitz' MPT by allowing the investor to "define a flexible degree of sustainability as an additional optimisation criterion in the portfolio selection process" (Peylo, 2012, p. 12). This theory is used within the field of impact investing to better elaborate on the quantification of impact and how it is applied, during the investment decision making process.

2.5 Measuring Impact Investments

2.5.1 The paradox and evolution of impact measurement

Impact measurement is considered central to the practice of impact investing and vital to the growth of the impact investing sector such that, according to the World Economic Forum (WEF) (2013) it is arguably the most important and yet the most difficult component of impact investment (Social Impact Investment Taskforce, 2014). Despite gaining momentum as a growing movement, impact investing has not yet benefited from academically rigorous analysis intended to evaluate social and environmental performance (Ngoasong, Korda, & Paton, 2015). By their very definition, impact investing firms are expected to generate outcomes on two fronts, namely the

social and environmental returns that are meant to benefit society at large and the financial returns that are meant to benefit the organisation (Jackson E. , 2013). Nevertheless, being able in practice to accurately evaluate and report on the performance of, and the outcomes generated from, impact investments, has proven to be a challenge largely because it is unclear what constitutes '*social impact'* (O'Flynn & Barnett, 2017). Studies indicate that whilst the measurement of financial outcomes is more standardised and easily verifiable, the measurement of social impact varies in approach and rigour, thus making it costly and difficult to substantiate, consequently, making social impact measurement an almost intractable problem hence the phrase *the impact paradox* (Ormiston & Seymour, 2011)

Daggers & Nicholls, (2016) highlight that specific areas of contention within the field of impact investments include the challenges and inconsistencies in measurement approaches, tools, systems, standards, and metrics used to assess social impact and outcomes. Most of them are a result of the ongoing debate about the need for, and ease of, both standardising and customising impact measurement. On one hand, the desire to standardise is premised on the notion that investors need to be able to compare the social impact of their investments across investments, organisations, industries, and geographies (Paris , 2019). On the other hand, because investors have different needs and pursue a wide array of impact outcomes and measurement objectives, the ways in which social or environmental impact is measured and expressed should consider said differences if they are meant to result in meaningful indicators (Grabenwarter, 2013) thus justifying the need for customisation. Social impact measurement is said to be difficult to conceptualise and operationalise because of the subjective nature of impact investments. Firstly, people differ in their priorities and what they view as social mores, which makes agreeing on desired outcomes difficult for many; secondly, investors are said to have different measurement objectives in different phases of the investment cycle (So & Staskevicius, 2015).

All the above makes it difficult for investors to compare the social impact of an investment portfolio or evaluate how one social investment performs relative to another. Moreover, since the measurement of social outcomes can be complex, time-consuming, and costly, it requires a long-term commitment from investors which may not be suitable or sustainable for investors in general (WEF, 2013). Even so, several trends have emerged over the years with regards to widely used tools, systems, guidelines, standards, and/or frameworks that are considered effective for impact measurement, some of which are discussed in detail below.

2.5.2 Impact measurement approaches

Although the literature suggests that measurement "does not yet appear to have found a pragmatic, participative, or systematic way forward" (Reeder & Colantonio, 2013, p. 456), several studies suggest that there are at least two distinct forms or types of impact measurement. On one hand there are *case by case* advocates wishing to produce assessments focused on the specific context of each organisation, and on the other hand there are *system builders* who prefer assessments that are as objective, robust, and as quantifiable as possible. The first group which proposes a more subjective approach to impact measurement recommends the use of *theory of change (ToC) and logic models*, *mission aligned methods* and *experimental or quasi experimental models* to facilitate impact measurement. Whereas the second group prescribes the use of a more objective and standardised approach to impact measurement in the form of industry-accepted metrics, systems, frameworks, standards, and guidelines (Jackson & Harji, 2014). Both views are elaborated further below.

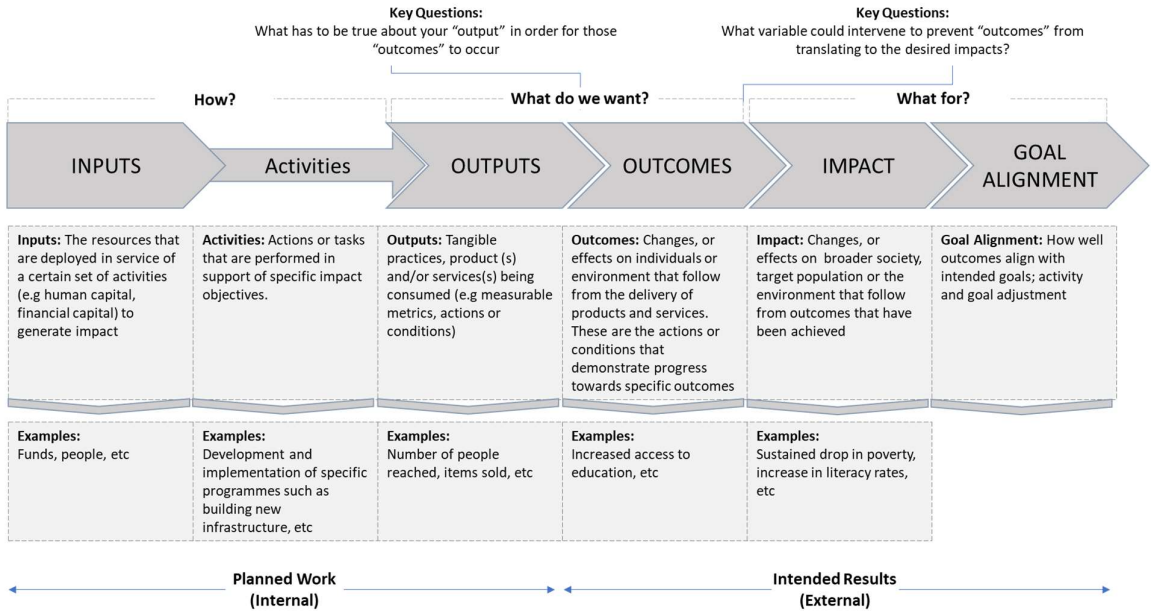
2.4.2.1. Customised impact measurement

2.4.2.1.1. Theory of Change and Logic Models

As in many other areas of evaluation, there seems to be a growing consensus regarding the need to use theory of change and/or logic model approaches to social impact assessment which can help researchers gain a better understanding of causal mechanisms and/or assumptions relevant in their area of study. Programme Theory, a conceptual framework developed in the 17th century to explain how an intervention is understood to contribute to a chain of results that produce the intended or actual impacts (Funnell & Rogers, 2011) has been growing in popularity in the monitoring and evaluation of social projects, programmes, policies, and strategies. Programme theory is a key component of both frameworks. The diagrams used to represent programme theory are referred to as *'logic models'*. The Logical Framework approach has been around for several decades and was the first widespread attempt to depict programme components so that activities are matched to outcomes. The approach when shown as a matrix is called a log frame and when shown as a flow chart is sometimes called a logic model. A logic model, originating in the 1960s as a part of the United States Agency for International Development (USAID) evaluation practice in impact investing, is a common form of "outlining a theory of change that summaries the basic sequential steps that must be completed in order to affect a desired social outcome" (Funnell & Rogers, 2011, p. 231). In other words, a good logic model has a solid theory of change to guide it. Theory of Change methods outline the intended process for achieving social impact, often using a logic model to show the connection between activities and outcomes. The *impact value chain* which is

an extension of the theory of change is a *logic model* that has specifically been developed for and by, the impact investing industry. It is used as a "central concept and tool in its analysis of the industry's structure, performance and potential" (Social Impact Investment Taskforce, 2014, p. 22). ***Figure 13*** below is a graphical representation of an impact value chain.

Figure 13: Impact value chain



Source(s): Social Impact Investment Taskforce, (2014).

Theory of change models are advantageous in that (i) they are relatively simple to develop; (ii) they can be more cost effective than other options for evaluating impact albeit often more time-consuming; and (iii) they are flexible in that they can be used in conjunction with a wide range of other tools (Jackson E. , 2013). Key challenges however include the difficulties experienced in identifying relevant indicators to assess outcomes. These models often "reduce social change to a linear process as a result, making it easier to convey false confidence in how activities of an organisation and their outputs, lead to outcomes" (Jackson E. , 2013, p. 12). BIHL mentioned above, has developed and incorporated an impact value chain illustrated in ***figure 14*** below as a means to documenting and communicating how the organisation creates value and impact across the communities within which they serve.

Figure 14: BIHL impact value chain

Source(s): BIHL 2021 Integrated Annual Report

2.4.2.1.2. Other customised models

Other investor-specific approaches include *experiment and quasi experimental methods* which are frequently used to test a hypothesis of an investor's Theory of Change and *mission alignment methods* which are used to monitor the impact of an investor's portfolio and the investee, against its mission. When using the latter investors measure, the execution of their strategies using frameworks such as Kaplan and Norton's balanced scorecard. The scorecard evaluates an organisation's performance across four perspectives; financial, customers and other stakeholders, business processes, and organisational capacity. Additionally, in the context of impact investing, "the term s*ocial return on investment* (SROI) has been developed to help calculate the *expected return* of a venture. SROI is an organisational method of accounting for value creation that incorporates social, environmental, and economic, impacts" (So & Staskevicius, 2015, p. 11). A summary analysis of each one of the organisational specific measurement models discussed above can be found in the ***table 12*** of ***Annexure I.***

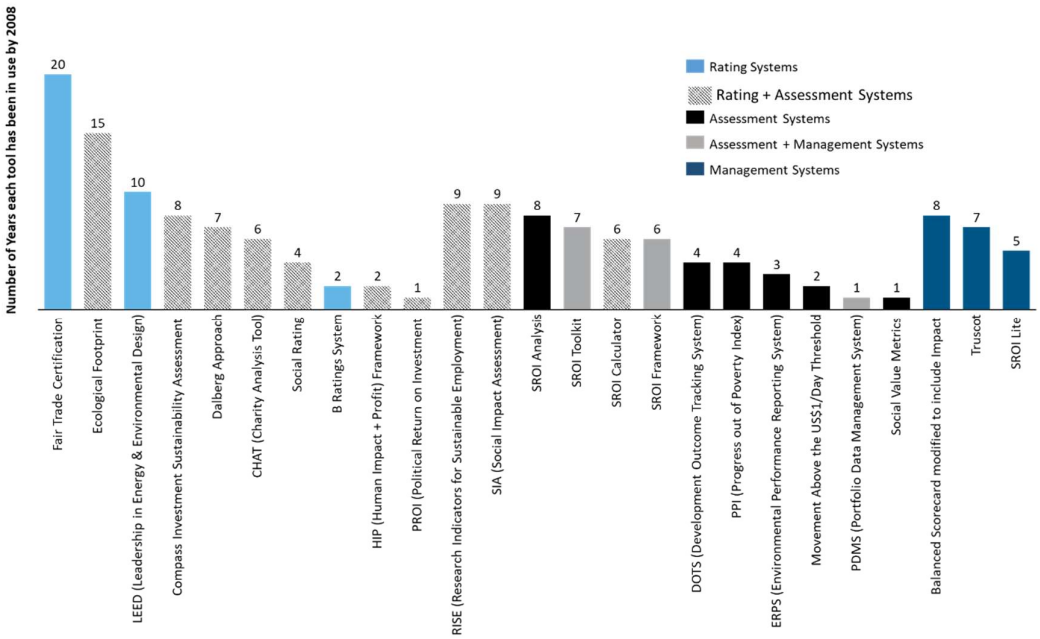
2.4.2.2. Standardised impact measurement

2.4.2.2.1. Guidelines, frameworks, systems, and metrics

In ensuring that investors and investees alike are better able to assess performance and impact, the evolution of impact measurement whilst becoming increasingly popular and complex, has led to the development of various standardised interventions such as principles and guidelines, frameworks, methodologies, rating systems, and metrics, that have been "created to satisfy the

needs for both customisation and standardisation" (Jackson & Harji, 2014, p. 21). ***Figure 15*** below summarises a list of tools and approaches used in 2008 to assess social impact adapted from a study by Olsen & Galimidi (2008) (Flynn, Young, & Barnett, 2015). There have been numerous developments since then. The descriptions that follow below provide an overview of some of the most widely used in practice.

Figure 15: Examples of the range of tools and approaches used to assess social impact



Source(s): Flynn, Young, & Barnett (2015) adapted from Olsen & Galimidi (2008)

2.4.2.2.2. Guidelines and principles

Several practitioners have developed overarching guidelines and principles to facilitate impact management and measurement, the most common of which is the seven-step impact measurement framework suggested by the Impact Measurement Working Group (Social Impact Investment Taskforce, 2014). Other commonly used principles that highlight key considerations for both impact management and measurement include the nine impact principles launched by the Operating Principles for Impact Management (OPIM); the Guiding Principles on Managing for Sustainable Development Results (MfSDR), adopted by the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC); the United Nations Principles for Responsible Investing (UN-PRI); the Blended Finance Principles developed by the OECD's DAC; the UN's Environment Programme Finance Initiative (UNEP-FI) Principles for Positive Impact Finance; the Kampala Principles on effective private sector engagement launched by the Global Partnership for Effective Development (GPEDC) in 2019 and the Social Value International (SVI) Principles of Social Value (UNEP-FI, 2017; SVI, 2018; OECD, 2019;

GPEDC, 2019; OPIM, 2021). Practitioners such as O'Flynn & Barnett, have also proposed a list of five considerations that they believe to be "key criteria for understanding and assessing the social impact of an investment" (O'Flynn & Barnett, 2017, p. 24). ***Table 13*** in ***Annexure I*** provides a summary description of the guidelines and principles mentioned above.

2.4.2.2.3. Standards, certifications, assessment tools and rating systems

Various standards, certifications, assessment tools and rating systems have also been advancing over the years, perhaps the most prominent of which are the Global Reporting Initiative (GRI) Standards; the Sustainable Accounting Standards Board (SASB); the Impact Reporting and Investment Standards (IRIS) developed by the GIIN and the Global Impact Investing Rating System (GIIRS) developed by the non-profit B Lab which also manages B Impact Assessment (BIA). Examples of other assessment tools used by investors to assess impact are the CERISE-IDIA (Impact-Driven Investor Assessment) (CERISE, 2018); the IFC's Anticipated Impact Measurement and Monitoring (AIMM) system (IFC, 2017); KfW DEG's Development Effectiveness Rating system (DERa) (KFW DEG, 2017); and the CDC Development Impact Grid (CDC, 2018). ***Table 14*** in ***Annexure I*** provides a summary description of the standards, assessment tools and rating systems mentioned above.

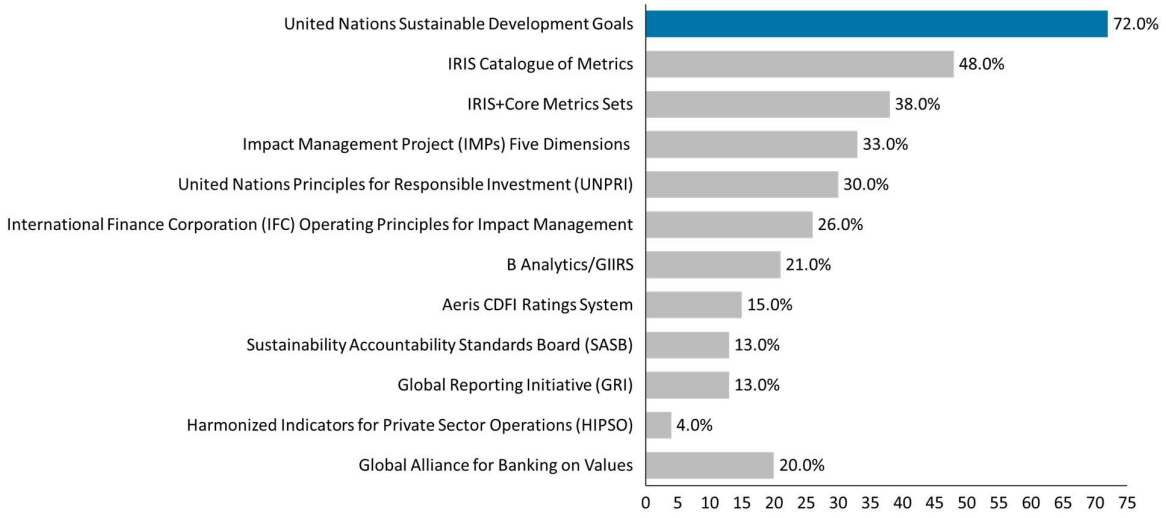
2.4.2.2.4. Key metrics

The impact investing field has also developed standardised metrics and indicators for assessing commonly measured criteria for the social or environmental performance of an enterprise. It is important to note that even though impact measurement metrics vary in use and effectiveness, there is a consensus regarding what is considered the most important criteria in selecting those metrics. According to the GIIN (2020), this includes the following six requirements; (i) reliability in that data needs to be *valid and indicative of actual impact*; (ii) utility in that the data should be *actionable and useful*; (iii) comparability; (iv) standardisation; (v) ease, such that collecting the information is be feasible; and (vi) precision to ensure that the data has a high degree of specificity (GIIN, 2020). The most widely used databases of metrics include the SDG indicators, SROI, which can be tailored to meet organisational needs, the Harmonized Indicators for Private Sector Operations (HIPSO), IRIS catalogue of metrics (Ebrahim & Rangan, 2014) and the Joint Impact Indicators (JII) created in 2020. ***Table 15*** in ***Annexure I*** provides a summary description of the indicators and/or metrics mentioned above.

