

Impact Investing in South Africa
Identifying the Global and Local Forces Shaping this Emerging Investment Market

A Research Report

presented to

the Graduate School of Business

University of Cape Town

In partial fulfilment of the requirements for the
Master of Commerce in Development Finance Degree

by

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December 2013

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Abstract

Triggered by the negative economic and social consequences of the 2008/09 global financial crisis, critical questions about how financial markets operate and how they benefit society have received renewed attention. In response to these questions, new investment strategies whose objectives go beyond pure financial return have emerged. Impact investing, a concept which closely co-exists with investment strategies such as socially responsible investing and responsible investing, is the latest attempt to combine financial return with a contribution to the sustainable development of society. Although still in the early days of its development, impact investing is a maturing field to the extent that it has developed into a global phenomenon with an emerging global support structure. While impact investing still occupies a tiny niche in South Africa's investment market, there is, at least compared to other developing countries on the African continent, a large community of South African impact investors who are looking to invest locally and beyond.

This research investigates how far the understanding and practice of impact investing in South Africa is influenced by global efforts to build the field and to what extent context specific factors are shaping the way in which it is currently evolving. In other words, how both global convergence and local divergence mechanisms interplay to form what is the South African impact investing market.

The research findings suggest that while the international movement towards the standardisation of impact investing practices has reached South Africa, context specific factors such as, among others, the social, racial and political legacy of apartheid and the existence of a sophisticated financial system are central to the way in which the field is taking shape.

Keywords: Impact Investing | South Africa | Global Convergence | Local Divergence

Acknowledgements

I hereby would like to thank all the people who have helped in completing this research report by providing their time, insight, encouragement, love and support.

My gratitude goes to all the respondents for offering their time to participate in this research. This report would not have materialised without your knowledge and opinions.

I further wish to thank my life partner for her support and encouragement throughout this year. I am grateful to you for believing in me and always pushing me to explore my full potential.

Lastly, but certainly not least, I would like to thank Stephanie Giamporcaro, my supervisor on this project, for her kindness, encouragement and assistance throughout the process of this research. Your guidance was greatly appreciated.

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Abbreviations

ANC	African National Congress
ASISA	Association for Savings and Investment South Africa
BEE	Black Economic Empowerment
B-BBEE	Broad-Based Black Economic Empowerment
BRICS	Brazil, Russia, India, China and South Africa
CDC	Commonwealth Development Corporation
CSI	Corporate Social Investments
CSR	Corporate Social Responsibility
DFI	Development Finance Institution
ESG	Environmental, Social and Corporate Governance
Eurosif	European Sustainable Investment Forum
G20	Group of Twenty
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GEPF	Government Employees Pension Fund
GIIN	Global Impact Investing Network
GIIRS	Global Impact Investing Rating System
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IIPC	Impact Investing Policy Collaborative
IRIS	Impact Reporting and Investment Standards
JSE	Johannesburg Stock Exchange
NPC	National Planning Commission

OECD	Organisation for Economic Co-operation and Development
POA	Principal Officers Association
RI	Responsible Investing
SAIIN	South African Network for Impact Investing
SME	Small and Medium Enterprises
SRI	Socially Responsible Investing
SROI	Social Return on Investment
UNPRI	United Nations Principles of Responsible Investing
USAID	United States Agency for International Development

1. Introduction

Against the background of the negative economic and social consequences of the 2008/09 global financial crisis, critical questions about how financial markets operate and how they benefit society have received renewed attention. At the core of this debate is the question regarding how an investment's benefit (or cost) to society can be integrated into the investment decision process. In response to these questions, new investment strategies whose objectives go beyond pure financial return have emerged and been labelled with different financial market terminology. These include socially responsible investment (SRI), responsible investment (RI), sustainable investment and, finally, impact investing, which is the latest attempt to combine financial return with a contribution to the sustainable development of society (Grabenwarter and Liechtenstein, 2011).

In 2007 and again in 2008, the United States based Rockefeller Foundation convened meetings in Italy to explore with leaders in finance, philanthropy and development the need, ways and means of building a worldwide industry for investing for social and environmental impact. It was at these meetings where the term and concept of "impact investing" was coined (Harji and Jackson, 2012). In contrast to the more mature field of RI, which generally seeks to minimise the negative social and/ or environmental footprint of investment capital, the general intent and spirit of the impact investing field is to focus investments on enterprises and projects that can result in improvements in the lives of poor, marginalised and distressed populations, as well as in meaningful improvements to the environment (Harji and Jackson, 2012). Impact investing largely takes place in form of direct investments (through debt and private equity) in social enterprises in developing and emerging markets by investors based in the global North.

From the time of the "founding" meetings held in Italy onwards, there has been a significant growth in capital commitments towards impact investing. In 2012, USD 8 billion in impact investments were made globally, a figure that is expected to grow by another billion in 2013, with a third going to the African region (Rockefeller Foundation et al., 2013). A 2010 report by J.P. Morgan projected in aggregate over the next ten years capital investments ranging from USD 400 billion to nearly USD 1 trillion with a profit potential of USD 183 billion to USD 667 billion (O'Donohoe, Leijonhufvud and Saltuk, 2010: 11).

Central to the efforts of building a worldwide impact investing industry has been the United States based and Rockefeller Foundation sponsored Global Impact Investing Network (GIIN) which has been the institutional home for, among other initiatives, the so called Impact Reporting and Investment Standards (IRIS). The IRIS initiative provides standard social, environmental and financial performance indicators for defining, tracking, and reporting the

performance of investment capital. Co-existing with and complementary to IRIS is the Global Impact Investing Rating System (GIIRS), a rating tool and analytics platform that assesses companies and funds on the basis of their social and environmental impact performance using the IRIS taxonomy (Brandenburg, 2012).

While other internationally recognised impact assessment frameworks such as the Social Return on Investment (SROI) method¹ exist, and decentralised assessment approaches proliferate at sector and organisational levels (Harji and Jackson, 2012), the IRIS and GIIRS developers seek to establish their initiatives as the central calculative devices of the global impact investing market, which turn the largely intangible concept of positive social and environmental impact into a stabilised, measurable and comparable entity. Once this is achieved, the impact of an investment can be valued, financial products be developed, marketed and ultimately be traded in the marketplace. Just like the revival of corporate social responsibility (CSR) through which economic organisations seek to reintegrate negative externalities within the scope of market mechanisms, impact investing could be interpreted as a “commodification process” whereby investors seek to attach a marketable value to the positive externalities they create. Hence, impact investing serves as another example of the capitalist system’s capacity to recycle its own critique while generating new business opportunities (Boltanski and Chiapello, 2005).

The IRIS and GIIRS initiatives effectively seek to put the growing impact investing industry on a path of global uniformisation in order to “exit its initial phase of uncoordinated innovation and build the marketplace” to use the words of a 2009 Monitor Institute report (Freireich and Foulton, 2009: 13). Proponents of this global convergence drive would argue that such process is of key importance for impact investing to become more efficient and effective.

Research on SRI, which as an investment strategy has diffused around the world and shown signs of global convergence, has however shown that how such strategies are understood and practiced is strongly influenced by national contexts including rules, political systems, social norms and economic development. They can also be diffused only to the extent to which they are adapted to fit local specificities (Gond and Boxenbaum, 2004; Louche and Lydenburg, 2006; Bengtsson, 2007; Giamporcaro and Viviers, 2012). Although the perspective of local divergence

¹ The SROI method dates back to the year 2000 (see: www.thesroinetwork.org), i.e. to before the idea of building a global impact investing market had emerged. It is important to note that while SROI provides a process for determining which indicators to measure, the IRIS taxonomy provides a set of performance indicators with standardised definitions. Hence, these tools do not stand in direct competition but are complementary to one another. GIIRS on the other hand is a ratings system.

may appear as being at odds with that of global convergence, Louche (2008) has argued that both mechanisms are taking place at the same time and that both are necessary. The process whereby a practice undergoes local transformation while it diffuses globally is also known as “glocalisation” (Louche, 2008).

Similarly, research by Fourcade (2011) around the economic valuation of nature has demonstrated why and how something that stands normally outside the market exchange comes to be attributed an economic value is not accidental. Economic valuation processes are eminently contingent on local politics, time period and social context. Their history is usually characterised by technical and philosophical controversy. It may therefore well be assumed that the same applies to the construction of social metrics that seek to capture the value of positive externalities impact investments create. Moreover, the mere availability of such economic technologies does not guarantee their performative effects for the simple reason that they rely on institutional and political support or that they have to resonate with the cultural claims they represent (Fourcade, 2011).

Starting from these general observations this research is set to explore issues of global convergence and local divergence in the development of the South African impact investing industry: how far are the practices and understandings of impact investing in South Africa influenced by global efforts to build the field, and to what extent are context specific factors shaping the way in which it is currently evolving? Has the interplay of global convergence and local divergence mechanisms led to any glocalisation results?

What makes South Africa a particularly interesting case to consider is the fact that the country has, at least compared to other developing countries on the African continent, a sophisticated financial services infrastructure and a fairly large number of local investors who are looking to invest for impact in South Africa and beyond.

The significance of the research is twofold. First, its findings contribute both to the international body of knowledge on impact investing as a global phenomenon and the literature that has explored the theoretical and empirical interplay of global convergence and local divergence mechanisms in the related field of SRI. Second, and related to the previous point, the findings advance the debate on the development and future of impact investing in South Africa, and provide some insight into the dynamics likely to shape the industry moving forward.

As no secondary sources that would sufficiently answer the research questions exist, interviewing was necessary. The research proceeded on the assumption that an adequate number of interview partners would be available and that they would be willing to engage in open and unconstrained conversations. Moreover, the research assumed that the professionals

interviewed would have comprehensive knowledge about the impact investing field and a good idea of the various players involved.

1.1 Research Ethics

As the research involved the participation of human subjects, it was crucial to follow certain ethical principles and guidelines. First of all, the researcher obtained the required clearance from the university's research ethics committee to pursue research involving human subjects.