The evidence suggests that most investors use more than one system or framework. A 2020 GIIN study revealed that the most commonly used are the United Nations Sustainable Development Goals (SDGs), followed by the IRIS Catalogue of Metrics and the IRIS+ Core Metric Sets.

Approximately a third of the study's participants utilise the Impact Management Project's Five Dimensions of Impact, whilst more than a quarter use Principles such as the UNPRI or IFC's Operating Principles for Investment. Other tools used are said to be specific to and are largely "applied by certain types of investors such as the Aeris CDFI ratings system for CDFIs or the HIPSO used by DFIs" (GIIN, 2020, p. 9). ***Figure 16*** below provides a summary analysis of commonly used tools and frameworks for impact measurement in order of preference sourced from the GIIN's Annual Impact Investor Survey.

Figure 16: Commonly used tools and frameworks for impact measurement

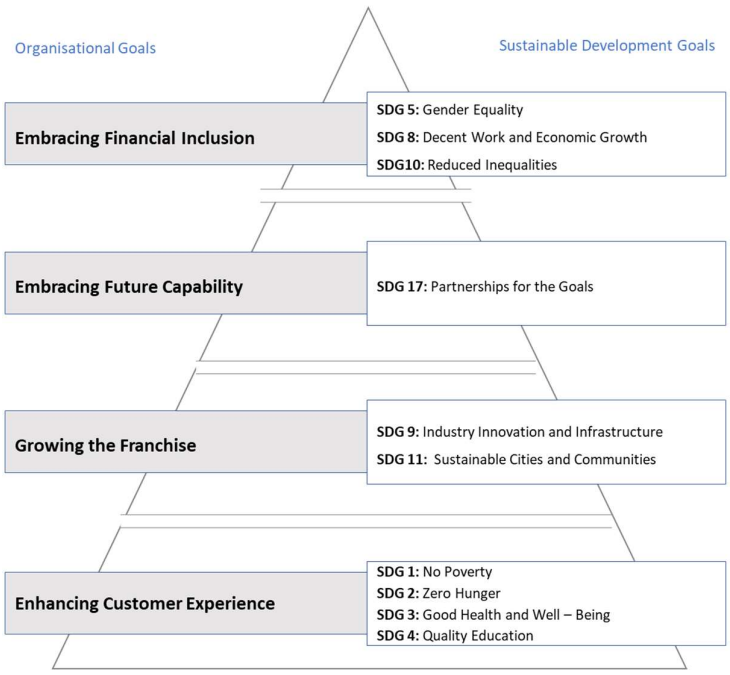


Source(s): GIIN (2020);

2.4.2.3. Integrated impact measurement

What is becoming common practice in impact measurement is the integration of both customised and standardised approaches to facilitate more accurate, comparable, and effective impact evaluation and reporting. For example, in Botswana, Letshego has clearly defined the organisation's impact goals in its impact report and in doing so, has linked them to its mandate and specific organisational goals. The micro-lender has also aligned these impact objectives to 10 SDGs detailing key interventions aligned metrics and desired outcomes. Letshego's impact goals and objectives, as articulated in the organisation's impact report is depicted in ***figure 17*** below.

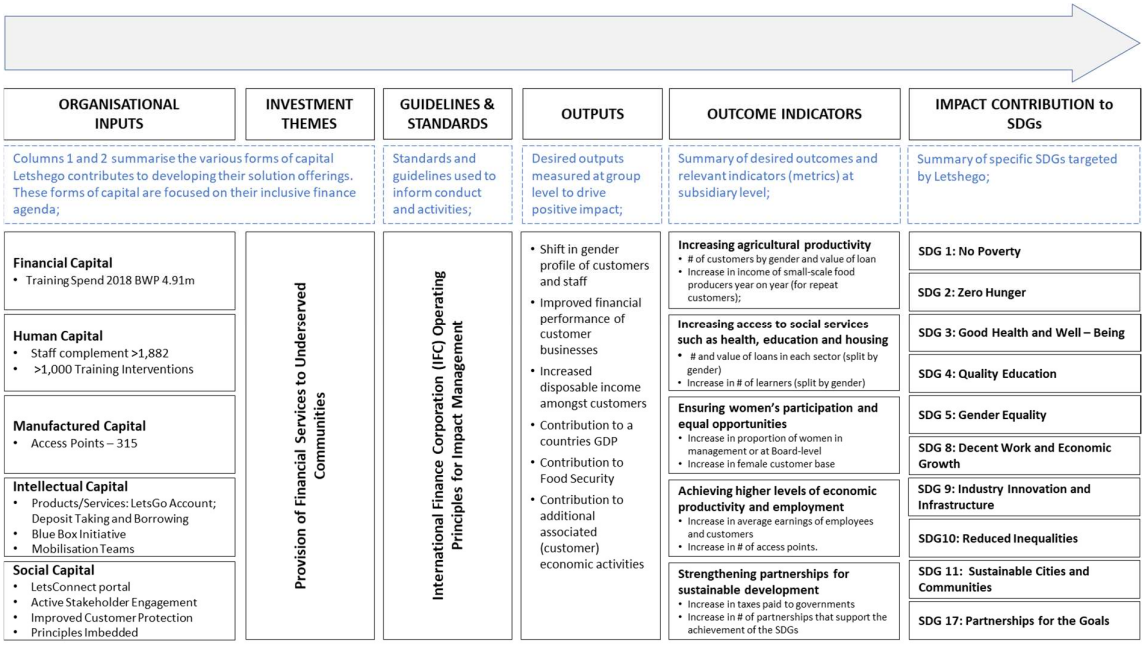
Figure 17: Letshego impact goals and objectives



Source(s): Letshego Impact Report (2019)

The same organisation has also developed a customised measurement framework in the form of theory of change models such as the one depicted below to better communicate and contextualise how it creates and measures value (Letshego, 2019). ***Figure 18*** below illustrates Letshego's impact value chain and/or theory of change model as highlighted in various organisational reports.

Figure 18: Letshego impact model/value chain



Source(s): Letshego Impact Report (2019)

2.6 Empirical Evidence

2.6.1 Motivation for and decision-making criteria of impact investments

Impact investors are said to fall into one of two categories in practice, depending on their motivation and desired outcomes which ultimately, determines where, what, and how, they choose to invest for impact (Brest & Born, 2013). These investors are said to be either *impact-neutral* or *impact-motivated*. The impact-neutral investor makes investment decisions based solely on expected financial return which implies that they tend to be more profit driven, and as such are aligned to the views of the rational decision theorists. Financial performance is an important consideration for these types of investors. The impact-motivated investor on the other hand is driven by other factors beyond monetary incentives, often influenced by a psychological, cognitive, social, moral, ethical, or other, predisposition. These investors are usually more inclined to being mission, values, or impact driven (Hartzmark & Sussman, 2018). Other researchers have found that politics, image and/or reputation can also be key factors motivating investors to behave pro-socially (Ariely, Bracha , & Meier, 2009).

Impact-motivated investors are further categorised into two groups, *non-concessionary,* and *concessionary* investors. Non-concessionary investors are those that are unwilling to forego financial returns to fulfil specific social or environmental objectives implying that the interests of socially motivated and financially motivated investors can be aligned within the same investment deal (Davies, Chowdhry, & Waters, 2013). Whereas concessionary investors are said to be willing to make some financial sacrifice by taking greater risks or accepting lower returns to achieve their social or environmental goals (Brest & Born, 2013). They are willing to forgo a portion of their financial returns for the increased utility provided by investments which align with their pro-social preferences (PRI, 2018). For example, the results of Barber, Morse, & Yasuda's (2019) study suggest that some investors derive "nonpecuniary utility from investing in dual-objective funds and are thus willing to sacrifice financial returns" (Barber, Morse, & Yasuda, 2019, p. 4). However, this willingness to pay is largely dependent on who controls the capital. For instance, mission-driven investors or those facing political or social pressures are often the ones willing to accept below-market returns on their investments. A study by Webley, Lewis, & Mackenzie (2001) found that "ethical investors generally kept ethical investments even if they performed badly or were ethically ineffective" (Webley, Lewis, & Mackenzie, 2001, p. 23).

2.6.2 Performance of Impact Investments

The literature suggests that there currently exists at least three different schools of thought regarding the performance of impact investments and the importance that should be placed on financial considerations when making the decision to invest. Theoretically, the first view which is largely premised on traditional investment theories such as the EMH, CAPM and MPT infers that impact cannot provide market returns, thus implying that impact investing typically results in a trade-off between impact and risk-adjusted financial returns. According to the EMH, because the universe of equities used in sustainable funds is often smaller, implying lower diversification, these funds are usually expected to exhibit lower financial returns and be of higher risk. This perception is based on the earlier interpretations of impact investing which used negative screening. The second view suggests that those once widely held views about impact investing have proven to be a misconception, suggesting that one need not forego financial returns in pursuit of social or environmental returns. The third view has produced mixed results with regards to the trade-off between financial return and social impact in so far as impact investing is concerned.

Empirically, various studies have found multiple conclusions regarding the relationship between impact and financial performance, and the need to prioritise the latter when making impact investment decisions. Some studies have found a negative relationship (Jensen, 2002; Lewis, 2001; McWilliams and Siegel, 1997; Rothchild, 1996; Aupperle, Carroll, and Hatfield 1985; Ullmann 1985; Friedman, 1970) inferring that one cannot generate both financial and social or environmental returns. Others have found a positive correlation (Morgan Stanley, 2021; Hale 2021; Friede, Busch, & Bassen, 2015; Clark, Fiener, & Viehs, 2015; Goyal & Aggarwal, 2014; Grabenwarter & Liechtenstein, 2011). Whereas others have produced mixed results (NYU, Stem Center for Sustainable Business & Rockefeller Asset Management, 2020; Mercer, 2009) or found no statistical evidence of any type of correlation (Blankenberg & Gottschalk, 2018; Du, Thomas, & Zvingelis, 2014).

Earlier studies have largely been in support of the first view that intimates that for portfolio efficiency and maximisation, only financial considerations should govern investment decisions and that a negative relationship exists between financial returns and social and environmental returns (Lewis, 2001; Cullis, Lewis & Winnett, 1992). The empirical findings of several studies have supported the view that sustainable funds should on average underperform the market. A study by Statman, Fisher, and Anginer (2008) found that companies that were rated higher in CSR demonstrated relatively poorer share performance. In their study, Barber, Morse, & Yasuda (2020) found that on average impact investors earn a lower internal rate of return (IRR) than their

commercial counterparts. A recent study by Bernal, Hudon, & Ledru (2021) found that in general, between 2009 and 2018, impact firms had lower risk-adjusted returns compared to mainstream markets. Research conducted by Jones, et al (2007) found that in Australia ethical funds significantly underperform the market in Australia. A study by McWilliams & Siegel (1997) asserts that because a negative relationship exists between financial returns and social and environmental returns, for purposes of profit maximisation, financial considerations should be the only ones that govern investment decisions.

Some of the more recent studies which are predominantly based on management theory and behavioural finance theory have been able to show that the business case for investing in sustainable investments is empirically well founded (Friede, Busch, & Bassen, 2015). The results of which imply that; (i) investment decisions are not solely influenced by financial considerations; and (ii) that a positive correlation may exist between financial returns and impact. These findings suggest that investors do not always have to forego the former for the latter, nor do they have to pay more to align their investments with their values (Morgan Stanley Institute for Sustainable Investing, 2021; Hale, 2021; Khajenouri & Schmidt, 2021). Research conducted by Werther & Chadler (2005), Peloza (2006), Jo & Harjoto (2011) as well as Hawn, Chatterji & Mitchell (2011) was able to prove that by fulfilling CSR objectives, organisations could positively influence perceptions about their reputation, image, and brand, and thus attract more customers or funding. Khajenouri & Schmidt, (2021) found that market rates of return are in fact achievable over the long-term in impact investing (Khajenouri & Schmidt, 2021). What is more, further studies have found evidence of *better* returns and reduced risk for socially responsible investments (Ortas, Burritt & Moneva, 2013; Goyal & Aggarwal, 2014; Sudha, 2015; Fatemi, Glaum & Kaiser, 2017). More recently, two studies by the Morgan Stanley Institute of Sustainable Investing, have been able to provide strong statistical evidence that during a period of extreme volatility and recession, ESG portfolios tend to demonstrate lower downside risk and generally perform better than non-ESG portfolios (Morgan Stanley Institute for Sustainable Investing, 2021; 2019).

Other studies have produced mixed results in this regard or have not been able to find significant statistical differences in performance and/or correlation. McWilliams and Siegel's (2000) study found that CSR has a *neutral impact* on financial performance. A 2020 NYU study produced mixed results on the relationship between ESG and financial performance, generally finding a positive correlation in 58% of the studies, neutral impact and mixed results in some and a negative relationship in only 8% (NYU Stern Center for Sustainable Business & Rockefeller Asset Management, 2020). Some studies have found that a variety of factors such as sector or geographic

orientation, manager skill and investment style are integral to how ESG factors translate into investment performance (Mercer, 2009). For example, Duong (2015) has been able to show that sector specialisation within impact investing could lead to better social and financial outcomes because sector-specific funds are more productive and profitable. Conversely, others have found evidence to suggest that sector specialisation limits diversification in investment portfolios thereby increasing risks and decreasing profits (Rajan, Koserwal, & Keerthana, 2014).

Table 10 below summarises key findings from empirical studies about impact aligned investments, the review of which indicates that whilst the appears to be a growing list of practitioner reports (UNDP, 2015; GIIN, 2020) and qualitative studies that focuses on emerging and developing markets, there still appears to be a shortage of descriptive, correlational, causal-comparative or experimental research with a specific emphasis on Africa as a region. Nevertheless key points of consensus amongst the literature are as follows. Impact investors are motivated by the desire to generate both financial and non-financial returns and one need not forego one in pursuit of the other. The performance of impact investments is dependent on a many number of factors, including but not limited to environmental, investor, investee and manager specific characteristics.