Before the start of each interview, participants were asked to sign an informed consent form (Appendix C). In addition, the researcher always verbally requested permission to record the conversation.

For a successful investigation of the research questions, the researcher needed interviewees at times to divulge sensitive views and judgments. Since some interviewees were reluctant to be associated with certain statements in the public domain, all interviews were treated confidentially. The data and findings are reported anonymously as to eliminate the risk surrounding the individual respondents' exposure.

2. Literature Review

The literature review is structured as follows: firstly, it expands on the conceptual framework and analytical tools utilised in this research by tracing their origin and application in the field of SRI. Secondly, it provides contextual data on impact investing and on the South African national business system. Due to the limited South African specific literature available, the information presented on impact investing mostly draws on international research. Lastly, the literature review combines the provided contextual data with the conceptual framework.

2.1 Conceptual Framework

Louche's (2008) conceptual framework on the development of SRI² serves as the theoretical starting point of this study. Based on empirical observations Louche identifies two distinct mechanisms that sustain the development of SRI: global convergence and local divergence.

The global convergence mechanism is based on the perspective of institutional theory by, among others, DiMaggio and Powell (1983). This perspective focuses on processes of

² Different actors use different definitions and labels for SRI. This paper uses the following simplified and encompassing definition: SRI is a generic term covering any type of investment process that combines investors' financial objectives with their concerns about environmental, social and governance (ESG) issues (Giamporcaro, 2011: 9).

homogenisation of institutional environments across industries and national boundaries that lead to increasing standardisation and rationalisation of practices. The homogenisation process occurs through different mechanisms (i.e. coercive political influence in form of norms, rules and laws; imitation of successful competitors; normative influences by educational or professional authorities) and in different stages (i.e. pre-, semi- and full-institutionalisation). It results in the respective field becoming highly structured and clearly defined, and in organisations becoming more homogenous. Global convergence emphasises the influence of cross-national pressures on national institutions (Louche, 2008: 7).

Louche argues that, although there is no clear common meaning or field boundaries emerging and no globally agreed institutional logic that would guide the activity, SRI is a maturing field that has developed into a global movement with a global structure (Louche, 2008: 9). In order to substantiate this view, Louche points to the numerous networks, platforms and initiatives such as the United Nations Principles of Responsible Investment (UNPRI) and the Global Reporting Initiative that serve as global reference frameworks, which can be interpreted as an expression of the desire within the SRI community to achieve a consensus on the understanding and practice of this investment strategy. Furthermore, SRI has diffused around the world and become a recognised activity (i.e. by political decision and law makers) that has found its way into the mainstream of the financial community (Louche, 2008: 9).

However, there is a substantial body of literature that highlights the diversity and heterogeneity of how SRI is understood and practiced depending on the national or regional context. The findings of these studies have put into question the global homogenisation thesis and whether SRI practices could be standardised on a global scale.

For instance, Sparkes (2001) asking the question “whose ethics, which investments?” points out the lack of a common definition of what “socially responsible investment” or “ethical investment” might mean and touches on the different SRI terminologies and practices used in the United States and the United Kingdom in light of new pension fund regulation introduced at the time. Similarly, Louche and Lydenberg (2006) have provided a systematic comparison between SRI in the United States and Europe. The paper shows that the SRI movements in both regions, although they share a common underlying purpose and goals, differ in terms of definitions, actors involved, vocabulary, motivations and strategies implemented.

Exploring the emergence of SRI in Japan, Sakuma and Louche (2008) also find that, although some similarities with Europe and the United States exist, the Japanese SRI market remains unique due to the specificity of its national context such as an underdeveloped civil society sector, the structure of the financial market, the role of government and the culture of quality

management. Other examples of research into national varieties of SRI are Boxenbaum and Gond's (2006) comparison of how the activity was imported into France and Quebec, Bengtsson's (2007) study into the historical evolution of the activity in different Scandinavian countries or Lozano et al. (2006) discussion of SRI in the Spanish financial market.

The national specificities of the South African SRI market have also been the object of a growing body of academic literature. This includes, among others, the study by Giamporcaro and Pretorius (2012) into the question to what extent South African SRI strategies take environmental sustainability into account and Viviers (2007) dissertation that critically studies how SRI is practiced and understood in South Africa.

Sandberg et al. (2009) take a broader perspective on the issue of SRI heterogeneity. They identify four different levels on which heterogeneity can be found: the terminological, definitional, strategic and practical. They conclude that while there is actually some agreement on the definitional level, on the other levels diversity prevails. They also offer three explanations that account for the heterogeneity: cultural and ideological differences between different regions; differences in values, norms and ideology between various SRI stake-holders; and the market setting of SRI. Another study that has sought to identify broadly applicable factors that could help to explain the substantial differences in SRI globally is that of Scholtens and Sievänen (2013). Based on their investigation into drivers of SRI in four Nordic countries, they find that economic openness, the size of the pension industry, cultural values of masculinity (femininity), and uncertainty avoidance can be associated with the differences in SRI.

Louche (2008) interprets the findings of such studies as resonating with Latour's (1987) reasoning that practices need to be adapted to fit new social contexts and builds her idea of a local divergence mechanism on the so called "national business system" approach. The concept of business systems was coined by British sociologist Richard Whitley who suggested that economic organisation, including the choice of corporate governance and the market hierarchy, are shaped by historically grown national institutions. He identified four key features of historically grown national institutional frameworks: the political system, the financial system, the education and labour system and, the cultural system (Whitley, 1998).

In recent years, the national business systems approach has been widely used to study particular management practices, and how these have been shaped by institutions in different nations. One such management practice that has received extensive attention is CSR.³

³ For an overview of academic literature on CSR using a national business systems perspective see: Anthonisz, 2008.

Louche (2008) argues that national business systems provide “spaces” for SRI to develop and for local actors to adopt practices and strategies that are most relevant and suitable for their context. Boxenbaum and Gond’s (forthcoming) study into how the concept of RI was imported by actors from the United States to France and Quebec has taken a close look at the mechanisms at play in such processes. They identify three types of “contextualization work”: filtering, repurposing and coupling.

However, instead of emphasising or rejecting global convergence over local divergence or vice versa, Louche (2008) comes to the conclusion that the development of SRI is best understood through the analysis of the continuous interplay between the two mechanisms and that both are necessary for the development of SRI. For example, in order to legitimise their activity actors need a global spread and recognition that allows them to move from the periphery of the financial community towards the mainstream, but at the same time the activity has to be meaningful to the actors in their specific contexts. As a result SRI has become global in its diffusion but diverging in its local practices – a process that refers to the concept of “glocalisation” (Louche, 2008: 14). Boxenbaum and Gond (forthcoming) however emphasise that the process of contextualising a global practice does not necessarily only reproduce the local context but that it may in fact also alter this context.

One study that has taken the work by Louche (2008) and Boxenbaum and Gond (forthcoming) as a point of departure is that of Giamporcaro and Viviers (2012) about the development of SRI in post-apartheid South Africa and how the activity has been shaped by both global convergence and local divergence mechanisms. The two authors identify three globalisation forces that have shaped the face of SRI in South Africa: the rise of SRI homogenisation and institutionalisation, the rise of Islamic financing, and finally the rise of impact investing.

It is the latter globalisation force that this study focuses on in order to better understand how global convergence and local divergence mechanisms interplay to shape this emerging investment strategy in South Africa. In doing so it treats impact investing, although it may be considered on a continuum with SRI, as distinct field with its own historic origins, global networks, local actors, practices and dynamics.

Table 1: Summary of reviewed literature on SRI heterogeneity

Author	Research Methodology	Approach	Area of study
Bengtsson, 2007	Qualitative	Desktop research and	Idiosyncrasies in Scandinavian SRI

		interviews	
Giamporcaro & Pretorius, 2012	Qualitative	Desktop research and interviews	Environmental sustainability and SRI in South Africa
Giamporcaro & Viviers, 2012	Qualitative	Desktop research	Glocalisation of SRI in South Africa
Gond & Boxenbaum, 2006	Qualitative	Desktop research and interviews	Contextualisation of SRI in France and Canada
Gond & Boxenbaum, forthcoming	Qualitative	Desktop research and interviews	Glocalisation of RI in France and Canada
Louche & Lydenberg, 2006	Qualitative	Desktop research	SRI differences between Europe and the United States
Louche, 2009	Qualitative	Desktop research	Theory of global convergence and local divergence in SRI
Lozano et al., 2006	Qualitative	Desktop research and interviews	SRI in Spain
Sakuma & Louche, 2008	Qualitative	Desktop research and interviews	SRI in Japan
Sandberg et al., 2009	Qualitative	Desktop research and interviews	Explaining heterogeneity of SRI
Scholtens & Sievänen, 2013	Qualitative	Desktop research	Explaining heterogeneity of SRI - drivers in Nordic countries
Sparkes, 2001	Qualitative	Desktop research	Defining SRI in the UK and the United States
Viviers, 2007	Qualitative and Quantitative	Desktop research, interviews and regression	SRI in South Africa

2.2 Research Context

Over the last two decades societies around the world have become increasingly aware of issues around sustainability not only in its ecological but also in its social and political dimensions. The projected impacts of climate change (IPCC, 2007) and growing income inequalities in many countries worldwide (OECD, 2011) have led campaigners from civil society, politics, labour and business in the developed North and in the developing South to intensify their call for a more ecologically sustainable and socially just world. Driven by higher levels of societal awareness, politicisation and economicisation mechanisms (Giamporcaro, 2010) have worked together to bring the social and environmental concerns into the investment market. As evidenced by the growth of the global responsible investment market and the development of an impact investing industry, an increasing number of investors begin to utilise their capital in a manner that gives better consideration to both the potential negative and positive impact that their investments can have.

This section provides the reader with an introduction into impact investing and an understanding of the globalisation forces seeking to set the industry on a path of global uniformisation. Furthermore, it presents an analysis of the South African national business system that is the local context on which impact investing in South Africa is dependent.