Table 7: Summary of empirical studies

Year	Author(s)	Period of Study	Objectives, Data and Methodology	Geographic Focus	Key Findings and Conclusion
2021	Morgan Stanley Institute for Sustainable Investing,	2020	Analysed the performance of 3,000 mutual funds and exchange traded funds (ETFs) comprising of both sustainable equity funds and non-ESG peer funds	U.S A	A **positive association** exists between financial and social returns
2021	Hale	1971 – 2017	Rated the sustainability of 20,000 mutual funds and ETFs based on ESG scores and controversies	U.S A	A **positive association** exists between financial and social returns
2021	Khajenouri & Schmidt	2013 – 2020	Analysed annual performance data of daily closing prices, returns, standard deviations, and Sharpe ratio characteristics.	U.S.A, Europe and Emerging Markets	A **positive association** exists between financial and social returns
2020	Cole, Melcky, Molders, & Reed	1961 – 2018	Analysed performance trends of 2,509 equity investment made by the World Bank	130 Emerging Markets and Developing Countries	A **positive association** exists between financial and social returns in countries with less developed banking systems and capital controls as well as in larger economies.
2020	NYU Stern Center for Sustainable Business and Rockefeller Asset Management	2015 – 2020	Meta-data analysis of annual corporate performance and investment performance data from aggregating 1,000 plus studies	U.S.A, Europe and Emerging Markets	**Mixed views** regarding association, trade-off and performance
2019	Barber, Morse, & Yasuda,	1995 – 2014	Using regression analysis, the study analysed annual performance data (e.g Internal Rate of Return (IRR) from a sample of 4,500 traditional VC funds and 159 impact funds	North America, Developed Markets (e.g Europe and Asia Pacific) and Emerging Markets (Africa, Latin America, Asia Pacific)	A **negative association** exists between financial and social returns, however investors still derive utility from non-pecuniary returns
2019	Morgan Stanley Institute for Sustainable Investing,	2004 – 2018	Comparative analysis of the return and risk performance of 11,000 ESG-focused mutual funds and ETFs, against traditional counterparts	U.S.A	**No statistical evidence** of a siginificat difference in performance
2018	Blankenberg & Gottschalk	2002 – 2016	Analysed performance of, and risk adjusted competitiveness of sustainable portfolios	U.S.A	**No statistical evidence** of a siginificat difference in performance
2018	Nuveen TIAA Investments	2008 – 2018	Analysed returns of five widely known U.S. equity RI indexes with track records of at least 10 years	U.S.A	**No statistical evidence** of a siginificat difference in performance
2015	GIIN and Cambridge Associates,	1998 – 2010	Comparative performance analysis of 50 private investment social impact funds against 705 funds with no social impact objectives in the same industries, geographies and asset classes	Developed Markets (e.g North America, Europe) and Emerging Markets (Africa, Latin America, Middle East Asia Pacific)	**No statistical evidence** of a siginificat difference in performance

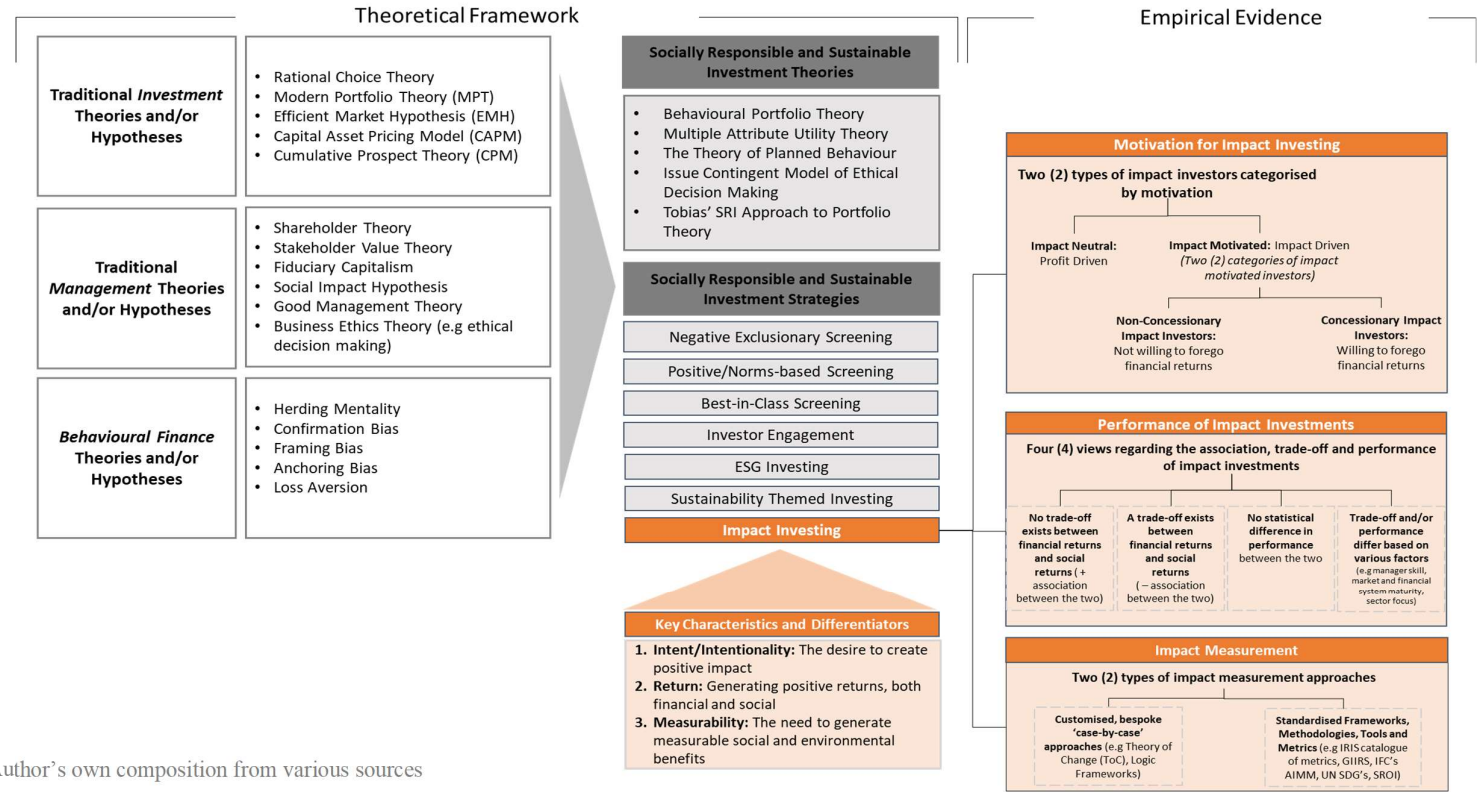
Year	Author(s)	Period of Study	Objectives, Data and Methodology	Geographic Focus	Key Findings and Conclusion
2014	Goyal & Aggarwal	2008 – 2014	Comparative performance analysis of ESG stocks against blue chip stocks using the Sharpe ratio, Treynor ratio, Jensen ratio and the CAPM,	India	A **positive association** exists between financial and social returns
2014	Du, Thomas, & Zvingelis, 2014	1999 - 2013	Analysed average (mean) performance and compared total and risk-adjusted returns at points of distribution away from the means	Not disclose	**No statistical evidence** of a siginificat difference in performance
2014	Ortas, Moneva, Burritt , & Tingey-Holyoak,	2008 - 2013	Conducted multivariate generalised autoregressive conditional heteroskedasticity (M-GARCH) analysis to test whether ESG screens provide ethical investors with adaptive resilience.	Spain	A **positive association** exists between financial and social returns
2014	Waworuntu, Wantah, & Rusmanto	2009 - 2011	Investigated whether the commitment of companies to their stakeholders has a relationship with better financial results and also to establish the extent and pattern of corporate disclosure in the top listed companies in the	ASEAN region	A **positive association** exists between financial and social returns however this varies depending on country and sector orientation
2014	Chava	1992 - 2007	Analysed the impact of a firm's environmental profile on its cost of equity and debt capital using implied cost of capital derived from analyst's earnings estimates	U.S.A	**Mixed views:** A positive association exists between financial and social returns, however this association is negative if/when investor adopts exclusionary screening because investors demand significantly higher expected returns on stocks excluded by environmental screens
2007	Jones, Van der Laan, Frost, & Loftus	1986 – 2005	Analysed performance data of SRI funds, specifically 89 ethical funds using a multi-factor CAPM model	Australia	A **negative association** exists between financial and social returns
2006	Brammer, Brooks, & Pavelin,	2002 - 2005	Examined the relationship between corporate social performance and stock returns by analysing a set of disaggregated social performance indicators for environment, employment and community activities	UK	A **negative association** exists between financial and social returns
2002	Otten, Bauer & Koedijk	1990 -2001	Reviewed and extended previous research on ethical mutual fund performance by applying a multi-factor Carhart (1997) model using an international database containing 103 ethical mutual fund	Germany, UK and U.SA	**No statistical evidence** of a siginificat difference in performance

Source: Author's own composition from various sources

2.7 Conceptual Framework

The illustration below ***(figure 19)*** is the author's own interpretation of an impact investing conceptual framework showing the evolution and amalgamation of various theories, elaborating on the three differentiating factors of impact investments and how these relate, namely intent, returns and measurability, further expounding on the classification of impact investments based on the motivation for and performance of said investments as well as elaborating on the different types of measurement approaches.

Figure 19: Impact investing conceptual framework



Source (s): Author's own composition from various sources

2.8 Summary and Conclusion

The theoretical literature about the definition, scope, determinants, performance, and evaluation of impact investments has produced mixed results and the existing empirical evidence is just as inconclusive. However, several trends have emerged from various studies. When referring to impact investment decision-making criteria, newly developed theoretical models suggest that monetary gains are no longer the only motive for investments. The research shows that impact investors with the dual objective of generation financial and social returns are influenced by other factors that extend beyond pecuniary benefits. The literature and empirical evidence on the performance and returns of impact investments remains fragmented as well, but it does indicate that whilst different attributes such as manager skills, sector orientation is likely to influence performance. Generating social returns need not come at the expense of financial returns.

With regards to the quantification of impact investments, while the methodologies for measuring an investment's financial performance are already well established, the sector seems to lack widely agreed upon approaches and standards for measuring and reporting on social and environmental outcomes, these continue to evolve. Firstly, the need for and the difficulties created by trying to both standardised and customised impact measurement has made it difficult for investors to compare the social impact of an investment portfolio or evaluate how one social investment performs relative to another. The way in which each one of these principles are applied is expected to vary by type of investor, sectoral focus, and many other factors (McCreless & Trelstad 2012). Moreover, it is important to note though that there continues to be observable tensions between an organisation wishing to tailor its measurement to its own situation, and the constraints imposed by a standardised framework. Despite the opportunities presented by standardised frameworks and methodologies, and the adoption of metrics and standards using IRIS and GIIRS, quantifying and measuring social impact remains somewhat of a *quixotic pursuit*.

The preliminary review of the literature suggests that the impact investment sector in Botswana is small, relatively informal, but emerging. In 2015 the market was dominated by DFI's, a trend that has been observed in recent years. Preferred sectors for impact investors include financial services, agriculture, education, and infrastructure. The importance of this study lies in its extension and contextualisation of the existing research by critically assessing, summarising, and unifying the discussion on the evolution, the importance, the scope, nature, and types, of impact investments in the Botswana context. In doing so, researchers will be able to re-think and explore new insights on the risk–return–impact relationship and the evaluation thereof, some of which might have been irrelevant in previous studies or ignored in the available literature. This is important because a

good understanding of the nature and extent to which numerous variables and conditions influence impact investment decisions and performance will ensure that researchers and policy makers alike are better positioned to draw valid conclusions and make informed predictions about the consequences of different practices and policies.

Chapter 3
Methodology

3.0 Introduction

The introduction articulates the purpose and structure of this chapter which is organised into five sections. The first describes the research approach and methodological basis of the study whilst the second highlights the research design, method employed and the rationale for the methods used, including a description of the population, sampling procedure and sample size, the data collection instruments as well as the analytical frameworks used to satisfy the objectives of this study. The third section details key assumptions and limitations, the fourth provides a justification with regards to the trustworthiness of the research approach which is then followed by a description of ethical considerations in the last section.

3.1 Research Approach

This study explores and defines the ways in which impact investments have and can create value beyond private profit within Botswana from a supply-side perspective. A key objective is to evaluate the market characteristics, key determinants, and trends of impact investments in practice, especially in how these differ from traditional investments. The choice of research approach is determined by the research questions which, in this study, are exploratory and descriptive in nature, focusing on the '*what'* and the '*how'* of impact investments. Because this study is theory building and not theory testing, a qualitative research approach is more appropriate than a quantitative approach. Qualitative research as Polit & Beck (2004) explain, emphasises the dynamic, holistic, and individual aspects of the human experience, within the context of those experiencing them. Since qualitative research involves collecting and analysing non-numerical data to understand concepts, opinions, and experiences, it can be used to; (i) gather insights into a problem, a new phenomenon or generate new ideas for research (Jonker & Pennink, 2010); (ii) define relationships, linkages, patterns or themes for the purpose of theorising across different constructs and perspectives (Creswell, 2014); as well as ,(iii) elucidate and extend the breadth and range of enquiry through cross-case comparison and analysis thereby enhancing the credibility and usefulness of findings (Polit & Beck, 2004).

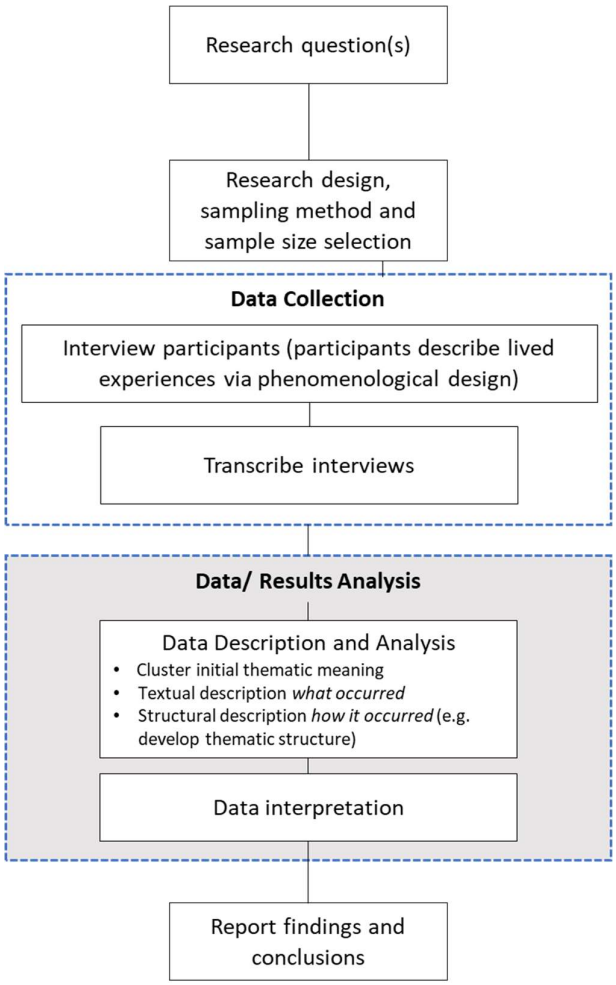
3.2 Research Design

Research design is the "plan, structures and/or blueprint within which a study is conducted" (Burns & Grove, 2001, p. 223). Research studies often take one of three forms: exploratory, descriptive, and explanatory. The first two are more prevalent in qualitative studies whereas the last two are

more frequently used in quantitative studies. This is a descriptive qualitative study that adopts a phenomenological approach, one of five qualitative research designs that is frequently used when a researcher wants to describe an event, activity, or new phenomenon. Other common variants of qualitative research include ethnography, grounded theory, narrative, and case studies (Creswell, 2013).

Phenomenology, founded in the late 19th century by Edmund Husserl (1859 – 1938) is one of the most widely used approaches in qualitative research that requires a high degree of interaction between the study's participants and the researcher (ibid, 2013) to describe a phenomenon from a perspective free from hypothesis or preconceptions (Streubert & Carpenter, 1999). Emerging from philosophy, this approach integrates human interest into the study by employing an *interpretivist* approach to exploring how participants make sense of their *lived individual* experiences to develop a better understanding of a phenomenon (Creswell, 2013). Phenomenology is advantageous in that; (i) it allows the researcher an opportunity to better understand the actions, motivations, perceptions, and subjective experiences of participants without imposing their views on those individuals; (ii) it helps researchers compare variables and concepts to establish key areas of convergence and divergence and in so doing challenge assumptions (Patton, 2002); and (iii) it can be used to contribute to the development of new theories, changes in policies, or changes in responses (Creswell, 2013). However, this approach is limited in that results require interpretation without researcher bias, and it is often difficult to produce easily generalisable data. This research design is said to use a bottom-up approach to qualitative coding, and it is frequently used when little is known about the research topic being discussed; the researcher intends to use insights gained from their analysis to make sense of complex situations or make inferences; and/or there aren't many theories or models that can be used as a guide (Creswell, 2014). The choice of research approach and design for this study was informed by; (i) the nature and type of research questions asked; (ii) the overall objectives of the study; (iii) the type of information required and that which is likely to be available and accessible; as well as (iv) the need to use qualitative data to explore a new phenomenon in Botswana. ***Figure 20*** below demonstrates the typical phenomenology design framework used to conduct qualitative research.

Figure 20: Phenomenological research design framework



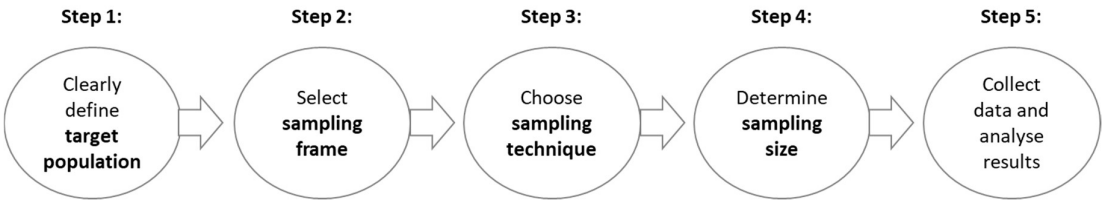
Source(s): Author's own composition from various sources

3.2.1. Population and sampling

3.2.1.1 Unit of analysis and sampling frame

The sampling process as illustrated in ***figure 21*** below normally follows six key steps, the details of which have been explained in the paragraphs that follow.

Figure 21: Sampling process steps



Source(s): Taherdoost (2020)

Clearly defining the target population is a first step in the sampling process (Taherdoost, 2020). Polit & Beck (2004) define population in research as the entire group that one intends to draw conclusions about which is then followed by the choice of the sampling frame and/or sample. A sampling frame which ought to always be representative of the target population is a list of the actual cases from which a sample will be drawn (Taherdoost, 2020). A sample is a subset of a target population selected to participate in a research study (Uys & Basson, 1991, p. 87). This is the group of individuals from whom the researcher collected data. ***Table 12*** below provides an illustrative example of some of the more commonly known actors in the impact investment ecosystem including suppliers of capital, receivers of capital and intermediaries (this list is not exhaustive). Using Botswana as a case study, we have limited the unit of analysis, population and sampling frame for this study to institutions operating as supply side actors within Botswana's financial services sector namely, institutional asset owners which in this study comprises of DFIs, pension funds and other diversified financial institutions; asset managers; and investment advisors. Whilst considered a critical stakeholder in the impact investment ecosystem, since this study's research questions place greater emphasis on establishing supply side trends, challenges, and/or opportunities, the researcher decided not to include impact investees, but instead focus on supply side actors and intermediaries, specifically impact investors and enabling actors.

Table 8: Examples of impact investment actors

Supply-side actors → Intermediaries → Demand-side actors

Impact Investors		Enabling Environment Actors	Impact Investees
Asset Owners	**Asset Managers**		
• High net worth individuals/families • Corporations • Foundations • Institutional investors (e.g. Diversified financial institutions, Pension funds) • Government agencies	• Investment managers • Investment advisors, consultants and/or banks • Impact investment funds • Venture capital funds • Private equity funds • Development finance institutions (DFIs) • Government agencies (or development agencies)	• Professional networks • Foundations developing the infrastructure of the sector (impact evaluation standards, information legislation, advocacy) • Consulting firms for business development and investment support • Accelerators and incubators • Government programmes • Research institutions	• Early stage entrepreneurs • SMEs/small and growing businesses • Social enterprises and non-profits • Microfinance institutions • Corporations • Project developers (e.g., water, energy, housing) • Community actors (associations, cooperatives etc.) • Sustainable agriculture initiatives • Health/education facilities

Source(s): Jackson and Associates (2019); Rockefeller Foundation Report: "Accelerating Impact Achievements, Challenges and What is Next in Building the Impact Investing Industry" (2012).

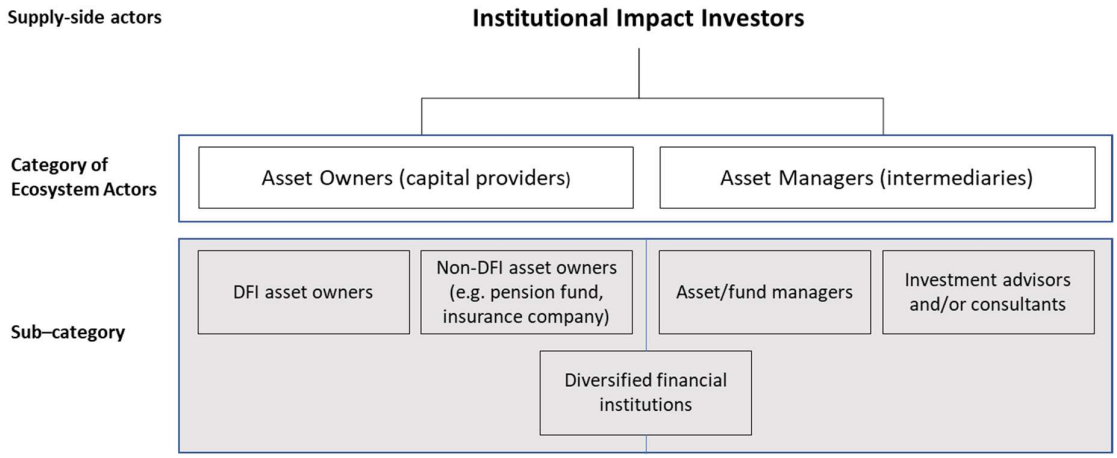
3.2.1.2 Sample selection procedure

Choosing a sampling technique is the third step in a sampling process of selecting a portion of the population that conforms to a designated set of specifications to be studied (Polit & Beck, Nursing Reseacrh: Principles and Methods, 2004). This study made use of purposive sampling which, whilst often used interchangeably with convenience sampling, is a different sampling method (Battaglia, 2008). Both methods are nonprobability sampling techniques, the former however, is used in qualitative studies whilst the latter can be used in both qualitative and quantitative studies. Purposive sampling has seven subtypes and is sometimes referred to by practitioners as *expert elicitation* that includes selective, deliberate, criterion-based, or judgement sampling because it relies on the judgement of the researcher to select the people, cases, events, or pieces of data to be studied, with characteristics defined for a purpose relevant to the study (Tongco, 2007). The researcher uses expert purposive sampling because it is one of the most cost-effective and time-efficient sampling methods available. It is also useful when there is a limited number of primary data sources, a lack of empirical evidence in an area, and higher levels of uncertainty, or if one may expect to a prolonged research period prior to uncovering findings (Polit & Beck, 2004). Expert purposive sampling, usually makes it easier to use a wide range of non-probability sampling techniques to make generalisations about a sample that is knowledgeable about the subject matter (Andrade, 2020). However, as this sampling method does not make use of a fully representative sample, it is susceptible to selection bias and error (Oppong, 2013).

3.2.1.3 Sample size

The sample size for a study depends on the choice of research design (Rao, 2012) which, for a phenomenological study in order to reach saturation, typically ranges from 10 to 15 (Tuckett, 2004). The sample size for our study as illustrated in ***figure 22*** below consists of 14 individuals who have been grouped into one of the following five sub-categories: diversified financial services institutions; investment advisors; asset managers; and institutional asset owners that have been classified into DFI or Non-DFI investors. The decision to focus on institutional investors is premised on the assumptions that; (i) these institutions compromise a wide array and breadth of skilled and experienced practitioners that are knowledgeable about the subject matter; (ii) these investors are relatively easier to access than retail and/or individual investors; and (ii) they tend to manage a larger portfolio of investments, whether it be impact or otherwise. Our sample size has

Figure 22: Sample size categorisation



Source(s): Author's own composition

3.2.3. Data sources, collection instrument and analytical framework

3.2.3.1 Data collection instrument

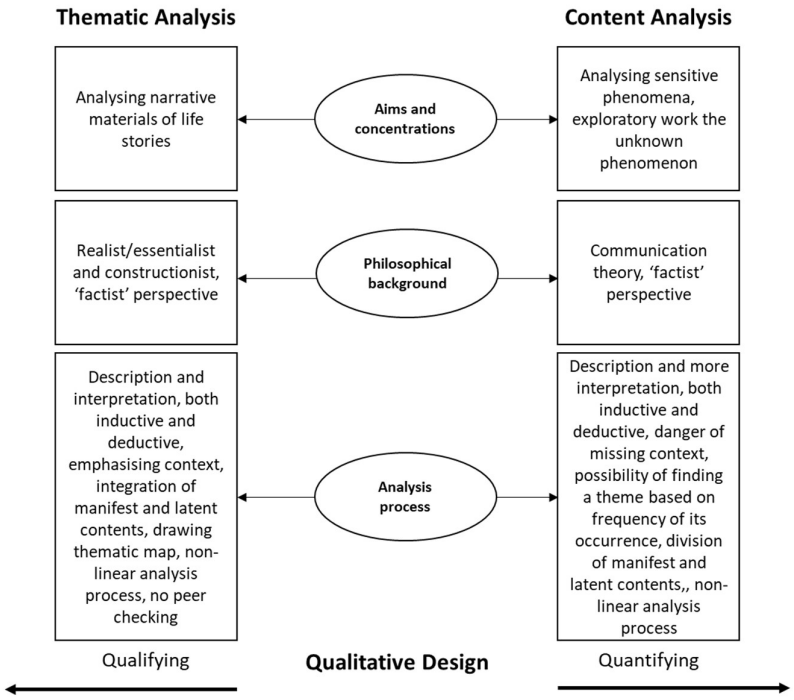
This study made use of primary data collected through semi-structured virtual interviews that combine structured questions with the unstructured exploration of new ideas as well as secondary data sourced from journals, articles, websites, organisational records such as annual reports and relevant government publications amongst others. Semi-structured interviews use a blend of closed and open-ended questions to collect data (Creswell, 2014). The structured component of these interviews, which comprises a list of predefined categories and/or questions makes some of the data easier to analyse and compare than unstructured interviews (Creswell, 2013). Additionally, the unstructured component of these interviews allows for greater flexibility in responses and more in-depth analysis of participant's views than structured interviews. The decision to use primary data is based on the need to ensure that the findings are relevant, and that the researcher can make conclusions based on data that is specific to the research questions and objectives of this study. Equally, using secondary data gives one greater access to a wider variety and breadth of data that would not otherwise be readily easily at a relatively cheaper cost, to help create a pre-established degree of validity and reliability (ibid, 2013)

3.2.3.2 Analytical framework: Thematic and content analysis

Whilst qualitative analysis techniques share similar processes, these vary in complexity, and they emphasise different concepts. Commonly used qualitative analysis techniques include thematic, content, narrative, interpretative, phenomenological, Grounded Theory, and discourse analysis (ibid, 2013). Thematic analysis and content analysis are two of the most widely used approaches.

Thematic analysis is preferred because it is accessible, theoretically flexible, and is a simple approach to "identifying, analysing, and interpreting patterns of data or themes" (Braun & Clarke, 2006, p. 4). However, King (2004) and Braun and Clarke (2006) argue that since it has limited interpretative power, can lead to inconsistencies in interpretation, and lacks clear and concise guidelines on how to develop themes from data, it may not be the most suitable technique. Content analysis is favoured because it is a systematic and objective approach to describing phenomenon in a conceptual form, it can be used to quantify qualitative data (Elo & Kyngas, 2008) and it is "suitable for the simple reporting of common issues mentioned in data" (Vaismoradi, Turunen, & Bondas, 2013, p. 400). To better manage key constraints within each, the data in this study has been analysed using both thematic and conceptual content analysis where possible, the latter of which is referred to as the frequency analysis of qualitative data. ***Figure 23*** below provides a summarised list of the differentiating characteristics of thematic and content analysis.

Figure 23: Main characteristics of thematic and content analysis



Source: Bondas, Turunen, & Vaismoradi, (2013)

Thematic analysis follows a six-step analytical process of first familiarising oneself with the data; generating initial codes; searching for themes; reviewing these themes; defining and naming them and then lastly interpreting and producing the report whereas according to Elo and Kyngas (2008) content analysis follows a three-phase process of first preparing the date, organising the data which can be either inductive and/or deductive, and then reporting on both the analysis process and the

result. ***Table 16*** in ***Annexure II*** of this study provides a detailed description of the steps required to conduct both thematic and content analysis.

3.3 Assumptions and Limitations

This section outlines specific assumptions and limitations of the study.

3.3.1 Assumptions

The study is based on the following key assumptions:

i. Suppliers of capital also known as 'impact investors' in Botswana consist of both asset managers and asset owners.
ii. Asset managers comprises of investment and/or fund managers; investment banks, advisors and/or consultants as well as venture capital and/or private equity funds amongst others.
iii. Asset owners include the following, amongst others, retail investors such as high net worth individuals, corporations, foundations, institutional investors, and government agencies.
iv. Public and private institutional impact investors can be categorised into two groups, development finance institutions (DFIs) and Non-DFI investors, the latter of which includes insurance companies, pension funds, and other diversified financial institutions that have a stake and/or participate in various parts of the financial services value chain.
v. The interviewees selected to participate in this study have sufficient experience and are knowledgeable enough about the subject matter to appropriately discuss impact investments to help the researcher draw relevant conclusions about the study.
vi. The impact investment market in Botswana is small and not strictly regulated, thereby implying that (i) detailed information about impact investments, particularly the number and types of transactions, the size of the market, and the performance of that sector, is likely to be limited and not readily accessible; (ii) impact evaluation and results measurement may not follow a prescribed approach, standard and/or system.

3.3.2 Limitations

The research has been carried out with the understanding and expectation that several limitations exist which are unlikely to be resolved in this study. Firstly, qualitative research approaches are diverse, complex, and nuanced. Data collection and analysis is time consuming, and usually dependent on interpretation, thus making qualitative studies highly susceptible to the researcher's personal predisposition(s) and idiosyncrasies. Other limitations of qualitative research are that it

is difficult to analyse, test causality, as well as make qualitative predictions (Strauss & Cobin, 1990) thereby limiting the reliability of qualitative studies.

Secondly, this study made use of purposive and snowball sampling. Unfortunately, non-probability sampling, irrespective of the type, can be highly prone to selection and researcher bias especially when compared with probability sampling techniques (Etikan, Alkassim, & Musa, 2016; Oppong, 2013). Thirdly, this study makes use of primary data which whilst often considered more reliable because of its targeted nature, has its own set of limitations. Due to complexities encountered when collecting primary data, it is often more difficult to access, more expensive and more time consuming to collect, than secondary data, making it a lot less feasible to collect as planned. Because this research relied largely on primary sources, there were constraints experienced regarding the availability, accessibility, validity, and reliability of data used, particularly those related to the interviewee's level of understanding and/or perceptions. Moreover, the use of secondary data makes the study highly susceptible to unknown biases thus suggesting potential difficulties with ensuring validity and reliability.

Additionally, the instruments and tools used to collect the data for this research are not devoid of challenges. This study used semi-structured interviews which are challenged in that they produce responses that can be difficult to standardise, especially in comparison structured interviews, often limiting the validity and reliability of results because of the subjective nature of respondents and interviewer bias. Semi-structured interviews also provide less anonymity for participants, are more time consuming, and are more costly to conduct than structured interviews.

Lastly, whilst the analytical frameworks used in this study are simple, inexpensive, and with a particular reference to conceptual analysis may make it possible for text to be statistically analysed, it can be inherently reductive (Elo & Kyngas, 2008) and because of the nature of its subjectivity, it may produce findings that are prone to a wide range of interpretation.

3.4 Trustworthiness

For a study to be considered worthy of consideration by other readers, a researcher needs to be able to establish protocols and procedures to provide reasonable assurance with regards to the validity, reliability, objectivity and generalisability of their findings, particularly if they are to be utilised in practice (Amankwaa, 2016). Validity and reliability of qualitative studies is established through trustworthiness (Golafshani, 2003). Trustworthiness refers to the degree of confidence in data, interpretation, and methods used to ensure the quality of a study (Polit & Beck, Nursing Reseacrh: Principles and Methods, 2004). Even though there have been numerous deliberations in

the literature as to what constitutes trustworthiness (Leung, 2015), the naturalistic criteria outlined by Lincoln & Guba (1985) remains the most widely accepted framework for qualitative studies (Creswell, 2013). In establishing trustworthiness, Lincoln, and Guba created stringent evaluative criteria in qualitative research, referred to as 'the Four-Dimensions Criteria (FDC)' to assess credibility, confirmability, dependability, and transferability of data used.

Credibility refers to the trustworthiness of the researcher's findings and "it is demonstrated when participants recognise the reported research findings as their own experiences" (Streubert & Carpenter, 1999, p. 330). Issues of credibility can be addressed through various interventions, including but not limited to member checking, prolonged engagement, persistent observation, triangulation, peer debriefing, referential adequacy, and negative case analysis (Lincoln & Guba, 1985) some of which were adopted in this study. Specific measures that were undertaken in this study include triangulation by using both primary and secondary sources of data; making sure that all participants are asked the same questions; referential adequacy by tape-recording and transcribing each interview and/or keeping a documented record of results.