2.2.1 Introduction to Impact Investing

In 2007 and again in 2008, the United States-based Rockefeller Foundation convened meetings in Italy to explore with leaders in finance, philanthropy and development the need for, and ways and means of, building a worldwide industry for investing for social and environmental impact. It was at these meetings where the term and concept of “impact investing” was coined (Harji and Jackson, 2012).

Prior to 2008, there has certainly been already considerable activity and innovation in the practice of investing for a mix of financial and social and/ or environmental returns. For example, the International Finance Corporation (IFC) played a leading role in some developing countries through lending to small and medium enterprises (SME) as a strategy to achieve broad based development outcomes. The Grameen Bank that became a world leader in scaling up microfinance programs for the poor in Bangladesh is another example of an effort to achieve social impact while making sustainable financial returns. In 2001 the non-profit Acumen Fund was established to mobilise capital for social enterprises in Asia and Africa (Harji and Jackson, 2012). Examples such as these and the surge of investment strategies build on principles of

corporate social responsibility and environmental, social and corporate governance standards since the 1990s (Giamporcaro, 2011) constitute the platform on which recent efforts to construct the impact investing industry have been based.

Regarding the economic context in which the concept of impact investing was born, it is important to take note of the 2008/09 global financial crisis that triggered the bailout of major banks and large-scale stimulus programmes in industrialised nations, and ended with many of those same nations still mired in stagnant growth, high unemployment, rising inequality, and unsustainable levels of debt (Harji and Jackson, 2012). The prospect of domestic austerity measures in the developed world leading to cuts in overseas aid programmes coupled with doubts about the effectiveness of foreign aid in face of mounting social and environmental challenges created impetus for finding market based solutions which can complement government spending and private philanthropy in achieving social and environmental development goals (Edwards, Scholtz and Mancebo, 2011).

2.2.2 Defining Impact Investing

While a substantial body of ever expanding literature on impact investing is available, the definition of impact investing remains a work in progress, and the term itself is often used interchangeably (and sometimes incorrectly) with related terms from the broader and more mature field of RI. To illustrate this, the 2009 Monitor Institute report “Investing for Social and Environmental Impact” refers to a “Tower of Babel” of terms used to describe impact investing which include socially responsible investing, social investing, mission driven investing, ethical investing, impact investing, triple bottom line and others.

At the above mentioned 2007/08 meetings organised by the Rockefeller Foundation participants described impact investing as “using profit-seeking investment to generate social and environmental good” (Freireich and Foulton, 2009). While the boundaries of the term remain subject to debate, subsequent definitions have sought to outline the concept more clearly. A landmark report co-published by J.P. Morgan released in 2010 proposes the following definition: “investments intended to create positive impact beyond financial returns” (O’Donohoe, Leijonhufvud and Saltuk, 2010), noting the blend of financial and social returns, but also clearly articulating the *intent* of investment to generate both. Grabenwarter and Liechtenstein (2011) have put forward perhaps one of the most pointed definition to date: “Impact investing is any profit-seeking investment activity that intentionally generates measurable benefits for society” (Grabenwarter and Liechtenstein, 2011: 10) – not only noting the *intent* to generate benefits to society but also explicitly emphasising the *measurability* of these benefits.

In general, the intent and spirit of the impact investing field is to focus impact investments on enterprises and projects that can result in improvements in the lives of poor, marginalised and distressed populations, as well as in meaningful improvements to the environment. There is also a widely held perception that impact investing primarily focuses on direct investments (through debt and private equity) in social enterprises in developing and emerging markets by investors based in the global North and that impact investment is an asset class in its own right (O'Donohoe, Leijonhufvud and Saltuk, 2010). Harji and Jackson (2012), however, argue that both of these interpretations serve to limit the scope of the term and that impact investment can occur across a range of regions, across asset classes and across sectors. Referring to the ImpactAsset 50, a list of experienced fund managers that seek intentional social or environmental returns, covering a wide range of sectors and asset classes, they seek to show that the scope and scale of activity have increased in sophistication and that there is now a broader universe of ways through which impact investing can occur (Harji and Jackson, 2012).

Finally, while not providing much detail, Harji and Jackson (2012) note that while there is some consensus being formulated in at least some of the developed countries in the North as to what constitutes impact investing, it becomes apparent that actors in the South see impact investing through a different lens; an observation pointing to the existence of local divergence mechanisms in the impact investing field. They, so Harji and Jackson, tend to equate any investment in poor areas with impact investment. Such definition, the two authors argue, threatens to dilute the concept of impact investment to a point that renders its distinction from conventional investment approaches at the “Bottom of the Pyramid” illusory.

2.2.3 Actors, Market Development and Size

The 2009 Monitor Institute report provided a blueprint for how the global marketplace for impact investing could evolve. The process of generating the report and its final recommendations have proven to be influential in articulating and prioritising industry-building efforts. At the time, the research findings of the report indicated that “this emerging industry has reached a transitional moment in its evolution. It is poised to exit its initial phase of uncoordinated innovation and build the marketplace required for broad impact.” (Freireich and Foulton, 2009: 13). Based on the model of industry evolution the Monitor report put forward, Harji and Jackson (2012) suggest that the industry is currently going through the marketplace-building phase (see Figure 1).

Figure 1: Phases of industry evolution



Source: Freireich and Foulton (2009).

In this phase, semi-coordinated clusters of activity are still emerging, and infrastructure is being built to support the worldwide growth of the industry. However, from the perspective of the conceptual framework put forward above, the blueprint appears to be too homogeneous and linear as it appears not to account for local divergences that may exist.

In terms of actors, many studies try to generally distinguish between “impact-first” and “financial-first” investors. The 2009 Monitor Institute report defines impact-first investors as investors who seek to optimise social or environmental impact with a floor for financial returns, and financial-first investors as investors who seek to optimise financial returns with a floor for social or environmental impact (Freireich and Foulton, 2009).

Over the past four years the number and diversity of actors in the impact investing industry has grown significantly. Among asset owners, high net worth individuals and families have played prominent roles, as have private foundations and impact investing funds that function as intermediaries for the field, together with a few large financial institutions, particularly banks.

While foundations, financial institutions, family offices and impact investment funds play a leading role in unlocking capital, impact investing has seen only slow engagement of institutional investors such as pension funds, sovereign wealth funds and major corporations. Although the stewards of this type of capital are increasingly aware of the merits of taking non-financial considerations into account in investment decision making - many of the world’s largest institutional investors have signed the UNPRI - the majority of them do not engage in impact investing yet. Instead, most of them favour screening techniques and active shareowner strategies in order to prevent unnecessary environmental and societal harm. Only few development finance institutions (DFIs) have begun to play a more robust role in the impact

investing market in the developing South. For example, the Commonwealth Development Corporation (CDC) Group manages a recently established GBP 69 million impact investment fund on behalf of the United Kingdom's Department for International Development (GIIN, 2013a).

Further to the above mentioned asset owners and asset managers, the industry also comprises of demand-side actors such as companies, small but growing social enterprises and cooperatives that receive impact investments. Finally, the industry involves service providers, including local and global networks such as the GIIN, standard setting tools such as IRIS and global rating agencies GIIRS.

Regarding geographical location, it is important to note that most of the asset owners and managers have been based in the global North, and the United States in particular. At the same time most of the demand side actors have been based in the global South. While pointing to the need to address this imbalance against the background of emerging shifts in global governance and (economic) power structures (i.e. the establishment of the BRICS forum or the growing importance of the G20), Harji and Jackson (2012) argue that the geographic concentration of the industry in the United States, where it is most fully developed, is not inherently problematic but offers an enabling environment to further develop the sector. However, while the United States may offer an enabling environment from a technical point of view, it is important to caution that any notion and practice of impact investing that is too much geared towards the needs and context of one particular country is likely to impede its adoption in another.

Due to, among other things, the fact that actors around the world, influenced by their local context, are likely to interpret globally diffusing definitions differently (or even develop their own) the impact investment market is generally hard to measure.

General indications, however, are that there has been a significant growth in capital commitments towards impact investing over recent years. A 2011 survey that was able to capture over 2,200 private transactions totalling more than USD 4 billion in investments (up from a 1000 transactions and around USD 2.5 billion of investment the previous year) points to an increasing variety of investors in the sector and larger volumes and more types of capital being deployed globally – although the bulk of capital remains private debt and private equity (Saltuk, Bouri and Leung, 2011).

The European Sustainable Investment Forum (Eurosif) has measured the amount currently invested in the European impact investing market at Euro 8.75 billion (Eurosif, 2012).⁴ Overall, the 2009 Monitor Report estimated that the industry could grow to USD 500 billion globally within five to ten years, representing an estimated 1 percent of global assets under management in 2008 (Freireich and Foulton, 2009: 9). Another survey by J.P. Morgan (2010) projected in aggregate over the next ten years capital investments ranging from USD 400 billion to nearly USD 1 trillion with a profit potential of USD 183 billion to USD 667 billion (O'Donohoe, Leijonhufvud and Saltuk, 2010: 11). But not all observers agree with these projections. Alto (2012), for example, argues that based on the number of actual investment made vs. the number of investment opportunities reviewed by established impact investors the actual figures are more likely to range between USD 4 and 10 billion over the next decade.

Another indicator for the growth of the industry is the ImpactBase, a database of funds hosted by the GIIN. At the end of October 2013, the ImpactBase comprised of 271 active funds (see: impactbase.org), representing a major increase from 2011 when only 128 funds were listed (Harji and Jackson, 2012). The database also reveals that there is a broad regional coverage with funds flowing to projects in all regions of the world.

2.2.4 Impact Investing in South Africa: Actors and Size

As mentioned above, impact investing largely takes place in form of direct investments in enterprises in developing and emerging markets by investors based in the global North. What sets South Africa apart, certainly from the rest of the continent, is that there is a comparatively large community of South African investors who are looking to invest for impact in South Africa and beyond. Nonetheless, the field has received relatively little systematic attention among scholars interested in alternative investment strategies in South Africa. This section provides a preliminary profile of the sector.