Confirmability which refers to the objectivity or neutrality of the data, "seeks to establish whether the findings of a study can be linked to the data obtained" (Krefting, 1991, p. 221). Dependability on the other hand, which seeks to determine whether a process is auditable refers to the consistency and reliability of research findings (Polit & Hungler, 1995, p. 255). In ensuring both confirmability and dependability the researcher analysed the data such that material relevant to the study is made available and accessible to the supervisor, for the purpose of conducting an audit trail. The researcher documented and provided detailed descriptions of the methodological process, data and frameworks used, themes, categories and any notes on decisions made and/or reflective thoughts throughout the research process. This is done to meet Lincoln & Guba's (1985) principle of providing some guarantee that the researcher's findings are in fact grounded in the data and not their subjective views and/or preferences, and that the processes followed are in line with the accepted standards of a particular research design.

Transferability refers to the "extent to which the findings can be applied in other contexts, or with other participants" (Polit & Hungler, 1995, p. 255). It is therefore not solely sufficient to observe behaviour and experience to enable ease of transfer (Lincoln & Guba, 1985; Krefting, 1991). In this study transferability was ensured by way of reporting on similar findings from other research studies as well as providing detailed descriptions of relevant information regarding the participants' background, and the research context.

3.5 Ethical Considerations

When designing and conducting research that involves data collected from primary sources, researchers are required to comply with the values and principles of ethical conduct, especially in so far as human intervention is concerned. Research ethics refers to a system of moral values that is concerned with the degree to which research procedures adhere to professional, legal, and sociological obligations to the study's participants (Polit & Beck, Nursing Reseacrh: Principles and Methods, 2004) . In this study, the researcher adhered to several ethical principles protecting the rights of institutions, people, and the scientific integrity of the study. These include but are not limited to the following: the right to confidentiality, privacy, and anonymity; the right to self-determination, informed consent, and voluntary participation; and the right to withdraw from the study.

3.5.1 Right to anonymity, confidentiality, and privacy

Upholding individuals' right to anonymity, confidentiality and privacy are key tenets of academic research (Folkman & Sales , 2000; Burns & Grove, 2001). Anonymity suggests that a participant's identity should be linked to their personal responses. According to Levine (1976) if a researcher is not able to guarantee anonymity, they then have a responsibility to at least maintain confidentiality and/or the privacy of participants. Confidentiality refers to how the researcher intends to manage, store, and protect data, both in its written and recorded form. Whereas "privacy refers to the freedom an individual has to determine the time, extent, and general circumstances under which private information is shared with or withheld from others" (Levine, 1976, p. 99). The researcher thus needs to be able to provide assurance that private information shared by the participants is not shared with others without authorisation. Confidentiality is guaranteed by ensuring that the data obtained is protected from, and guarded against, unauthorised access in such a way that no one other than the researcher and supervisor know the source (Kelman, 1977). At the beginning of each interview the researcher requested permission to tape and store an audio recording of the interview for subsequent analysis, which was clearly expressed as optional. The names of the participants in this study have not been used to identify the data. Data collected was stored safely in a computer in electronic format, and tapes were destroyed upon completion of the study in accordance with UCT GSB's policies.

3.5.2 Right to self-determination, informed consent, and voluntary participation

The right to autonomy, sometimes referred to as self-determination, is a key principle to adhere to when conducting research. In a qualitative study this principle is honoured by informed consent, a

concept that requires that the individual whose data is being collected is informed about the purpose of the research and consents to the use of their data for this purpose (Morse & Field 1998). According to Armiger (1997), informed consent means that a person knowingly, voluntarily, intelligently, and in a clear and manifest way, gives his consent (Holloway & Todres, 2003). This means that participants ought to be made aware of and fully understand what they are being asked to do, why they are being asked to do so, the voluntary nature of their participation, the possibility of withdrawing at any stage and any potential negative consequences that may arise from said participation. In this study, prior to their participation, interviewees were sent an information sheet and consent form requesting their participation in the study as well as explaining the voluntary nature of their participation, the objectives of this study and the processes taken to conduct the research. Each participant was required to give consent in either one of two formats, written consent or verbal consent depending on their preference and they were also informed of their right to withdraw from the study at any stage should they so wish without being prejudiced.

3.6 Summary and Conclusion

A descriptive qualitative study was conducted to determine the views of various institutional actors in the impact investment industry, specifically, impact investors, with a particular focus on better understanding the market characteristics, trends, opportunities, and challenges in the context of Botswana. Primary data was collected by means of an internet-mediated interview. The researcher used thematic analysis and conceptual content analysis to analyse and interpret key findings. This section was also used to demonstrate the trustworthiness of the research as well as describe significant ethical considerations. The research methodology is summarised and presented in ***Table 9*** below.

Table 9: Summary of research methodology

SUMMARY OF STRATEGIES USED IN THIS STUDY

Approach	**Descriptive qualitative study**
Design	**Phenomenological research design**
Population and Sample	Supply-side actors in Botswana's impact investment ecosystem, namely institutional impact investors and intermediaries across the categories and sub-categories listed below: **i. Asset Owners (e.g. Capital Providers)** • DFI Asset Owners • Non-DFI Asset Owners • Diversified financial institutions **ii. Asset Managers (e.g. Intermediaries)** • Asset/Fund Managers • Investment advisors and/or consultants

Sample Selection Procedure	Expert purposive sampling;
Sample Size	14 research participants;
Data Collection	Semi-structured interviews;
Data Analysis	The analytical framework comprised of both **thematic** and **content analysis** (where applicable). Key steps included the following: • Familiarising oneself with the data by transcribing data and deciding on the analysis of data • Generating initial codes; • Searching for themes; • Reviewing themes; • Defining and naming themes; • Ongoing analysis to refine specifics of each theme; • Generating categories and subcategories of themes; • Report results through themes or thematic maps, models, conceptual systems, a conceptual map or categories, and a storyline amongst others.
Trustworthiness	**Lincoln and Guba's (1985) Four-Dimensions Criteria (FDC)** which incorporated the following: **i. Credibility;** • Triangulation using both primary and secondary sources of data; • Ensuring that all participants are asked the same questions; • Referential adequacy by tape-recording and transcribing each interview and/or keeping a documented record of results. **ii. Confirmability and Dependability;** • Analysed the data such that material relevant to the study has been made available and accessible to the supervisor, for the purpose of conducting an audit trail; • Documented and provided detailed descriptions of the following: – Methodological process; – Data and analytical frameworks used; – Themes, categories and any notes on decisions made; and/or – Reflective thoughts throughout the research process. **iii. Transferability** • Reporting on similar findings from other research studies; • Providing detailed descriptions of relevant information regarding the participants' background, and the research context.
Ethical Considerations	In complying with the principles of ethical conduct required when using primary data, the researcher carried out the following activities: **i. Right to anonymity, confidentiality and privacy** • Participant's names have not been used to identify the data. • Data collected was stored safely in a computer in electronic format; and, • Tapes were destroyed upon completion of the study. **i. Right to self-determination, informed consent, and voluntary participation** • The objectives of this study were explained to participants • Consent was obtained in a verbal or written format prior to participation, and • Participants were also informed of their right to withdraw from the study at any stage without being prejudiced

Source(s): Author's own composition

Chapter 4
Discussion of Findings

4.0 Introduction

This chapter comprises an outline of the steps taken to conduct the study as well as the qualitative analysis, presentation, and interpretation, of key findings. The first section will provide an overview of the demographic profile of research participants. The second section is a discussion analysing key findings, arranged in accordance with the three research questions and objectives, and presented using text, quotes, tables, and figures. The data in this study was analysed using thematic analysis and then comparative and conceptual content analysis where relevant to help identify the frequency of key themes.

4.1 Demographic profile of participants

Primary data was collected in the form of internet-mediated interviews conducted with 14 individuals operating in the asset management industry in Botswana. These individuals were grouped into four categories based on the nature of their business; (i) a diversified financial services institution and/or bank; (ii) an investment advisor and/or consultant; (iii) an asset manager; and/or (iv) an asset owner, the latter category sub-divided into DFI and non-DFI asset owners. Our list of research participants comprised six females and eight males aged between 29 and 44 years of age, a majority of which (64%) fall within 26 – 35 age group. The demographic profile of research participants is summarised in the table below.

Table 10: Demographic Profile of Research Participants

Respondent	Category	Gender	Years of Experience
1	DFI asset owner	Male	11
2	Investment advisor or consultant	Female	10
3	Asset manager	Female	16+
4	Non-DFI asset owner	Male	9
5	Diversified financial services institution/ bank	Male	12
6	Asset manager	Male	15
7	Asset manager	Female	11
8	Investment advisor or consultant	Male	20+
9	Asset manager	Female	10
10	Asset manager	Male	11

Respondent	Category	Gender	Years of Experience
11	DFI asset owner	Male	15
12	Asset manager	Male	16+
13	DFI asset owner	Female	8
14	DFI asset owner	Female	10

Source(s): Author's own composition

Six of these individuals have been working for 11 – 15 years; five have been employed for at least six (6) years whereas the remaining three have been employed for at least 16 years. With regards to the nature of business of our participants, asset managers make up the largest share (6 out of 13 participants) of our sample. Four interviewees identify as DFI asset owners which accounts for the second largest share (28.57%). Two interviewees work as either an investment advisor or consultant; one is a Non-DFI asset owner; and one other individual is employed by an investment bank. These individuals hold different positions ranging from ESG Manager, Senior Associate, Senior Investments Officer, Asset or Portfolio Manager, Business Development Manager, Investment Principal, Chief Investment Officer and Director.

4.2 Market demographics, dynamics, and trends in Botswana

To get a better understanding of the key dimensions, demographics and structure of impact investing practice in Botswana, emerging themes from our analysis were identified as follows: ESG investing and/or integration – identified as the most commonly used sustainable and/or socially responsible strategy; growing investor awareness and appetite for impact investments however, the current stage of industry evolution is nascent, albeit growing; private capital – the preferred financial instrument and/or asset class; and investor objectives and themes are generally aligned to the UN's SDGs.

4.2.1. ESG investing and/or integration

In trying to get a view of the general appetite for impact investments in Botswana across the wide spectrum of responsible and sustainable investing strategies, participants were asked '*what they believe to be some of the most used approaches, strategies and/or products in Botswana'*.
According to five (5) interviewees, ESG investing and/or integration is the most used approach in this regard a finding of which was validated by comments from various interviewees:

> *"We try by all means, now more than ever to make sure that matters of an ESG nature are integrated into our investment process" – (Respondent 9)*

Another individual supported this view in saying *"We are seeing more and more impact investments being funded using ESG linked loans" – (Respondent 5)*

Whilst there appears to be widespread consensus regarding the preference for and overall understanding of ESG, other respondents had a conflicting view with regards to the development of Botswana's ESG investing sector.

"ESG investing in the Botswana market is still very much in the early stages of development. I think we have only two managers that offer said product, and their focus extends beyond our borders into the region" – (Respondent 1)

"Local investors understand what ESG considerations are but fail to implement the necessary structures in their portfolios or mandates to monitor and take effective action, instead as a precaution they wait for one of the larger investors in the market to take action before they do" - (Respondent 6)

Shareholder engagement and activism, positive screening and impact investing were each referenced as the second most used responsible investment strategies. Sustainability themed investing, negative screening and corporate social investing were the least mentioned approaches. Some of the comments made however are contradictory to the view that sustainability themed investing is one of the least utilised approaches. For instance, when asked to list some of the more well-known funds and products being offered locally many referenced climate-finance which seems to be almost as popular as ESG investing:

One respondent stated that *"BIFM offers the Global Sustainable Growth fund, which is an ESG focused offshore fund. Other retail funds, and mandates, across managers, I assume, would be managed with ESG considerations" – (Respondent 7)*

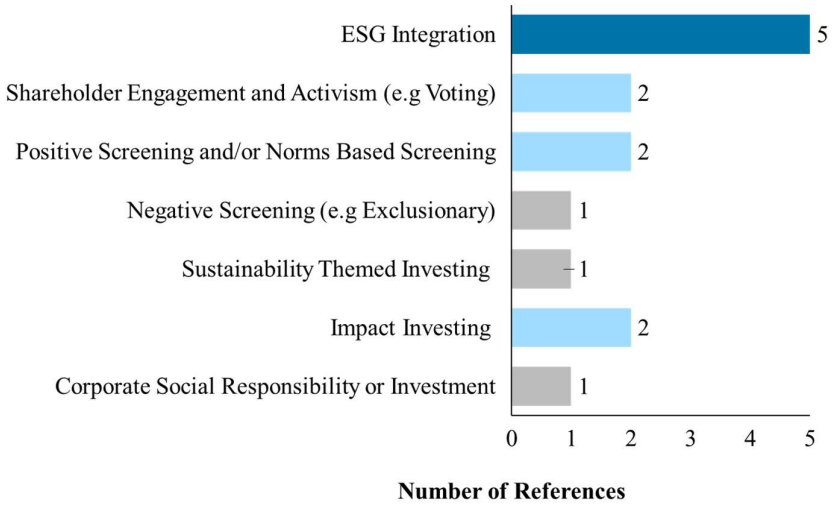
Another highlighted that: "*the market is witnessing an increase albeit steadily, in both the supply and demand for climate change impact funds. Additionally, asset managers are developing PE funds with a large emphasis on ESG investing" – (Respondent 13)*

One differed with most in saying: "*To be honest, there is no visible evidence in the Botswana context to support the notion that ESG investing, impact investing, and the likes, are being put into practice locally, the trend we are seeing instead is largely in CSR or CSI" – (Respondent 12)*

Nevertheless, these findings are aligned to our initial review of the market and the general trend we are observing in the region. For example, according to the Bertha Centre (2017), ESG integration was the leading strategy in east, west, and southern Africa in 2017 (Bertha Centre, 2017). More recently, a 2020 report by the Global Sustainable Investment Alliance (GSIA) found that globally, the most common sustainable investment strategy was ESG integration. Following ESG integration, respondents expressed a preference for negative screening, as the second most used sustainable investment approach, thereafter corporate engagement and shareholder activism, norms-based screening, and sustainability-themed investing (GSIA, 2020).

Figure 24 below summarises what participants believe to some of the most commonly used strategies for sustainable and socially responsible investing.

Figure 24: Commonly used strategies for sustainable and socially responsible investing



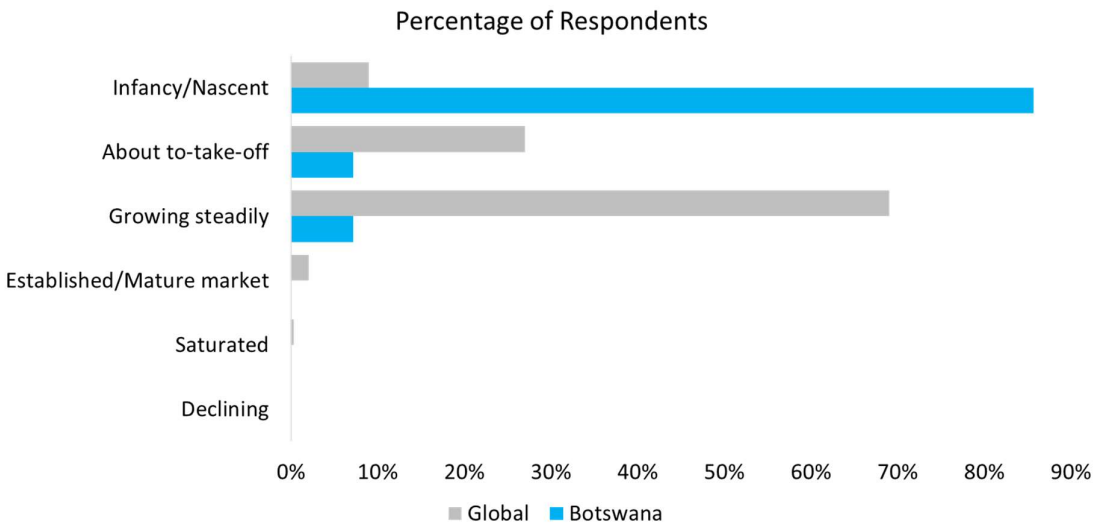
Source(s): Author's own composition

4.2.2. Investor appetite and stage of industry evolution

With regards to investor appetite and awareness, our findings reveal that most of the interviewees (10) believe that the general appetite seems to be growing. There is, however, a general lack of awareness regarding the concept, particularly standardisation, and consensus, about the definition of impact investing. According to most of our respondents, the impact investment industry in Botswana is in its infancy which further validates key findings from our preliminary literature review. The finding is different to the general trend observed globally as can be seen in ***figure* 25** below. A 2020 Annual Impact Investor Survey administered by the GIIN shows that most global respondents consider the impact investing market to be growing steadily (GIIN, 2020); almost a quarter believe it to be taking off; 9% perceive it to be in its infancy; whilst the remaining 2%

think of it as an established, mature market. This suggests that the Botswana market may be lagging, relative to its counterparts globally and regionally.

Figure 25: Comparing stages of industry evolution



Source(s): GIIN Annual Impact Survey (2020)

Albeit small and underdeveloped the market may still be perceived by some to be either 'taking off' or 'growing steadily'. In further elaborating on their views and the justification thereof, one respondent highlighted that:

> *"Although many investors often reference the desire to create positive social and/ or environmental impact, only very few organisations explicitly use the term impact investing to label their investment activities, thus implying that whilst the concept in itself is relatively new, the practice has existed long before there was a widely accepted term for the approach" – (Respondent 1)*

> One person expressed a different view: *"People are still very unclear about what impact investing really is, what it entails, and what it is meant to achieve. And until there is clarity and common understanding regarding the definition, scope, and objectives, of impact investing it is highly unlikely that we will witness significant growth in this space" – (Respondent 14)*

4.2.3. Preferred financial instruments and asset classes

Several trends were observed in the Botswana market, with regards to the financial instruments and assets classes that are used to finance impact. Whereas in the global context, impact investors

seem to prefer private equity (Höchstädter & Scheck, 2014; GIIN, 2020) in the local context. The most used asset class is said to be private debt because it is considered less risky than its counterpart. For example, two Botswana based DFIs, NDB and CEDA prefer to provide private debt to those that seek funding. And even though in 2003 CEDA introduced closed equity funding through their CEDA venture capital fund (CVCF) which had an initial capital injection of 200 million, was managed by Venture Partners Botswana and was meant to last until 2013, as of 2017 the DFI started to "divest from investments made under the CVCF, following an audit of the fund" (Mmegi Online, 2017, p. 4). According to the CEDA revised guidelines amended in June 2020, the DFI has restructured and reintroduced the VCF to make the funds accessible to citizens and non-citizens unlike its mainline and credit guarantee scheme (CEDA, 2022). Private equity and/or venture capital were cited as the second most used and/or preferred instrument. Another favoured instrument is thought to be quasi-equity or debt. Other commonly used asset classes include public equity and public debt/bonds, including sustainability or project-themed bonds such as social impact bonds and green bonds. Other interviewees found it difficult to specify because some of the larger investors, including pension funds such as the BPOPF, prefer to use a wide spectrum of asset classes.

4.2.4. Impact investor types

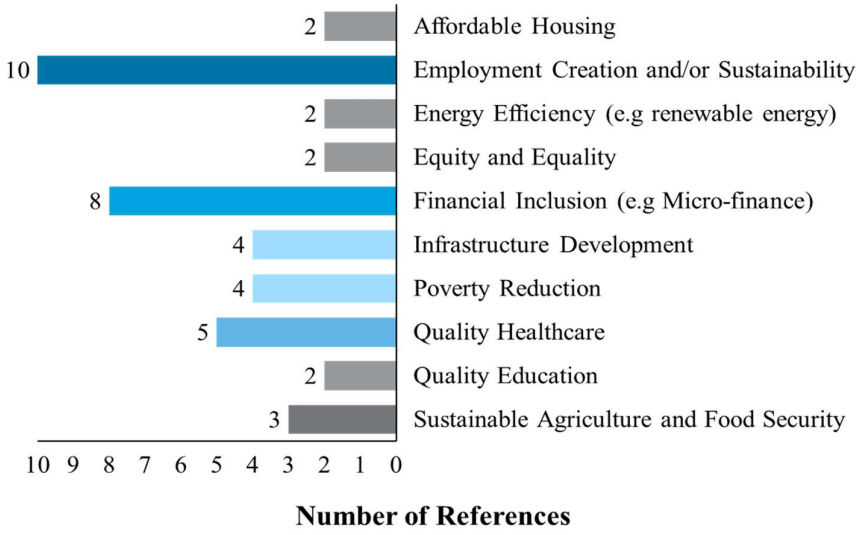
The 2015 study conducted by GIIN assessing the impact investment landscape in Botswana revealed that DFI's accounted for the highest number of projects and largest share of AUM (GIIN, 2016). For purposes of this study, when asked '*which investor, has made the biggest contribution towards impact investments in Botswana thus far?'* many cited DFI asset owners and other non-DFI institutional owners such as pension funds, a similar trend being observed regionally. Other active impact investors include government investors, diversified financial institutions and/or banks, such as Letshego. Only two respondents referred to high-net-worth individuals contributing towards impact investing.

4.2.5. Investor objectives, themes, and preferences

According to practitioner studies, impact investments are thought to have a broad range of environmental and social objectives (Höchstädter & Scheck, 2015) the most common of which seem to be aligned to the SDGs. Global studies suggest that investors typically prefer to invest with the following objectives in mind: energy efficiency, financial inclusion, food security, provision of quality healthcare and promoting equality. This is evidenced by the fact that globally, asset allocations seem to be targeted at a select number of sectors namely, energy (19.57%),

financial services (16.86%), microfinance (13.79%), WASH (9.986%), food and agriculture (8.498%), housing (6.48%), and healthcare (5.73%). The combined contribution of these account for a significant portion of total AUM in 2019 (GIIN, 2020). Our analysis suggests that employment creation appears to be *the* most common impact theme for investors in Botswana followed by financial inclusion, quality healthcare, infrastructure development, and poverty reduction. These results are not surprising seeing that despite Botswana's well documented overall economic growth over the years, with an unemployment rate of 24.8%, the country still suffers from extremely high rates of joblessness, especially for youth which at 34.4%, is exceedingly higher than the regional average (Statistics Botswana, 2021). ***Figure 26*** below, summaries what participants believe to be emerging impact themes in Botswana.

Figure 26: Common impact themes



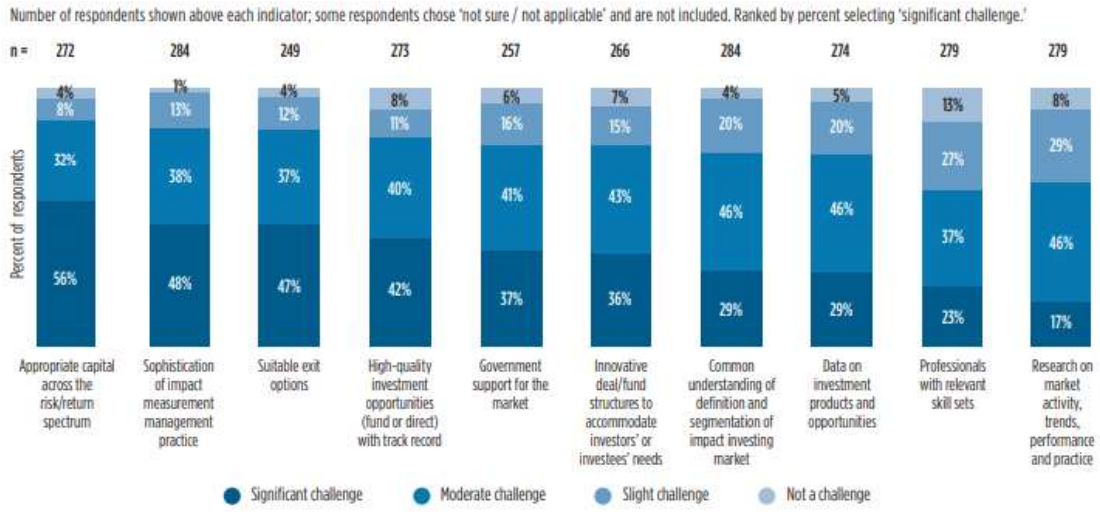
Source(s): Author's own composition

Further expanding on investor preferences in the Botswana market, when asked: '*Where in the organisational development lifecycle investors prefer to invest?'* many interviewees highlighted that impact financiers typically invest in investee companies that are at the growth stage of the venture development lifecycle. Others are said to prefer to invest in mature, private companies, whereas a select few would rather invest in mature, publicly traded, companies. This is not too dissimilar to general trends that have been observed at a regional and global level. According to an Africa Impact Report published in 2020, due to the high-risk nature of impact investments, most providers of capital prefer to invest in less risky, more established, projects with a traceable track record of performance to minimise downside risks (Lalu , Murulana , & Mathys, 2019). One such example is the current gap in infrastructure development funding we are witnessing on the continent due to lack of investor-willingness in early-stage funding.

4.2.6. Identified challenges and opportunities

Globally a number of studies have been conducted over the years exploring the trends, challenges and opportunities for impact investment in various markets to establish how best these investments can be used to complement growth. Case in point, ***figure 27*** below which depicts the results of a global impact survey (GIIN, 2020) references the following as some of the most significant challenges; having access to appropriate capital across the risk-return spectrum which was also referenced as a key constraint within Africa (UNDP, 2015); the sophistication of impact measurement management practice; as well as having access to suitable investment exit options and/or high-quality investment opportunities amongst others. Similar themes emerged from the analysis of this study which is expanded below.

Figure 27: Challenges in the global market



Source(s): GIIN Annual Impact Investor Survey (2020)

The analysis has revealed that in so far as impact investing is concerned, the Botswana market suffers from a number of challenges and missed opportunities, all of which limit the efficacy and development of the sector. Identified challenges emanating from the study include the following: lack of adequate information, infrastructure, and standardisation; an unstructured, poorly governed, and poorly coordinated regulatory framework; capital and capacity constraints; institutional and market barriers to impact investment; and a lack of innovative deals and fund structures the details of which have been expanded below:

4.2.6.1. Impact investment information

Research suggests that "impact investing needs to use evidence and data to drive intelligent investment decisions. And because impact investing comes with a specific intention that necessitates that investments be managed towards that intention" (Lalu , Murulana , & Mathys, 2019, p. 17) it requires putting in place structures and mechanisms to facilitate the transparent collection, review, and dissemination of data. The study has revealed that limited access to and the availability of relevant data is a key deterrent for investors in the Botswana market, one that has made it difficult to fully understand market activity, trends, performance, and practices. Because there is insufficient data on investment products and/or investable enterprises; and a shortage of high-quality investment ready deals and/or transactions with a track record to which investors can make decisions the market is fraught with missed opportunities.

4.2.6.2. Standardisation of impact management and measurement

Measuring, understanding, and improving the impact created by an investment, is central to impact investments (UNDP, 2015), unfortunately, in the Botswana context, the market is characterised as having a general lack of awareness and understanding of impact investing as a concept and investment practice. The definitional dimension of impact investing is considered one of the most significant barriers to impact investing. This lack of a standardised and commonly understood definition and classification of impact investments means that investors often experience great difficulty in identifying, funding, and accurately categorising or reporting on, impact investments. Given the current state of sector evolution, there is also a great deal of complexity in articulating some degree of standardisation for impact measurement and monitoring because of a lack of credible and consistent reporting on impact performance. Other markets have been able to address challenges related to standardisation of impact definitions, management, and measurement frameworks, by putting in place interventions meant to facilitate collaboration, multi-sector engagement, stakeholder education, and awareness.

One respondent suggested:

"Impact investing as a concept is still very new and unfamiliar to investors in Botswana and as such education both at a regulatory and investment level is required to create and enhance stakeholder awareness, understanding and collaboration" – (Respondent 12)

4.2.6.3. Unfavourable market dynamics

The analysis shows that many investors are also challenged by pre-existing market dynamics. For example, Botswana's financial sector, whilst considered robust, is still very small, which is often

associated with low levels of productivity and acute shortages in capacity or capability, thereby creating an unfavourable investment climate with very few local investment options. The country is also said to be plagued by prevailing institutional capacity constraints. Human capital as an example, reveals that there is a perceived shortage of specialised professionals with relevant skills. This implies that current practitioners may be limited in their ability and/or capacity to integrate impact management and financial management decisions, as well as demonstrate impact results. Issues of capacity can be addressed through training, adequate resourcing, and capacity building.

4.2.6.4. Institutional and regulatory framework

Other research participants cited the lack of an enabling institutional and regulatory framework for impact investments as a key constraint. It is thought by many respondents that Botswana's financial sector has a high incidence of informal structures and processes as well as widespread shortages and limitations in the governance, regulatory, and legal systems that manage Botswana's financial markets. Institutional investors are reluctant to invest in impact because of the high prevalence of informal structures and processes (e.g., lack of institutionalisation), regulatory restrictions, and rigid investment policies. One individual stated:

> *"Our environment lags in most aspects of governance frameworks. For example, we still utilise King III as a guide whereas most jurisdictions have moved to, and regulated, King IV. Appropriate frameworks thus need to be developed, including governance in regulations to ensure that there is sufficient guidance to facilitate compliance and that every company is held to the same standard of conduct"– (Respondent 7)*

> *"A great number of potential target companies are not institutionalised which has created an environment that is not conducive for investment or monitoring"– (Respondent 10)*

Other suggestions for improvement in this regard include:

> *"We need to put in place, a policy and regulatory environment that enables businesses to flourish and create viable sustainable social businesses. One example is to incorporate blended finance to reduce cost of capital in businesses by partnering with concessionary financiers or DFI's" – (Respondent 4)*

> *"Opportunities for improvement include setting up a regulatory body that understands the market and what the market does; engaging with BITC to re-profile industries, as well as being deliberate in trying to reorganise certain industries and government policies" – (Respondent 9)*

4.2.6.5. Capital constraints and deal structuring

Other constraints referred to monetary challenges pertaining to structuring the deal, sourcing, allocating, and managing capital. The general sentiment in most markets is that in trying to work in the best financial interests of their shareholder, institutional investors such as pension funds tend to be risk-averse and avoid small and risky investments (UNDP, 2015). This has resulted in a deficit of appropriate capital across the risk/return spectrum particularly for early-stage businesses.

> *"The focus for asset owners, particularly pension funds is on financial return and not 'impact', there is thus a need for these investors to clearly outline their intent in so far as impact is concerned as well as to allocate funds specifically for impact investing" – (Respondent 10)*

Others directly linked the issue to a fund manager's ability to raise capital. So, to be better positioned to support enterprises across the earlier stages of the financing value chain, investors would need to provide various types of financing (e.g., grants, seed capital) the establishment of which would require extensive resources to put in place necessary structures. Perceived costs associated with sourcing deals, making investments, exiting investments, as well as with impact measurement, reporting and evidencing were also highlighted as a hindrance to impact investing. For example, in comparison to other funds, impact funds or transactions that are not 'investment ready' often result in higher costs for due diligence and screening processes, which in turn results in higher operational costs thus making that investment less attractive to investors.

One research participant referred to the limited availability of innovative fund and deal structures as one of the challenges restricting growth, a similar problem of which was highlighted in a 2015 UNDP study of Africa years prior (UNDP, 2015). This is because being able to find investments that balance risk and return appropriately, and are structured in a manner that is not "disproportionally more costly or risky to the investor whilst still accommodating a wide range of investor preferences is thought to be a rarity" (UNDP, 2015, p. 6). This makes it important to incorporate impact considerations into deal structures because not all impact investments can conform to traditional investment terms as well as create tailored instruments that are designed to meet specific financial, strategic and impact objectives in that regard. In further elaborating, one interviewee stated:

> *"As far as I am aware only traditional asset classes are allowed in fund allocation limits, which limits the ability of asset managers to deploy that capital to impact investments.*

Additional capital can be made available by integrating and institutionalising impact to facilitate deal flows" – (Respondent 9).