The 2013 South Africa Investing for Impact Barometer revealed that of the 20 asset managers and 78 private equity/ venture capital firms surveyed 6 percent and 3 percent respectively consider themselves as impact investors. Yet a notable 54 percent of asset managers and 51 percent of private equity/ venture capital firms make reference to impact (Bertha Centre, 2013).

⁴ Eurosif (2012) has adopted the GIIN definition of impact investing: "Impact investments are investments made into companies, organizations and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market-to-market rate, depending upon the circumstances" (Eurosif, 2012: 10). However, the local context is likely to influence the way in which actors interpret and apply globally diffusing definitions.

The reference by a significant number of asset managers mirrors the fact that the concept of investing for impact has history in South Africa's investment community. Viviers (2007) has found that the majority of 43 SRI funds that were launched in South Africa since 1992 combined a targeted or cause-based investment strategy with a positive or best of sector screening approach while 27 percent employed a pure cause-based investing strategy. Although there is not an uniform view as to what exactly constitutes cause-based investing, the definition formulated in the 2003 Financial Sector Charter namely that it refers to "...the debt financing of, or other forms of credit extension to, or equity investment in South African projects in areas where gaps or backlogs in economic development and job creation have not been adequately addressed by financial institutions" (quoted in Viviers, 2007: 93) broadly resonates with what is understood as impact investing today. The majority of these funds were focused on the promotion of BEE, social infrastructure development and the upliftment of previously disadvantaged communities (Viviers, 2007). However, many of the funds employing a pure cause-based investment approach in the 1990s (particularly those focused on BEE) were discontinued by 2006 (Viviers, 2007).⁵

Today, the asset managers that explicitly identify themselves as impact investors are the impact investing joint venture between Cadiz Asset Management and the social enterprise consultancy Greater Capital, whose fund is listed on GIIN's Impact Base, and Mergence Investment Managers, whose Mergence I fund has been accredited by the global impact rating agency GIIRS as an emerging market pioneer fund⁶ (Bertha Centre, 2013). Fixed income asset management house Atlantic is in the process of raising capital for its specialised finance unit, which identifies itself with the concept of impact investing and makes use of impact measurement tools such as IRIS (see: atlanticam.com).

Of the South African private equity and venture capital investors that describe themselves as impact investors two, Business Partners Limited and Agrie-Vie, have funds listed as emerging markets pioneer funds under GIIRS. South African private equity firm Phatisa is listed on GIIN's Impact Base while the Abraaj Group and Leapfrog Investments, both of which are global investment firms with regional representations in Johannesburg, are members of the GIIN Investor Council. In addition to these players, Edge Growth and GroFin indicate that they are impact investors and 15 other firms make reference to impact (Bertha Centre, 2013).

⁵ Research building on these findings by Viviers et al. (2011) has found that of the 53 RI funds that have been launched in South Africa since 1992, about 26 percent employed a pure "impact investing" strategy, with most funds (89 percent) focusing on infrastructure projects.

⁶ GIIRS Pioneer Funds have been the first funds to receive a GIIRS impact rating. For more information and a full list of pioneer funds see: <http://giirs.org/for-funds/pioneer>.

The respective sources of capital these different players draw from are largely divergent, yet two dominant sources can be identified: pension funds and other institutional investors particularly in the case of the asset management industry, and international DFIs in the case of private equity investors.

South Africa also offers a substantive intermediary and technical assistance infrastructure. A host of business incubators provide support to new and existing businesses in South Africa and beyond to become investment ready for venture capital and private equity financing (Bertha Centre, 2013). Among them, Impact Amplifier and RLabs, are specialised in social enterprise support with a vision to achieve high impact.

Recent efforts by the investment platform Nexii to establish an impact investment exchange have not born any fruits due to challenges with mobilising the requisite financial resources. As a result, Nexii has transferred its role in jointly managing the exchange with the Stock Exchange of Mauritius to the Impact Investment Exchange Asia (IIX) (Ractliffe, 2013).

In 2008 the South African Network for Impact Investing (SAIIN) was launched. Operating as a national membership association, the network seeks to advance the practice and growth of the concept in South Africa. In response to its first conference in 2011, South African SRI researchers suggested that the local vocabulary of “targeted” or “cause-based” investing be replaced by the terminology of “impact investing”, which they argued seemed to more adequately capture its essence. In 2012, the second SAIIN conference took place, further encouraging the debate on and promotion of impact investing in South Africa among local and international investors (Giamporcaro and Viviers, 2012: 12). The network is supported by the Aspen Network of Development Entrepreneurs whose South Africa Chapter works to promote an enabling environment for South African SMEs.

2.2.5 Issues in Impact Investing: Assessing Impact

In recent years, a flurry of practitioner-orientated reports and articles on different aspects of the global impact investing market has been produced. Much of this body of literature reflects on the development and potential of the sector in its entirety (i.e., Freireich and Foulton, 2009; O’Donohoe, Leijonhufvud and Saltuk, 2010; Harji and Jackson 2012; Clark, Emerson and Thornley, 2012), focuses on specific sectors (i.e., housing, energy, agriculture and health), or looks at contemporary issues facing the industry, including questions around mobilising, placing and managing capital. One other aspect that has received substantive attention and that is of systemic importance to the evolving impact investing industry is the question of measuring impact.

Just as it has been observed for the RI market (Giamporcaro and Gond, forthcoming), the construction of an impact investing market depends on actors' ability and capacity to make the "non-financial" performance of an investment calculable so that it can be evaluated, compared, marketed and traded according to the quality of its social and/ or environmental impact. Such anthropological perspective on markets focuses on the complex assemblage of humans (market promoters, researchers and regulators) and non-humans (technologies and material devices) that need to be "networked" to sustain the existence of a market (Callon and Muniesa, 2005). It emphasises the centrality of techniques and devices that serve to make items "calculable".

In the context of "markets as calculative collective devices" (Callon and Muniesa, 2005) the concept of framing refers to the sum of activities by actors to progressively isolate an entity from its social or local context to make it calculable or quantifiable (Cabantous and Gond, 2009). The series of operations resulting in the calculability of a good (extraction, translation and reformatting) is also referred to as "singularisation" (Callon and Muniesa, 2005). At the end of this process usually stands a dominant, consensual and accepted "calculative frame" that makes the traded objects calculable (Cabantous and Gond, 2009). The process of constructing such kind of frame can be referred to as calculative framing.

However, several reasons can be identified from literature why measuring impact and making it "calculable" is a challenging task. Firstly, market players continue to struggle with the subordination of social impact to financial return, or the other way around (Grabenwarter and Liechtenstein 2011).

Secondly, data collection can be a complex, burdensome and cost-intensive task. Measuring social impact requires data about a company's practices, suppliers, clients, and the social and/ or environmental context in which it is operating in. In addition, in order to be certain of the relationship between a company's activities and the desired social impact, an investor ideally should know what would have happened in the absence of that company's activities (O'Donohoe, Leijonhufvud and Saltuk, 2010).

Thirdly, efforts to measure social and environmental impact performance "remain extraordinarily diverse" (Clark, Emerson and Thornley, 2012: 29). Catalogues of tools and approaches have been developed in the industry and related fields (i.e., Tuan, 2008; Kramer et al., 2009). The majority of investors implement proprietary development systems (GIIN, 2012). Investors that invest across sectors and geographical regions, in particular, are faced with the challenge of having to deal with different, highly customised metrics which makes it difficult to understand or compare the impact they are having across their portfolio (O'Donohoe, Leijonhufvud and Saltuk, 2010).

This situation has resulted, on the one side, in the desire for standardised approaches to measurement, while on the other side some see important reasons why customised approaches may be more relevant (Harji and Jackson 2012).

According to its developers, the IRIS and GIIRS initiatives were created to address these issues at market level (GIIN, 2012). Founded in early 2008 by a coalition that included the Rockefeller Foundation, the Acumen Fund and B Lab, with support from Hitachi, Deloitte, PricewaterhouseCoopers and the United States Agency for International Development (USAID), the IRIS initiative aims to provide a common taxonomy for social, environmental, and financial performance that can be embedded within proprietary reporting tools. Its common language, however, only refers to output indicators, and not outcomes or impacts.⁷ The initial version of the standards was launched in 2009. IRIS 2.0 was released in 2010, after a pilot phase involving pioneer funds and feedback from other industry stakeholders.⁸ The GIIN became the institutional home for IRIS in late 2009. The IRIS initiative has not only involved the development and refinement of standards, but also the promotion of adoption of these standards. In reference to the International Financial Reporting Standards (IFRS), their advocates have argued that the widespread adoption of one common standard is critical “for the industry to flourish” (Bouri, 2011: 146) as it would become possible, among other things, to aggregate and compare performance data from across the impact investing industry. Moreover, the IRIS initiative works with data collection partners to aggregate voluntarily-contributed anonymous data that enables the creation of data-driven market intelligence. The first IRIS data report, “Data Driven: A Performance Analysis for the Impact Investing Industry”, was released in 2011.

IRIS is intended to co-exist with other measurement initiatives, such as GIIRS Ratings and Analytics. Based on a series of key performance indicators and using the IRIS taxonomy, GIIRS assesses companies as well as funds and their portfolio companies on their performance in the area of governance, workers and community relations, and environment. The initiative is intended to deliver investors a comprehensive platform that allows them to compare in-depth data across sectors, regions and organisational sizes. GIIRS was launched in late 2011, with 15 GIIRS investors that manage approximately USD 1.5 billion in total assets.

⁷ For a good differentiation between output, outcome and impact see: Grabenwarter and Liechtenstein, 2011: 11.

⁸ Minor updates followed in February (Version 2.1) and November (Version 2.2) 2011. The latest round of revisions to the IRIS catalog could be reviewed during a public comment period from 01 October to 15 November 2013. The 3.0 version of IRIS is scheduled for release in early 2014. Updates will include additions and edits based on recommendations from a Land Conservation Working Group and a Health Working Group, as well as edits based on wider user and stakeholder feedback (GIIN, 2013b).

However, despite the efforts to establish IRIS and GIIRS as central calculative frameworks of the global impact investment industry in order to put it on a path of global convergence and although these initiatives have created interest communities around the issue of measurement, a survey by Emerson and Thornley (2012) observes that many actors intent keeping or adding their own internal impact systems alongside these standard systems.

2.2.6 The South African National Business System

Another central aspect for impact investing to flourish is that of the “enabling environment”. Notable in this context is the 2011 report “Impact Investing: A Framework for Policy Design and Analysis” by Thornley et al. that puts forward a concept framework for locating the role of governments in the impact investing market.⁹

While the framework is narrowly focused on what role governments can play through regulations, laws, fiscal measures and direct spending in order to stimulate or prevent growth in impact investing in any country, it can be broadly linked to the theory of institutionalism that considers markets as embedded within social and institutional contexts. Markets result from contestable political processes whereby regulative bodies, governmental agencies and other organised groups seek to shape the rules of the market (i.e. its governance structure) in their interests (Fligstein, 1996). The ensuing political struggles can be referred to as “political framing” activities. Hence, through political framing, such as lobbying, market actors seek to enact political frames that best serve their interests (Cabantous and Gond, 2009).

Social movement scholars have defined “frames” as an “action oriented set of beliefs and meanings that inspire and legitimate [...] activities and campaigns” (Benford and Snow, 2000: 614). The strategic activity of “framing” seeks to facilitate collective action in relation to a given social or political outcome. In order to successfully mobilise people and resources around a given issue (such as impact investing), it is crucial that the constructed and enacted frame resonates with frames of other groups of actors (Cabantous and Gond, 2009).

One way to analyse the social and institutional context is the national business system approach. It provides a useful analytical instrument to understand the differences in the way local actors adopt and practice globally diffusing activities such as impact investing.

The following sections present a sketch of the South African national business system based on the four key features of historically grown national frameworks as identified by Whitley (1998).

⁹ A prime platform for this body of work is the Impact Investing Policy Collaborative (IIPC), whose webpage (www.iipcollaborative.org) offers an extensive library on the various aspects of the intersection between public policy and impact investing.

*The Political-Economic System*¹⁰

South Africa has a Gross Domestic Product (GDP) of about USD 384.3 billion (2012), making it the largest economy and political powerhouse of the African continent. It is ranked as an upper middle income economy by the World Bank, and is considered to be a newly industrialised country (World Bank, 2013). In the formal economy, the mining, manufacturing, agriculture, financial services and retail sectors dominate. The weight of the services sector has increased steadily over the last 20 years and today accounts for more than half of the value added in the economy (IFC, 2011). Due to its relative economic strength and state of development, some donor countries such as the United Kingdom have decided to withdraw development aid from South Africa (Stuart, 2013) – a trend that is set to continue in the near future.

Since the end of Apartheid in 1994 the former liberation movement, the African National Congress (ANC) has been driving South Africa's policy agenda which has been underpinned by the conception of the state as being an agent for redressing the racialised injustices of the past (Edigheji, 2007: 3). The ANC holds a majority of 65 percent under South Africa's proportional representation system and leads government in a tripartite alliance with the Congress of South African Trade Unions and the South African Communist Party. While the political dominance of the ruling alliance poses challenges to the normalisation of democratic processes, South Africa can be described as a stable, multi-racial democracy with a highly developed civil society sector (World Bank, 2013). The latter plays important functions by on the one hand providing services to those underserved by the state and on the other by seeking to hold government accountable and driving policy change.

Although government's Growth, Employment and Redistribution policy of 1996 established a market-friendly macroeconomic framework based on stringent monetary policies and fiscal targets, the quest for racial transformation and the ideology of developmentalism have been key features of the democratic South African state (Edigheji, 2007: 1). After gaining political power the ANC government swiftly embarked on programmes to improve basic social services such as housing, electricity, water, health care and education for the impoverished majority population. The state's welfare expenditure has increased significantly: the number of beneficiaries of social assistance rose from 2.5 million in 1998 to 16.1 million in 2012 (Clark, 2013).

Evidently these programmes have contributed to improved social development indicators in a range of areas since 1994: the housing programme has built over three million housing units,

¹⁰ Instead of only analysing the "political system" as per Whitley (1999), the researcher thought it to be important to look at the "political-economic system" of South Africa in order to provide a more comprehensive outline of the local context in which the South African impact investing industry is evolving.

the percentage of households with potable water has increased from 60 percent to over 90 percent and access to electricity from 50 percent of households to about 80 percent (Bathembu, 2013).

In order to address the economic disparities created by the Apartheid regime which had favoured white businesses, the state decided that direct intervention in the redistribution of assets and business opportunities was necessary. Government's policy of Black Economic Empowerment (BEE) intended to transform the economy to be more representative of the race demographics of the country. Over ZAR 600 billion of BEE transactions have been recorded since 1995 and the number of black people and women in senior management has increased from less than 10 percent in the 1990s to over 40 percent in 2013 (Bathembu, 2013).

Despite these achievements, South Africa's social and economic transformation agenda remains incomplete. Almost two decades into democracy, the country remains a dual economy with one of the highest inequality rates in the world. An advanced, modern urban economy coexists in pointed contrast with the socio-economic poverty of townships, informal settlements, semi-urban and rural areas (World Bank, 2013). South Africa suffers from high structural unemployment. Currently, 25.6 percent of South Africans are unemployed (Berkowitz, 2013). Government has become the single biggest employer in South Africa (Rau, 2013). At the same time, labour absorbing sectors such as agriculture and manufacturing have experienced a slow overall decline over the last decades (NPC, 2012). Although small and medium enterprises contribute more than 40 percent of GDP and account for more than 60 percent of all employment, South Africa faces the challenge of the "missing middle". Businesses employing between 10 and 300 people are few. The sector faces problems in terms of access to finance and inappropriate regulation, among other factors (NPC, 2012). A 2013 review of the South African economy by the Organisation for Economic Co-Operation and Development (OECD) noted that South Africa has uncompetitive markets due to high market entry barriers in many network industries (like communications, transport and electricity) and product markets, stifling the entry of new and smaller players, and with that employment creation, efficiency and innovation (OECD, 2013). Government through South Africa's numerous state-owned enterprises still holds significant (or even monopoly) power in crucial sectors of the economy such as electricity, transport and communication.

Social infrastructure has been the fastest-growing category of spending since 2003. Yet backlogs persist, with rural areas and urban informal settlements being most severely affected (NPC, 2012). The government housing backlog stands at 2.1 million units, affecting over 8 million people (News24, 2013). The state of school infrastructure is dire for many thousands of learners (NPC, 2012). The outcomes of the public health system remain by government's own admission "poor" (Andrew, 2012).

The limited achievements since 1994 in lifting the living standards of the majority of the poor and reducing the income inequality has put the social contract under pressure (World Bank 2013). The 2012 Development Indicators Report released by government reveals that only half of South Africans believe the state is performing well in the delivery of basic services, the second-lowest recorded level (Munusamy, 2013).

Education and Labour System

The 2012/13 Global Competitiveness Report cites an “inadequately educated workforce” as the most problematic factor for doing business in South Africa. The same report ranks South Africa 132nd (out of 144) in terms of primary education (Schwab, 2012). Similarly, the 2010 Global Entrepreneurship Monitor (GEM) report ranks primary and secondary level entrepreneurship education as the most limiting factor to entrepreneurship in South Africa. The report further concludes that a lack of human capacity is one of the key obstacles to increasing entrepreneurial activity in South Africa (Herrington et al., 2010).

Labour market rigidities and low labour productivity are often cited as other crucial factors for hindering job creation and improved economic performance. The system of collective bargaining appears to benefit larger employers, undermining the competitiveness of smaller firms. Wildcat strikes pressing for above inflation pay hikes in the mining, energy, transport and farming sectors since 2012 have put into question labour-business relations in the country (World Bank, 2013). Consequently, the 2012/13 Global Competitiveness Report ranks South Africa 113th in labour market efficiency (a drop of 18 places from last year), with rigid hiring and firing practices (143rd), a lack of flexibility in wage determination by companies (140th), and significant tensions in labour-employer relations (144th) (Schwab, 2012).

Due to the trade unions’ influence in the ruling alliance and them losing touch with an increasingly militant workforce, a speedy resolution of the labour market situation seems unlikely. A strong state-business relationship does generally not exist. South African business which is still largely white owned has always been uncomfortable with the ANC’s interventionist posture and redistributive policies such as BEE, which in many cases have been considered as market-unfriendly.

However, the in 2012 released National Development Plan which provides a frank diagnostic of South Africa’s current challenges and a policy blueprint for the country’s future development may emerge as a shared developmental agenda between government and business that could help to boost development. The planning document concedes that government alone will not be able to achieve its developmental goals and that a reform of the public sector which is plagued by a lack of capacity and corruption will be required. The plan has already been publicly endorsed for its market-friendly posture by the South African business sector through its major

associations such as Business Unity South Africa (Busa) and others (Majokweni, 2012). On the other hand, major trade unions have harshly critiqued the plan as an “anti-worker” policy (Marrian, 2013).

The Financial System

South Africa has a sophisticated financial system backed by a sound regulatory and legal framework. At about 10.5 percent of GDP, the financial services sector makes a significant contribution to the country’s economy. Taxes from the sector amount to over 15 percent of GDP and employment represents about 4 percent (The Banking Association South Africa, 2012).

Although the ruling ANC is often critical of “market neoliberalism” in its policy rhetoric, government has largely accepted that the market should play a dominant role in the allocation of finance and has taken on Anglo-Saxon notions of good corporate governance (Mohamed, 2007).

The South African banking system is well developed, comprising the South African Reserve Bank and four dominant local players who offer retail and investment services. Although financial inclusion has improved since 1994, over 13 million people in South Africa remain unbanked (Keraan, 2010). The National Credit Regulator is responsible for regulating the credit industry by enforcing compliance with the National Credit Act, and is focused on developing an accessible credit market. However, only around 28 percent of adult South Africans have access to credit - stifling entrepreneurship and growth (World Bank, 2013). Thanks to, among other factors, the National Credit Act which guards against excessive lending, and exchange controls limiting international exposure, the South African banking sector has remained relatively unharmed by the global financial crisis (Bradlow, no date).