4.3 Motivation for and decision-making criteria of impact investments

A wide variety of reasons motivate investors to make impact investments. The second section of our analysis endeavours to determine the motivation for, and decision-making criteria of, impact investments and in doing so, establish the significance of financial considerations to better understand investor motivation. The results from the analysis of this study are expanded on in the sections that follow. From the thematic content analysis of this study, it is apparent that investors are generally influenced by both financial and non-financial considerations. The degree of influence, however, is dependent on investor type, appetite, and objectives. The study reveals that impact investors in Botswana are motivated by the prospect of monetary returns and other factors other than monetary returns. Whilst by their very own definition, impact investments require the intent to generate both financial and non-financial returns, impact investors are fundamentally motivated by different factors that determine what, where, and how, they choose to invest to achieve an 'impact'. In trying to establish the motivation for and decision-making criteria for impact investments we asked research participants to list *what they believe to be some of the most common reasons' asset owners and managers choose impact investments.* Their responses were categorised into two groups, those that prioritise non-financial considerations and those that focus on financial considerations, the context of which is provided below

4.3.1. Non-financial considerations

4.3.1.1. ESG and ecological considerations

According to the findings of this study, some investors are said to be motivated by the need to be socially and environmentally responsible, sustainable and/or impactful as professed in the business ethics theory and social impact hypothesis. This group of investors are intentional about pursuing investments that take environmental, social or governance factors into consideration. Many others referred to their perceived contribution to the global sustainability agenda as a common reason for choosing impact investing

One individual stated: "*Impact investments are a part of an investor's commitment as a responsible investor" – (Respondent 3)*

Another said*: "Some investors are motivated by the need to incorporate social responsibility and sustainability into corporate decision making, especially if it contributes to the global sustainability agenda" – (Respondent 11)*

One added: *"Some choose these types of investments because they are central to the mission of investors to pursue impact through their investments, as a result they are an efficient way to meet an investor's impact goals" – (Respondent 12)*

4.3.1.2. Ethical considerations

Over the years, numerous studies (Webley, Lewis, & Mackenzie's, 2001; Hoffman et, al., 2005) have found evidence to suggest that some investors, often referred to as mission driven or ethical investors were motivated by ethical predispositions and/or the utility of morality, denoting that these investors more often than not chose to pursue an investment based on an ethical code of conduct, regardless of the expected financial returns in this regard. The findings from this study support that hypothesis as elaborated by one interviewee:

"A large number of investors with mission objectives, many of which are from first world countries are driven by an ethical impetus to do good by extending existing philanthropic efforts". – (Respondent 14)

4.3.1.3. Image and/or reputational considerations

For some investors image is an important part of the motivation to behave pro-socially (Ariely, Bracha, & Meier, 2009) and therefore tend to have a higher proclivity to allocate their capital towards certain investments based largely on a desire to be seen and/or perceived a certain way. These types of investors pursue impact investments to meet external demand from shareholders, customers or other relevant stakeholders.

"For many impact investors, you will find that shareholder influence and perception is a key determinant in deciding where and when to invest" – (Respondent 8)

4.3.1.4. Political and/or regulatory considerations

Impact investments are also pursued as a result of a regulatory and/or political obligation to a particular group of stakeholders. This includes investors who are subject to legal restrictions as well as those facing political or regulatory pressure also tend to exhibit a higher proclivity to invest in impact out of obligation to external stakeholders such as politicians and regulators.

One interviewee stated: *"In the Botswana context, because of their mandate to pursue both the double dividend of commercial and socio-economic returns, state owned DFIs such as BDC and CEDA tend to have a higher willingness to invest in impact because of increased pressures from Government. Their investments are therefore usually heavily aligned to national priorities" – (Respondent 1)*

4.3.2. Financial considerations

Financially motivated impact investors are those driven by the need to generate monetary returns.

4.3.2.1. Growth oriented investors

Other investors are said to be motivated by the desire to '*diversify their broader investment portfolio'*. For example, several respondents mentioned that some choose impact investments because they provide one an opportunity to gain access and exposure to other sectors and/or geographies.

> *"Some investors are motivated by the need to grow, either through increased access to other markets or geographies, by providing new products and services and/or expanding into other customer segments" – (Respondent 6)*

4.3.2.2. Profit - oriented investors

A select few choose to allocate capital to impact investments because they are financially attractive relative to other investment opportunities. Because these investors are "profit motivated", wealth generation is their primary consideration when determining where and how to invest.

> One respondent stated: *"Investments technically have to offer some level of return that the investor is comfortable with, therefore, financial considerations are key to impact investing, particularly for pension funds". – (Respondent 7)*

When asked *how important financial considerations are in an investor's decision-making process;* respondents generally had three schools of thought. On one hand are those that believe that one cannot make any type of investment without due consideration for expected financial returns regardless of the objectives of the investor. These respondents are generally of the view that investors are primarily concerned about financial performance and as such, will almost always prioritise monetary returns over non-monetary returns.

> One respondent stated: *"Ideally, they should be of equal weighting, however this is not so because financial returns remain the primary consideration in determining how to allocate capital particularly for asset managers who are still predominantly evaluated based on the performance of their financial returns, not impact. The 'impact' of the investment is secondary." – (Respondent 10)*

Another added: *"In the Botswana environment, financial considerations take precedence over other ESG matters which probably makes up a small portion of an investors overall consideration"– (Respondent 6)*

On the other hand, there are those that believe that monetary and non-monetary returns should be of equal importance to the investor.

One respondent argued: *"Both financial and social returns are of equal importance to the investor, what is crucial is to focus on opportunities that generate minimum rate of return" – (Respondent 2)*

Lastly, some are of the view that what one considers *'*critical*'* in their decision-making process is very much subjective and often influenced by specific investor characteristics and preferences. For example, one individual said:

"Financial considerations are very important to impact investments; however, the degree of influence is largely dependent on the objectives of the investor, and their overall risk appetite" – (Respondent 1)

Table 11 below summarises key findings with regards to impact investor rationale and motivation, which were further supported by relevant quotes from research participants.

Table 11: Impact investor considerations and motivation

Key Considerations and/or Motivations		Description	Relevant Quotations
Non-Financial Considerations	ESG considerations	Motivated by the need to be socially and environmentally responsible, sustainable and/or impactful this group of investors are intentional in pursuing investments that take environmental social or governance factors into consideration.	"Impact investors are a part of an investor's commitment as a responsible investor". - (Respondent 3) "Some investors are motivated by the need to incorporate social responsibility and sustainability into corporate decision making if it contributes to the global sustainability agenda". – (Respondent 11)
	Ethical considerations and/or mission driven	Mission – driven or ethical investors are those that choose to pursue an investment based on an ethical code of conduct, regardless of the expected financial returns in this regard.	"A large number of these investors with mission objectives, many of which are from first world countries are driven by an ethical impetus to do good by extending existing philanthropic efforts". – (Respondent 14) "Some choose these types of investments because they are central to the mission of investors to pursue impact through their investments, and as such are an efficient way to meet an investor's impact goals". – (Respondent 12)
	Image motivation and/or reputational considerations	For some investors image is an important part of the motivation to behave pro-socially. These types of investors pursue impact investments to meet external demand from shareholder, customers or other relevant stakeholders.	"For many impact investors, you will find that shareholder influence and perception is a key determinant in deciding where and when to invest". – (Respondent 8)
	Political and/or regulatory considerations	Investors facing political or regulatory pressure also tend to exhibit a higher proclivity to invest in impact out of an obligation to external stakeholders such as politicians and regulators.	"In the Botswana context, because of their mandate to pursue both the double dividend of commercial and socio-economic returns, state-owned DFIs such as BDC and CEDA tend to have a higher willingness to invest in impact as a result of increased pressures from Government. Their investments are therefore usually heavily aligned to national priorities". – (Respondent 1)
Financial and/or Monetary Considerations	Profit orientation	Financially motivated impact investors are those driven by the need to remain profitable or generate wealth.	"Technically, because investment has to offer some level of return that an investor is comfortable with, and as such even with impact investments, monetary returns are the primary consideration, particularly for pension funds". – (Respondent 7)
	Growth orientation	Motivated by the desire to expand and diversify their investment portfolio which is often driven by the need to reduce risk.	"Some investors are motivated by the need to grow, either through increased access to other markets or geographies, by providing new products and/or services or expanding into other customer segments ". – (Respondent 6)

Source(s): Author's own composition

4.4 Non-financial impact measurement practices in Botswana

This section discusses key findings that were collected and analysed to determine how non-financial impact (i.e. social and environmental returns) is evaluated when assessing the performance of impact investments.

It goes without saying that measurement is a key component of impact investing, how one chooses to go about doing so is dependent on several factors. In practice most investors tend to adopt either one of two approaches or a combination of the two: to use a standardised measurement framework system or guideline, (such as those mentioned in Chapter Two), or to develop customised metrics that are adopted on a case-by-case approach. The analysis shows that interviewees seem to have a preference to use both, to allow for both flexibility and standardisation. Be that as it may, these individuals expressed three views with regards to the trends they have observed in measurement practices in Botswana.

For many, there is a strong belief that impact measurement is either non-existent or still very liberal in the Botswana context, so much so, that clarity is required from regulators, industry bodies and/or asset owners. One individual said:

> *"As far as I am aware, investors do not currently have measures in place to track performance nor am I aware of any specific frameworks that investors use locally. From a reporting standpoint however, it was not until six months ago that investors have started to request that updates be provided on any ESG matters within their investments" - (Respondent 6)*
>
> And another was of the opinion that *the way in which investors choose to measure impact is not uniform, in fact each entity reports as they see fit, if at all – (Respondent 7)*

4.4.1. Standardised Frameworks

Some did argue conversely that many in the market use standardised frameworks such as IRIS Plus or OPIM, from IFC and metric, to measure impact. With respect to measuring social impact, frequently used metrics include thematic specific KPIs that focus on gender equality, health and well-being, or employment creation, such as the number of jobs created and protected, particularly within minority groups such as women and youth. When assessing environmental impact, many choose to focus on KPIs that report on rehabilitation, water usage and recycling, energy efficiency, or carbon emissions. Some have opted to measure economic impact by evaluating the number of industries created; the number of new products created; tax contribution or the increase in the tax base as well as the monetary spend, pula value, or the size of the investment made in target groups

or sectors. In reviewing the commercial aspects of their investment, investors typically report on market share or the overall monetary returns of the investment.

One added saying:

> *"Some of the larger corporations have started to use standardised frameworks and metrics for reporting, but it has been limited to employment and financial donations made to public interest organisations" – (Respondent 9)*

4.4.2. Customised frameworks and metrics

Those in favour of using customised models and/or frameworks were able to provide some detail concerning how these were developed and used internally. One interviewee said:

> *"Each investor has a scoring method that they utilise to measure the impact of their investment. In addition most closely track business responses to ESG concerns over time and make decisions based on that. For example, internally we use proprietary models, developed in-house, that track 5 categories of ESG, including financial disclosures, strategy, value creation, and capital management. The model inspects various aspects under the category, weighs them, and gives a final ESG score for the local companies we evaluate. This then feeds into a valuation model" – (Respondent 7)*

Chapter 5
Conclusions and Recommendations

5.0 Introduction

This chapter provides an overview of the key findings and conclusions in the first section. The second and last section outlines key recommendations for policy intervention as well as further research.

5.1 Summary and Conclusion

The debate about the range of circumstances under which impact investing is able to generate intended impact continues to be a fairly broad and contentious issue. This study was conducted to explore the ways in which impact investments have been used and can be used to address current development financing gaps within the Botswana context. Sub-objectives of this study are three fold, firstly to describe and analyse in detail the market characteristics, practices, challenges and opportunities identified within Botswana's impact investing market; secondly, to establish and discuss the various motivations for and decision-making criteria used in the determination and allocation of impact investments in Botswana, with a particular focus on the significance of financial considerations in that regard; and lastly to highlight observed trends, practices and challenges related to impact measurement within Botswana. The justification for this study is premised on the following: (i) impact investments have been identified a means to finance sustainable development; (ii) whilst there has been an increase in the availability of practitioner reports over the years, there is a shortage of academic studies that focus on how these can be used to facilitate growth in Africa, and (iii) within sub-Saharan Africa Botswana's economic transformation has been mixed, the growth of which has been driven by a significant reliance on external and public sector funding.

Views regarding the definition, scope, outcomes and measurement of impact investments are found to differ amongst academics and practitioners. The impact investment market can thus best be described as a disorganised market of diverse participants, standards, and concepts. Even so, the interest and momentum in impact investing is being prompted by the call for an increase in ethical, sustainable, and socially inclusive capitalism. This is because, in an environment characterised by declining government revenues, weak global demand, increased cuts in public expenditure, increased taxes, reduced capital flows from both developed and emerging markets, and increasing financial market volatility, it is becoming increasingly important to find innovative and impactful solutions to fund development. Additionally, with the impact of COVID-19, well-

being has deteriorated among many, particularly the financially excluded thus placing significant pressure on financial market systems to close the growing funding gap. For countries such as Botswana, that have primarily been dependent on state funding and intervention, using alternative solutions such as impact investing to help *'fund the unfunded'* is no longer an option but a prerequisite.

Impact investing is a relatively new concept in the market that can be differentiated from other types of ethically motivated, socially responsible, mission based or value-aligned investment approaches by three distinct concepts, namely *intentionality, dual returns,* and *measurability*. Basically, those that identify as impact investors can best be described as those with the intention to generate positive, measurable social and environmental impact alongside a financial return. The review of the theoretical framework and empirical evidence upon which impact investing is based reveals that the conceptual framework that explains what impact investing is and the rationale behind the growth in the supply and demand of this new phenomenon, can at best be described as the integration of traditional investment theories based on rational expectations, behavioural finance theories and modern management theories, emphasising the need to pursue various types of return as well as be accountable to a larger set of stakeholders. Our findings also suggest that impact investors are generally motivated by both pecuniary and non-pecuniary considerations, hence the categorisation of impact investors into those that *'profit motivated'* and those that are *'impact motivated'*. Whilst the former are driven by the need to generate wealth or profit, the latter is motivated by other factors other than monetary returns, which is influenced by psychological, social

The exploratory review of the Botswana market shows that, locally the demand for responsibility and sustainability is growing, albeit steadily compared to the rest of the world and the region. Our assessment shows that, Botswana as a country has made concerted efforts towards localising global development agendas and in doing so local policy has largely been influenced by global trends and practices however limited in effectiveness in some instances. With regards to impact themes, seeing as Botswana features among the top ten countries in the world with the highest rates of unemployment (World Bank, 2020) it is not surprising that job creation is a predominant impact theme for impact investors in Botswana. Other common impact themes include financial inclusion, quality healthcare, poverty eradication and infrastructure development amongst others. From a supply side perspective, the market seems to be dominated by institutional investors, namely DFI asset owners and Non-DFI asset owners which comprises mainly of pension funds in this regard.

Another important inference from this research is that for those that choose to actively participate in this sector as supply side actors, they are often motivated by the desire to pursue investments that are aligned with their intention to be a responsible and impactful investor and contribute to the global sustainability agenda. Other non-monetary considerations include social preferences and consensus, ethical, reputational, political and/or regulatory considerations most of which are the result of external influences. Whilst the intent for impact investors is still to generate both financial and social return it is apparent from our study that impact investment decisions although not solely, are also chiefly influenced by financial considerations.

Our assessment revealed that the market suffers from several overarching challenges all of which limit the development of the sector. Prevailing limitations within the ecosystem include a general lack of awareness and standardisation around impact investing, including the management and measurement thereof, institutional and market barriers to impact investment and a poorly governed and poorly coordinated regulatory framework. Key demand side challenges include amongst others, the lack clarity around the intent and/or objectives of impact investors; lack of appropriate capital across the risk-return spectrum as a result of investors limited appetite towards early-stage investments and difficulties encountered sourcing relevant information; as well as viable investments that meet both financial and social or environmental objectives. Prevailing supply side challenges include limited market information about market activity and performance; shortage of professionals with relevant skills; the lack thereof both social, technological and physical infrastructure; a lack of adequate or appropriate financing sources and/or investment vehicles; limited exit options for impact investors ; and limited availability of capacity building services amongst others.

5.2 Recommendations

5.2.1 Policy recommendations

First, it is recommended that practitioners put in place policy, structural and regulatory reforms to facilitate industry development and policy coherence. Multi-layered partnerships, sectoral and regional co-ordination strategies will be needed to match the growing demand side opportunities with evolving supply-side capital. For instance, the UNDP suggests that by "developing the requisite policy and infrastructure to support privately-run incubators, accelerators and other business development services tailored to support sustainable impact investees" (UNDP, 2015, p. 15), the market will be better positioned to mobilise resources and manage macro- and micro- level responses accordingly.