The non-banking sector is overseen by the Financial Services Board. It is responsible for the regulation of financial markets and institutions, including insurers, fund managers and brokers. The 2011/2012 Global Competitiveness Report has ranked South Africa first out of the 144 countries surveyed for securities market regulation. The country was also ranked first in relation to auditing and reporting standards and the effectiveness of corporate boards, and ranked number three in terms of the ability to raise finance through the equity market (Schwab, 2011).

Its stringent regulatory framework and liquidity makes the South African capital market appealing to international investors. The market capitalisation of the Johannesburg Stock Exchange (JSE) at 31 December 2012 was USD 903 billion, making it the 18th largest stock exchange in the world (World Federation of Exchanges, 2013). With about 400 companies and 900 securities listed, the JSE is Africa’s largest stock exchange. However, the market is highly

concentrated. As of 31 December 2010, the top ten listed companies by market capitalisation represented about 63 percent of the total JSE market capitalisation (IFC, 2011).

South Africa is also Africa's biggest institutional investment market, with assets under management worth more than USD 400 billion (Pretorius, 2011). Institutional investment can be disaggregated into four underlying groupings: collective investment schemes, institutional asset management of pension/ retirement funds, assets underwriting long-term insurance policies and financial services balance sheets. In 2009, the net worth of South African households was estimated at USD 690 billion of which about a third was invested in pension funds (IFC, 2011).

The investment market is governed by an advanced regulatory framework, with strong references to international best practice. Although the institutionalisation of SRI practices has been slower in South Africa compared to Europe and the United States, the country is considered a SRI pioneer among emerging market economies. In its recent history, the field has been spurred by a mix of religious values (based to the demand for Islamic finance), the commitment of the finance industry to contribute to the country's development and economic empowerment agenda (Giamporcaro and Viviers, 2012) and the sector's preference for self-regulation over coercive intervention by government¹¹ (for example in form of legislation enforcing prescribed asset allocations for retirement funds). Some of the important milestones include: firstly, the publication of the first report on corporate governance in South Africa in 1994 dubbed the King Report. Although the report and its subsequent versions (King II (2002) and King III (2009)), which consists of the three key elements of leadership, sustainability and good corporate citizenship, are only principles-based, compliance with the King report is a requirement for companies listed on the JSE. Secondly, in 2004 the JSE launched an SRI index – the first of its kind in an emerging market (Giamporcaro and Viviers, 2012). Thirdly, the Government Employees Pension Fund (GEPF), one of the 30 biggest pension funds in the world, signed the UNPRI in 2007. Given that the fund's accumulated funds and reserves exceed USD 100 billion (representing almost a third of South Africa's GDP), this had a significant knock on effect onto the local investment industry (Giamporcaro and Viviers, 2012). This trend became further institutionalised with the launch of the Code for Responsible Investing by Institutional Investors in South Africa in 2011 - an initiative spearheaded by the GEPF that seeks to bind local investors to the RI principles set out in the latest King report. Lastly, and related to the previous point, in February 2011 National Treasury published an amendment to Regulation 28 of the Pension Fund Act. In line with the UNPRI vocabulary it re-affirms that RI is consistent with the fiduciary duty of a fund, encourages the activity and allows for increased foreign and unlisted equity investment (Treasury, 2011).

¹¹ An observation also made and problematised at an international level by Richardson (2008) in his book "Socially Responsible Investment Law: Regulating the Unseen Polluters".

The Cultural System

The relative capacity of business people for philanthropy and general giving behaviours are complex social phenomena, particularly in multicultural and inequitable societies such as South Africa, and therefore difficult to capture accurately (Du Toit, 2012). Different international indexes ranking philanthropy and giving behaviour in societies around the world have placed South Africa very differently. The 2011 World Giving Index by the UK based Charities Aid Foundation has ranked South Africa 108 out of the 153 countries surveyed (Du Toit, 2012). In stark contrast to this, the 2010 report “Global Giving – The Culture of Philanthropy” from Barclays Wealth comes to the conclusion that South Africa is the second most generous nation, only beaten by the United States. The report claims that driven by government’s inability to address many of South Africa’s social challenges and the culture of Ubuntu (an African philosophy whose essence is that people are interdependent) the wealthy believe that they have a moral duty to bridge the gap (Barclay Wealth, 2010). Similarly, a 2005 national study on giving (the most recent in-depth national research available) suggests that South Africa is a “nation of givers” (Everatt and Solanki, 2005).

In 2010/2011, South African companies have invested ZAR 6.2 billion into Corporate Social Investments (CSI) - whose growth over that past ten years has outstripped inflation by 77 percent (Jacks, 2013). Another critical area of South African giving is the myriad of independent foundations established by wealthy South Africans. In addition to the foundations founded by liberal whites during Apartheid, since 1994 a growing number of wealthy black South Africans¹² are practicing various forms of philanthropy (Du Toit, 2012). One of these “new” philanthropists, former trade unionist Jay Naidoo, argues that CSR is not enough and encourages “philanthrocapitalist” ventures into social development. Businessman and ANC politician, Cyril Ramaphosa also argues that CSI should not merely be “cheque-book charity”. His Shanduka Foundation is directing most of its funds into education and black entrepreneurial development (Naidoo, 2010). There are also efforts by some businesses to support entrepreneurship and ethical business practice along their supply chains. For example, the Enthoven family controlled South African fast food franchise Nando’s is in the process of developing an ethical small farmer chili pepper supply chain in Mozambique, Zimbabwe and Malawi.

Thus, it could be argued that similar to the cultural system in the United States there is a strong ethic of stewardship and of giving back to society in South Africa. Interestingly however, in a study on social attitudes by South Africans that measured popular trust into institutions, (big) business has scored low trust while churches and national government came out on top

¹² Financial Sector Charter (2003:3) defines “black people” as all Africans, Coloureds and Indians who are South African citizens.

(Roberts et al., 2010), revealing signs of a great cultural reliance on representative organisations similar to Europe (Matten and Moon, 2008).

The relative capacity of South African society for entrepreneurship appears to be weak and a positive entrepreneurial culture missing. The GEM study series (2002-2012), which measures total early-stage entrepreneurship activity in participating developing and developed countries, shows that South Africa consistently ranks below the overall average rate. Although performance has been improving in recent years, these findings not only point to an important economic opportunity missed, but are also reflective of the unfavourable attitudes and perceptions regarding entrepreneurship among South Africans (Herrington et al., 2010). The 2012 GEM South Africa report finds that entrepreneurship does not seem to be a desirable career choice among the youth. A mere 20 percent of young South Africans are potential entrepreneurs, and only 15 percent possess entrepreneurial intentions - the lowest of the 10 sub-Saharan African countries surveyed, and substantially below the sub-Saharan African average of 56 percent (Turton and Herrington, 2012).

Table 2: Key features of the South African national business system.

Political-Economic System	<ul style="list-style-type: none"> - Middle income country status - Interventionist government with a desire for racial transformation and following an ideology of developmentalism: i.e. BEE policy - Relatively high state welfare expenditure - “Missing middle”: businesses employing between 10 and 300 people are few - Uncompetitive markets due to high market entry barriers in many network industries and product markets - Backlogs in social infrastructure, high unemployment and income inequalities
Education and Labour System	<ul style="list-style-type: none"> - Lack of human capacity constraints entrepreneurial activity - Labour market rigidities and low labour productivity - Weak state-business, strong state-labour relationship
Financial System	<ul style="list-style-type: none"> - Sophisticated financial system backed

	<ul style="list-style-type: none"> by a sound regulatory and legal framework - Large institutional investment market - SRI pioneer among emerging market economies: i.e. Regulation 28
Cultural System	<ul style="list-style-type: none"> - “Nation of givers” - Foundations founded by wealthy South Africans: “philanthrocapitalist” - Cultural reliance on representative organisations - Positive entrepreneurial culture missing

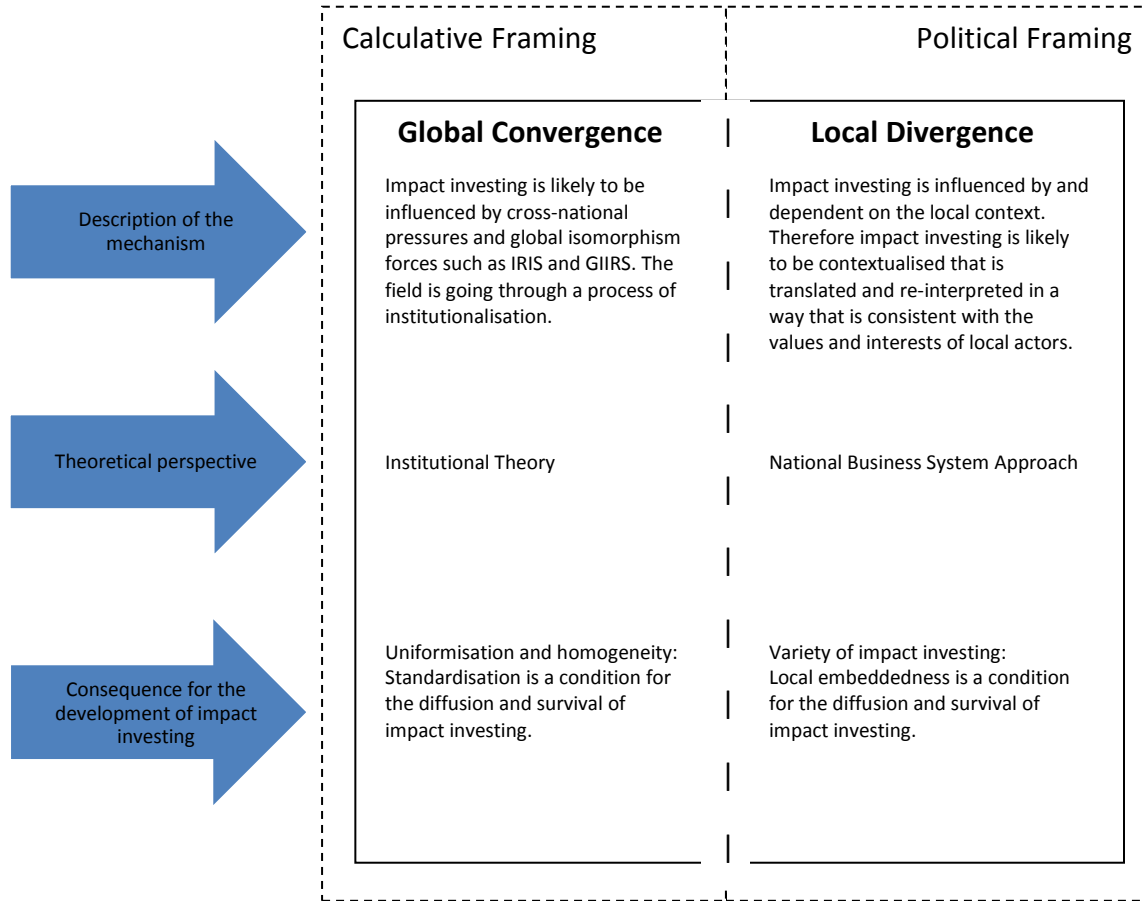
2.3 Conclusion

Although still in the early days of its development, impact investing is a maturing field to the extent that it has developed into a global phenomenon with an emerging global support structure. The creation of global networks such as the GIIN has led to a clear acceleration in knowledge production and global exchange of information between actors from across the investor spectrum. Numerous conferences around the world have offered platforms for exchanging ideas and venues to discuss how to grow the industry globally and regionally. The G8’s embracement of impact investing at their June 2013 meeting in London (Tozzi, 2013) is a clear sign that impact investing has become a recognised and acknowledged activity. Global directories of impact investing vehicles such as the ImpactBase have helped to increase transparency in the historically opaque impact investing marketplace. Calculative frameworks such as the IRIS taxonomy that seeks to serve as a standard in the definition of impact reporting indicators and the GIIRS impact measurement platform are diffusing around the world. Taken together, these developments show that impact investing is in a process of institutionalisation. This process is by no means accidental but has been actively driven by actors such as the Rockefeller Foundation who has made significant funds available to support initiatives that seek to homogenise the field in order for it to move out of its niche existence and enter into the mainstream of the global financial community.

On the other hand however, impact investing remains highly heterogenic. As pointed out above, there is no wide agreement on a common name and definition of what impact investing constitutes, and what it does not, with Harji and Jackson (2012) observing a marked difference between the logic that guides the activity in global North compared to the global South. Another characteristic that highlights ambiguity of the field is the dual identity of impact investing that distinguishes between “impact-first” and “finance-first” investors. The issue of

impact measurement remains extraordinarily diverse with the majority of practitioners reportedly using proprietary systems. Lastly, as the above analysis of the South African national business system has demonstrated, the different political, social and institutional contexts in which impact investing is embedded and in which resources need to be mobilised are highly idiosyncratic.

Figure 2: Global convergence and local divergence mechanisms influencing impact investing.



Source: Modification of Louche (2008).

Using the conceptual framework presented above (Figure 2) this study explores issues of global convergence and local divergence in the development of the South African impact investing industry: How far are the practices and understandings of impact investing in South Africa influenced by the above mentioned global efforts to build the field (i.e. in form of calculative frameworks such as IRIS and GIIRS) and to what extent are context specific factors (i.e. in form of political framings such as the need for social and economic transformation) shaping the way in

which it is currently evolving? Has the interplay of global convergence and local divergence mechanisms led to any glocalisation results?

The literature review conducted on studies using a global convergence/ local divergence perspective could only identify the work of Giamporcaro and Viviers (2012) as taking account of the impact investing market in South Africa. This lack of South African specific research calls for more research to be conducted in order to bring forward the debate on the development and future of impact investing in South Africa as well as to provide some insight into how the market is likely to evolve. It is for this reason that the researcher decided to undertake this study.

As shown above, the research in this area has been mostly qualitative in nature, in most cases involving a combination of desktop research and interviews. Due to the limited research conducted in this field, this research adopted an exploratory approach and followed a qualitative methodology using interviews with numerous stakeholders in the impact investing market to gather data. The following chapter presents the methodology adopted in more detail.

3. Research Methodology

“When little information exists on a topic, when variables are unknown, when a relevant theory base is inadequate or missing, a qualitative study can help define what is important” (Leedy and Ormrod, 2005: 134). As the previous chapter has revealed, little literature and knowledge is available on impact investing in South Africa. Therefore, in order to investigate the identified research questions the researcher has adopted a qualitative and inductive methodology.

3.1 Approach and Strategy

Given the objectives of the research and the fact that the concept of impact investing in South Africa is still very new and vague, it is appropriate to describe it as exploratory. The research problem being considered is entirely practical as it is one that exists in the real world. According to Leedy and Ormrod (2005), the qualitative research process is holistic and emergent in that the specific focus, design, measurement instruments and interpretations develop and possibly change as the research progresses. This approach seemed to be best suited to this research as it allowed the researcher to study categories that emerged from the data that lead to information, patterns and/or theories which are context bound and that help to explain the phenomenon under study (Leedy and Ormrod, 2005). Qualitative research exhibits two general characteristics: the problem occurs in a natural setting, and the problem is studied in all its complexity (Leedy and Ormrod, 2005). The qualitative research approach allowed the

researcher to obtain insight into complex settings without enabling a prediction of what those settings are, thereby influencing the outcome of the research.

Research that yields theory as an outcome is generally labelled as inductive research whereas a study that uses theory to test outcomes is called deductive (Bryman and Bell, 2007). This research, even though it makes use of certain theoretical frameworks to approach the particular area of interest, does not seek to test any theory against any situation in the impact investing market; hence is inductive in nature. The research also made use of data gathered through a single period and did not attempt to repetitively test theory by re-evaluating theory in a deductive manner.

Epistemological considerations are concerned with the question of what is (or should be) regarded as acceptable knowledge within an area of study (Bryman and Bell, 2007). As the research was entirely conducted among impact investing practitioners and professionals from related fields, it was assumed that all participants interviewed held sufficient knowledge about the discipline in order that their contributions can be considered valid. On the other hand, ontology refers to the theory of the “nature” of social entities and is concerned with the question whether social entities can and should be considered objective (Bryman and Bell, 2007). Although it is likely that the interviewees showed some bias based on their personal views and the strategic outlooks of the institutions they work for, for the purpose of this research it was assumed that all respondents were objective in their responses and free from external influences.

3.2 Research Design, Data Collection Method and Instruments

While in the field of qualitative research there are no clearly pre-defined formulas or recipes, just guidelines based on the experience of others regarding the choice and use of methods (Leedy and Ormrod, 2005), the researcher opted for interviews as the appropriate data collection method.

According to Leedy and Ormrod (2005) interviews are useful in extracting the following information: facts, people’s beliefs and perspectives about facts, feelings, motives, information relating to present and past behaviours, standards of behaviour (i.e., what people think should be done in certain situations), and conscious reasons for actions or feelings (i.e., why people think that behaving in a particular manner is (un-) desirable). Generally, there are three types of interviews in research: structured, semi-structured and unstructured interviews. A structured interview requires that all questions and the recording of the answers are standardised with the aim of providing all respondents with exactly the same context of questioning. Unstructured interviews, on the other hand, are not standardised with questions asked being fairly specific and the interviewee having discretion in how to reply (Bryman and Bell, 2007).

Information was predominantly gathered in the form of face-to-face or telephonic, semi-structured interviews with representatives of asset management companies, private equity firms, local and international service providers (i.e. consultancies, incubators and rating agencies), industry associations, local and international DFIs and a representative of the Rockefeller Foundation. The goal of selecting a qualitative research design through a semi-structured interview guideline was to adopt a phenomenological study perspective attempting to understand people’s perceptions, perspectives and understanding of a particular situation (Leedy and Ormrod, 2005). It allowed the researcher to comprehend the subject from an “insider’s” perspective (Leedy and Ormrod, 2005).

The interviews were conducted as open discussions which had the benefit of allowing interviewees to express their views and opinions in an unconstrained manner, and to explore the topic intensely and broadly. However, in order to retain structure during the interview, the discussions revolved around a list of central guiding questions (see Appendix A).

The interviews followed the framework presented in the table below:

Table 3: Interview framework

Part 1: Background	Information on each respondent’s educational background, job function and experience.
Part 2: Defining impact investing	Unprompted definition of impact investing, and thoughts on intentionality, measurability and motivation.
Part 3: Organisational practices	The organisations’ approach to measurement.
Part 4: Assessments	Drivers and barriers for the establishment of common impact reporting standards and rating systems. General assessments of the state of development of South Africa impact investing industry.
Part 5: Outlook	Views on the future of impact investing in South Africa.

The research instruments used were a review of the existing literature, an interview guide, and the responses from the interviews with impact investing practitioners.

3.3 Sampling

Sampling describes the process of selecting research participants from among an entire population. It involves decisions regarding which people, settings, events, behaviours and or social processes to observe (Bryman and Bell, 2007).

The researcher did not follow a random sampling approach but was rather purposeful in the selection of interview candidates. In order to gather comprehensive and accurate data, the researcher targeted interviewees who are representatives of organisation that have been identified by the South Africa Investing for Impact Barometer (Bertha Centre, 2013) as being active in the South African impact investing space. In addition, an invitation list for the conference “Impact Investing in Africa: Accelerating the Industry Regionally” co-hosted by the Rockefeller Foundation, the Tony Elumelu Foundation and the Bertha Centre for Social Innovation and Entrepreneurship at the Graduate School of Business of the University of Cape Town in April 2013 was made accessible to the researcher and provided a comprehensive set of contact data to choose from - an approach also known as convenience sampling. To secure further interviews, the researcher also asked most of the interview partners to recommend other interview candidates - an approach known as snowball sampling (Bryman and Bell, 2007).