It is further recommended that relevant systems, forums, and platforms be established to facilitate collaboration, knowledge sharing and capacity building to help build common understanding and standardisation of impact definitions, management, and measurement. For example, in more established markets, investors use shared industry terms, conventions, and indicators for describing their impact strategies, goals, and performance to enable others to learn from their experience. Another opportunity lies in enhancing the processes, systems, structures and databases related to information management. By investing in transformational technologies, research and development, market players will be able to improve the collection of and performance monitoring of statistical information on the impact investment market to enable responsive, evidence-based policymaking and thereby address current challenges related to insufficient and unreliable market data and information.

With regards to impact definition and measurement, in ensuring clarity and consistency in understanding impact investors and those working with them could benefit from the use or adoption of theory of change models or logic frameworks to communicate impact goals. Additionally, with regards to impact measurement, an integrated model incorporating both customised and standardised frameworks is considered best practice because it takes into consideration the specific, contextual needs of an organisation but also allows for standardisation and comparability. Lastly, because the SDGs provide a globally accepted, comprehensive framework to achieving a more resilient and sustainable future adopting an SDG focus with regards to objective setting and a measurement is likely to facilitate better tracking of longer-term progress on priority goals and targets.

5.2.2 Recommendations for future studies

While the research is limited by the fact that the Botswana impact investing market is still at an early stage of development, it is hoped that the exploration provided herein will serve as a useful first level analysis to help provide commonality in understanding some of the dynamics and demographics shaping the industry going forward. For future research it would be ideal to first conduct a country wide study that is fully representative of other ecosystem actors in Botswana, that were not included in this study to get a better understanding of their views and experiences, including demand side-actors. This space could also benefit from conducting a quantitative study that is able to assess the correlation and/or causality of key variables, particularly with regards to how variables such as investor motivation, manager skills and resources and/or geographical or sectoral preferences are likely to influence the performance and overall impact of these types of

investments. Lastly, it is important that we also emphasise the need to conduct sector-specific and social problem specific studies to facilitate well informed impact investing decision making.

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ANNEXURES

Annexure I: Impact Measurement Methods, Principles, Systems, Metrics and Frameworks

Customised Impact Measurement

A summary analysis of each one of the organisational specific measurement models discussed in chapter two (2) above can be found in the ***table 12*** below.

Table 12: Summary analysis of customised measurement methods

Method	Common Applications	Advantages	Disadvantages
Expected Return	• To estimate expected social return in assessing potential investments • To monitor and evaluate the social performance of investments	• Can provide a disciplined approach for decision making • Offers opportunity for organisation to speak a common language • Similarity with return on investment can help gain private sector trust	• May unfairly penalise interventions working with the most challenging problems and populations • Can be perceived as inexact and constantly changing • Expected return calculations are only as strong as the data that feeds them • Risk of temptation in using expected return figure as standalone metric for funding decisions • Not applicable to interventions without quantifiable benefits • Does not take into account catalytic effects
Theory of Change and Logic Models	• To understand path to intended impact as part of due diligence • To provide a framework for goal setting • To track and monitor progress of investment • To provide targets for incentive schemes • To provide a framework for illustrating impact logic in reporting	• Provides an easy to understand framework that is familiar in the social sector • Is a versatile tool that can serve multiple purposes • Allows investors to overlay dimensions that are important to mission • Allows investors to identify underlying impact assumptions for further review as necessary	• Identifying indicators to assess outcomes can be challenging • Lends itself to risk of reducing social change to a linear process
Mission Alignment Methods	• To monitor impact investor's portfolio against its mission • To monitor impact of investee against its mission	• Surveys and screens are inexpensive, straightforward ways to monitor mission- alignment • Scorecards may resonate with investors due to familiarity with balanced scorecard in business	• Survey results or scorecards are only as meaningful as the data collection methods or KPI metrics that they capture • Scorecards may not allow for direct comparisons across different investments
Experimental and Quasi-experimental Methods	• To assess outcome for payments in Social Impact Bonds and other impact investments • To test hypothesis of an investor's theory of change • To assess impact risk of a potential investment	• Experimental methods allow for robust cause-and-effect attribution • Quasi-experimental methods can provide some attribution evidence with more flexibility and lowest cost • Both of these methods can help to demonstrate additionality of impact	• Experimental methods can be expensive and resource intensive • Experimental methods not suitable in many situations, e.g. environments that cannot be controlled, interventions that are insufficient to drive outcomes on their own, situations where randomising beneficiaries may be unethical • Quasi-experimental methods may be limited in their ability to rule out exogenous factors

Source: So, I., & Staskevicius, A., (2015)

Impact Measurement – Guidelines and Principles

Table 13 below provides a summary description of the guidelines and principles mentioned in chapter 2 above.

Table 13: Impact measurement - Guidelines and Principles

Name	Description
Seven-Step Impact Measurement Framework	Suggested by the Impact Measurement Working Group, the guideline prescribes the sequential implementation of the following activities: (i) set goals; (ii) develop a framework and select the metrics to be used; (iii) collect and store data; (iv) validate data; (v) analyse data; (vi) report data; and, (vii) review the process and outcomes and make data-driven investment management decisions
Nine Operating Principles for Impact Measurement	Launched in 2019 by the Operating Principles for Impact Management, a network of over 150 leading global impact investors spearheaded by the IFC. These nine principles provide a reference point against which the impact management systems of funds and institutions may be assessed (OPIM, 2021).
Guiding Principles on Managing for Sustainable Development Results (MfSDR)	Adopted by the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) in 2019 (OECD, 2019). These principles aim to help development organisations navigate complex development co-operation and humanitarian challenges to reach their expected results and support sustainable development effectively.
Principles for Responsible Investing (PRI)	A United Nations (UN) supported network of investors (PRI, 2018) that works to promote the incorporation of environmental, social, and corporate governance factors (ESG) into investment decision-making.
Blended Finance Principles	Developed by the OECD DAC (OECD, 2018), these principles give a clear definition and provide a five-point checklist to ensure blended finance meets accepted quality standards and achieves impact.
Principles for Positive Impact Finance	Developed by the United Nations Environment Programme Finance Initiative (UNEP-FI) (UNEP- FI, 2017) the principles define positive impact business and finance as "that which serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental, and social) based on the following four principles: (i) definition; (ii) frameworks; (iii) transparency; and, (iv) assessment. A key objective of the Principles is to promote positive impact finance for efforts targeted towards achieving the SDGs.
Kampala Principles on Effective Private Sector Engagement	Launched by the Global Partnership for Effective Development (GPEDC) in 2019, these are five principles designed by and for the business community, governments in developing countries and their development partners, civil society, and other stakeholders, to enhance the effectiveness of development partnerships with the private sector at the country level.
The Seven Principles of Social Value	Developed by Social Value International (SVI) these principles provide guidance on how to design and implement an impact measurement process that allows investors to be accountable for both the positive and negative impacts generated (SVI, 2018).
O'Flynn & Barnett's (5) Critical Factors for Consideration	The Critical Factors include the following: (i) impact, (i.e. what is the effect of society and the environment?); (ii) differential impact (i.e. who benefits and who does not?); (iii) plausible causality - has the investment made any difference what so ever, and if so, how?; (iv) aggregation of the impact at both an investment and portfolio level; and, (v) accountability for the impact (i.e do employees and citizens have a voice?) (O'Flynn & Barnett, 2017).

Source: Author's own composition from various sources

Impact Measurement – Standards, Assessment Tools and Rating Systems

Table 14 below provides a summary description of the standards, assessment tools and rating systems chapter 2 above.

Table 14: Impact measurement - Standards, Assessment Tools and Rating Systems

Name	Description
Global Reporting Initiative (GRI) Standards	The GRI Standards are a modular system comprising three series of sustainability reporting standards to be used together: Universal Standards, Sector Standards, and Topic Standards, to help organisations report on their outward impact on the economy, environment, and society, including those on human rights.
Sustainable Accounting Standards Board (SASB)	The SASB is an independent, non-profit private-sector standards setting organisation, founded in 2011 to enhance the efficiency of the capital markets by fostering high-quality disclosure of material sustainability information that meets investor needs (SASB, 2021).
Impact Reporting and Investment Standards (IRIS)	IRIS on the other hand serves as the taxonomy, or set of terms with standardised definitions, that governs the way companies, investors, and others define their social and environmental performance (Boiardi, 2020).
Global Impact Investing Rating System (GIIRS)	GIIRS was developed by the non-profit B Lab as an impact ratings tool and analytics platform that assesses companies and funds on the basis of their social and environmental performance. It is output oriented and commonly referred to as the *gold standard* for funds that manage their portfolio's impact. GIIRS uses IRIS metrics in conjunction with additional criteria to come up with an overall company or fund-level rating (GIIN, 2020).
B Impact Assessment (BIA)	Managed by the B-Lab, BIA assesses an organisation's overall social and environmental performance by measuring its impact on all stakeholders through an online platform.
CERISE-IDIA (Impact-Driven Investor Assessment)	The IDIA scoring system is a social strategy assessment tool based on five dimensions (CERISE, 2018), designed to help investors, foundations, fund managers, holding companies, and donors, overcome the challenge of turning intention into impact.
IFC's Anticipated Impact Measurement and Monitoring (AIMM)	The IFC's AIMM system is an ex-ante impact assessment tool that enables the IFC to better define, measure, and monitor, the development impact of each project.
KfW DEG's Development Effectiveness Rating system (DERa)	The KfW DEG's DERa helps the organisations in DEG's portfolio develop the theory of change, and map the causal links from inputs, to outputs and impacts (KFW DEG, 2017).
CDC Development Impact Grid (CDC, 2018)	It is an investment screening tool which scores every investment based on two factors: (i) the difficulty in investing in the proposed country and (ii) the propensity of investments in the relevant business sector to generate employment (CDC, 2018)

Source: Author's own composition from various sources

Impact Measurement – Metrics and Indicators

Table 15 below provides a summary description of metrics and indicators mentioned in chapter 2 above.

Table 15: Impact Measurement – Metrics and Indicators

Name	Description
SDG Indicators	To monitor the implementation of the 2030 Agenda for Sustainable Development, the UN General Assembly adopted the global SDG indicators framework in July 2017. SDGs are contained in the Resolution adopted by the General Assembly on Work of the Statistical Commission pertaining to the 2030 Agenda for Sustainable Development (A/RES/71/313) Annex. The framework comprises 232 indicators, including four human rights categorised under each one of the 17 SDGs.
Social Return on Investment (SROI)	An organisational method of accounting for value creation that incorporates social, environmental, and economic impacts. There are two types of SROI; *evaluative,* conducted retrospectively, and based on actual outcomes that have already taken place, and, *forecast*, which predicts how much social value will be created if the activities meet their intended outcomes
IRIS Catalogue of Metrics	A catalogue of generally accepted broad range of metrics developed by GIIN that measure social, environmental and financial performance in an effort to support transparency, credibility, and accountability in impact measurement practice. Although IRIS includes some output measures, it is mainly concerned with financial and operational measures.
Harmonised Indicators for Private Sector Operations (HIPSO)	A catalogue of 38 indicators split over 15 sectors used by 26 international financial institutions (IFIs) (Boiardi, 2020) developed by the IFI Working Group on Development
Joint Impact Indicators (JII)	These are a harmonised set of indicators for key impact themes – climate, gender, and job creation – used by a wide range of impact investors. They are aligned with the leading impact indicator sets: IRIS+ and HIPSO.

Source: Author's own composition from various sources

Annexure II: Analytical Frameworks

Table 16 below details the main characteristics and key steps in the analytical frameworks used in this study, namely thematic and content analysis.

Table 16: Detailed steps in thematic and content analysis

Key steps in Thematic Analysis (Braun & Clarke, 2006, p.87)	Key steps in Content Analysis (Elo & Kyngas, 2008, p.110)
Phase 1: Familiarising oneself with the data; Transcribing the data; reading and rereading (if necessary); noting down initial codes	**Phase 1: Preparing the Data;** Deciding on the data collection method; selecting the sampling strategy and unit of analysis; deciding on the analysis of manifest content or latent content.
Phase 2: Generating initial codes; Coding interesting features of the data in a systematic fashion across the dataset; collating data relevant to each code	
Phase 3: Searching for themes; Collating codes into potential themes; gathering all data relevant to each potential theme	**Phase 2: Organising the data (which can be either inductive and/or deductive)** Open coding and creating categories; grouping codes under higher-order headings; formulating a general description of the research topic through generating categories and subcategories as abstracting
Phase 4: Reviewing themes; Checking if the themes work in relation to the coded extracts and the entire dataset; generate a thematic map	
Phase 5: Defining and naming themes; Ongoing analysis to refine the specifics of each theme; generation of clean names for each theme	
Phase 6: Interpreting and producing the report; Final opportunity for analysis selecting appropriate extracts; discussion of the analysis; relate back to research question or literature; produce report	**Phase 3: Reporting the data;** Reporting the analysing process and the results through models, conceptual systems, conceptual map or categories, and a storyline

Source(s): Braun & Clarke (2006) and Elo & Kyngas (2008).

Annexure III: Participant Information Sheet

Master of Commerce in Development Finance

PARTICPANT INFORMATION SHEET

Research Details

Research Title: Exploring the Dynamics of Impact Investments in Botswana: The Case of Asset Managers and Owners

Name of Researcher: Refilwe Maggie Mpowe

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Name of Research Supervisor: Abdul Latif Alhassan

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Research Period: January – April 2022

Data Collection Method(s): Virtual Interview (Zoom or Microsoft Teams)

Background and Objective(s) of the research

This study seeks to critically survey and synthesize the growing literature and empirical evidence investigating the role of impact investments in addressing financing gaps as well as express in detail the market dynamics, decision making criteria and measurement practices of impact investments within the Botswana context

Ethics approval

The ethical clearance for this study was approved by the UCT GSB Research and Ethics Committee on the 11th of January 2022.

Nature of Participation

The scope of this research will be focused on getting insights from various players in Botswana's financial services industry, particularly those that are directly involved in the asset management sector.

The interview will be internet-mediated and will take approximately 30 minutes to complete. We do not anticipate any risks to those participating, no benefits will be provided to participants to avoid any risk of bias, and no costs will be incurred by you as the interviewee.

Please understand that your participation to this study is voluntary. If you choose to participate, but wish to withdraw at any time, you will be free to do so without negative consequence. An informed consent form has been included to allow you to provide confirmation of your agreement to participate.

Confidentiality

To preserve the confidentiality of the organisation and participants the following will be put in place:

- The research will be designed to focus on the research questions and not on who provided the data.
- All findings will be kept anonymous in that participants will not be identified by name in any reports, and the data analysis recorded in a way that makes it non-attributable.

Use of Data Collected

- All data collected will be used solely for the purpose of this study and will not be available for re-use by any other party outside of this research project.
- The main findings of the research may be shared with participants if requested, however the findings will be generalized to ensure the anonymity of participants.

Should any concerns or questions about the research arise please feel free to contact the Researcher or the Research Supervisor.

Annexure IV: Interview Questions

INTERVIEW QUESTIONS

Section 1: Demographic information

1. Gender of respondent: _____
2. Age of respondent: _____
3. Nature of your business: _____
4. Years of experience: _____
5. Current role in business: _____

Section 2: Interview questions

Part A: Impact Investment Trends, Challenges and Opportunities

1. What would you say are some of the most commonly used strategies for sustainable and socially responsible investing?
2. Based on your understanding of the current environment, do you believe that there is a growing awareness, acceptance and appetite for impact investments in the Botswana market?
3. At what stage do you think the impact investment industry is in Botswana?
4. At which stage of the venture/organisational development lifecycle do you think most investors prefer to invest?
5. Which investor(s) do you believe, has made the biggest contribution towards impact investments in Botswana thus far?
6. Which investment vehicle (e.g funding instruments) do impact investors favour locally?
7. Based on your experience, what do you think are some of the most common impact investment themes/outcomes for impact investors in Botswana?
8. What are some of the significant barriers and/or challenges preventing investors from taking part in impact investments in Botswana? How do you think some of these challenges can be resolved?
9. What opportunities exists within the impact investment market in Botswana?

Part B: Motivation and Drivers of Impact Investment

10. What do you believe to be the main reasons and/or motivations for making impact investments in Botswana?
11. How influential are financial considerations when choosing to invest in impact investments?

Part C: Impact Measurement

12. What is the preferred approach to impact measurement in Botswana?
13. How do investors measure and/or track the performance of their impact investments locally, particularly social and environmental return? In other words, what are some of the metrics used to report on and evaluate social and environmental impact?