All the interview partners can be considered as “experts” defined as “influential or well-informed people in an organisation or community” (Cooper and Schindler, 2003: 152).

In the end, the researcher managed to conduct 23 interviews with individuals from 23 different organisations. The interviewees included representatives of asset management companies, private equity firms, local and international service providers (i.e. consultancies, incubators and rating agencies), industry associations, local and international development finance institutions and a representative of the Rockefeller Foundation. The interviews lasted between 30 to 60 minutes, with most respondents being eager to converse and assist in the research being conducted. The names of the respondents and their organisations have been kept anonymous. Verbatim quotes are attributed only to a number, for example: Respondent 6. There is a vast amount of knowledge and experience among the respondents with a number of them being acknowledged as thought leaders and pioneers of the impact investing space in South Africa by their peers. The job titles of the respondents have been included in the table below to demonstrate the relative seniority of the interview partners in their respective organisations. A list of organisations interviewed is provided in Appendix B.

Table 4: Interview details

Interviewed	Date	Approx. duration	Location	Job Title
Respondent 1	15.05.2013	70 min	Telephonic	Associate
Respondent 2	30.05.2013	55 min	Telephonic	Investment Officer
Respondent 3	06.06.2013	50 min	Cape Town	RI Officer
Respondent 4	10.06.2013	75 min	Cape Town	CEO

Respondent 5	14.06.2013	65 min	Cape Town	Portfolio Manager
Respondent 6	20.06.2013	50 min	Telephonic	ESG Manager
Respondent 7	26.06.2013	75 min	Cape Town	CEO
Respondent 8	29.06.2013	60 min	Cape Town	ESG Consultant
Respondent 9	02.07.2013	40 min	Telephonic	Department Head
Respondent 10	05.07.2013	30 min	Telephonic	ESG Analyst
Respondent 11	08.07.2013	45 min	Telephonic	Consultant
Respondent 12	08.07.2013	25 min	Telephonic	Managing Director
Respondent 13	10.07.2013	45 min	Telephonic	Investment Officer
Respondent 14	22.07.2013	55 min	Telephonic	Regional Representative
Respondent 15	23.07.2013	30 min	Cape Town	CEO
Respondent 16	30.07.2013	50 min	Telephonic	Associate Director
Respondent 17	31.07.2013	45 min	Telephonic	Managing Director
Respondent 18	01.08.2013	50 min	Telephonic	Partner
Respondent 19	07.08.2013	30 min	Telephonic	CEO
Respondent 20	12.08.2013	90 min	Cape Town	Partner
Respondent 21	27.08.2013	40 min	Telephonic	Associate
Respondent 22	30.08.2013	40 min	Telephonic	Consultant
Respondent 23	02.09.2013	50 min	Telephonic	Department Head

3.4 Data Analysis Methods

All the interviews were captured by audio-recording, after which the interviews were transcribed.

The large body of data gathered through the interviews was analysed using content analysis seeking to break down and sort the content in terms of systematic categories or themes that

underlie the body of information (Leedy and Ormrod, 2005). In this process it was important to create discrete dimension with no or minimal conceptual or empirical overlap (Bryman and Bell, 2007). The themes were obviously to a large extent dictated by the questions asked during the interview, however, the semi-structured form of the interviews allowed interviewees to divert from predetermined dimensions and themes.

In order to make sense of the data, the researcher took the following steps:

1. Go through the data several times and organise it;
2. Peruse the entire data set several times to get a sense of what it contains as a whole;
3. Identify general categories or themes, and perhaps sub-categories or sub-themes as well;
4. Integrate and summarise the data (Leedy and Ormrod, 2005).

It is important to note that in carrying out the content analysis, the researcher had to be always aware and vigilant of the potential disadvantages of such analysis, including the risk of losing the context of what has been said and his own interpretive influence or bias (Bryman and Bell, 2007).

4. Research Findings and Analysis

This chapter analyses the findings that emerged from the interviews conducted. The first section focuses on definitional aspects of impact investing in South Africa. In line with the conceptual framework developed in the literature review, the following sections look, on the one side, at how globalisation forces shape South Africa's impact investing industry and, on the other side, how impact investing is influenced by its embeddedness in the South African national business system.

4.1 Research Findings

4.1.1 Defining Impact Investing in South Africa

Although a relatively large number of South African investors make reference to positive social and/ or environmental impact, only very few organisations explicitly use the term impact investing to label their investment activities (see 2.2.4).

Interestingly, even among those investors who at first glance would be identified as pioneers of the field, the terminology of impact investing has not necessarily grown firm roots in their vocabulary yet. One interviewee whose organisation manages a GIIRS emerging markets pioneer fund opened the interview by saying:

“I am not sure whether I am going to be of great help because although we have been operating in this space we have not called it impact investing.” (Respondent 12)

A South African definition of impact investing by a local organisation with influence and authority such as an industry association or government body does not exist. Neither seems there any process currently under way that would seek to come to a collective understanding of what impact investing would constitute from a South African perspective. Therefore, the researcher set out to establish what the respondents define impact investing to be.

While the respondents provided a broad range of answers, there was, at least on a general level, a good deal of agreement in that impact investing was defined as an investment process that seeks to generate positive social and environmental outcomes beyond a financial return, and which therefore in its underlying motivation was generally considered clearly distinguishable from the “do-no-harm” approach of SRI. On a strategic level - in other words, the question to what extent non-financial returns should influence the investment decision process - the vast majority of the interviewed impact investors emphasised that their most important concern was to not compromise their financial returns.

In terms of terminological heterogeneity, some of the respondents, who would make reference to positive social and/ or environmental impact in the context of their investment activities without using the impact investing label, would refer to the term “developmental investing”, or simply subsume these activities under the RI umbrella. For them impact investing implied reduced returns and/ or high risk, early stage investments - both of which they would consider at odds with their respective mandates. As the term developmental investing is also being used by the influential GEPIF to describe its investing for social and environmental impact activities, it may, at least in the asset management industry, emerge as a widely used label for impact investing related activities in South Africa.

Another interviewee from the asset management industry expressed that debates about how to define impact investing were rather irrelevant in practice and laid out an understanding of the field that may become characteristic of parts of the South African investor landscape:

“I don’t like making a big fuss about definitions. I think it is missing the point. [...] We don’t necessarily call it impact investing, we call it responsible investing. At ASISA [the Association for Savings and Investment South Africa] [...], which is our umbrella organisation - representing mostly asset managers, life insurers, medical aid schemes and short term insurers - a sub-committee has successfully drawn up a definition of responsible investing. It has taken a long time to arrive at a consensus around that and it is fairly broad. So we will certainly use that and

I am not interested in getting drawn into other debates around definitions because there is work to be done. [...] We are practical, we are investment managers.” (Respondent 15)

As, due to the bias in the sample towards active impact investors, it was expected that there will be a general agreement on what impact investing constitutes, and as some observers (see Harji and Jackson, 2012) have alleged that actors in the global South generally tend to define impact investing in looser terms, the researcher sought to get a sense of the extent to which the respondents would be willing to broaden the definition of impact investing. The following statement, made by a participant at the aforementioned impact investing conference hosted at the Graduate School of Business of the University of Cape Town, was used to trigger spontaneous reactions: “In poor regions such as Africa literally any investment that creates a job can be considered an impact investment”.

About half of the respondents agreed partially with the statement arguing that it would have “*a shelf life of a certain period*” (Respondent 17) but also deconstructed the flaws in such thinking:

“On a superficial level it is probably a correct statement but I think there are several layers to that statement and I would say that you want to interrogate, for example, the quality of the job and the duration of the job...” (Respondent 10)

The other half outright opposed this perspective on impact investing. Emphasising the need of the industry to clearly differentiate itself from other investment approaches one respondent argued:

“No. It does not differentiate anything. It means all investments in Africa are impact investments; and they are not because you can do huge societal and environmental harm by creating jobs. I think impact investing should take a lens of ‘job creation plus’. If you are creating jobs in very important African sectors that is one layer: so for example in energy or the agricultural value chain. I think the impact part of investing has to be clear.” (Respondent 20)

Another respondent linked such statement to an attempt by some actors to window-dress as impact investors:

“I agree with the understanding of that. It is rational propaganda by private equity investors who are developing a world where everything you invest in has an impact. But it always has to go back to ‘What is the primary intent? And what is the commitment to that?’.” (Respondent 7)

The respondents were also asked if they agreed with the following statement: “Too stringent definitions hinder market development”. In line with the reaction to the previous statement

two lines of thought emerged among the interviewees: while some emphasised the need to protect impact investing from becoming diluted, others thought it to be important to not make impact investing another exclusive club that requires “ticking a lot of boxes” before one can join.

While the boundaries of the term impact investing generally remain subject to debate, definitions that have sought to outline the concept more clearly are usually (implicitly or explicitly) based on two key elements that distinguish impact investing from other investment strategies: the *intent* to generate returns beyond a financial return and the commitment to *measure* these returns (see 2.2.2).

Looking at the surveyed South African impact investing landscape through the lens of the landmark report co-published by J.P. Morgan in 2010 that requires that “the business into which the investment is made should be designed with intent to make a positive impact” (O’Donohoe, Leijonhufvud and Saltuk, 2010), many of the current impact investments would not qualify as such. All the respondents referred to the intentionality to create positive non-financial returns as an important element of impact investing, but they would not necessarily require investee companies to have a stated social objective or mission at the time of the investment. The general consensus among respondents rather seemed to be that the intentionality for and foremost sits with the investor. It is therefore the investee company’s form (i.e. being a SME) and/ or line of business (i.e. provision of low cost housing) that needs to fall within the theory of change of the investor in order for it to be considered for an investment. Only by the time of negotiating the investment agreement would many investors seek to incorporate a clear alignment and commitment from the investee in terms of working together towards defined social and/ or environmental outcomes. One respondent observed:

“I think the very strict definition that the Rockefeller Foundation always had about being deliberate about your social and environmental impact is just semantics really. There are a lot of investment opportunities out there that see themselves as just doing business in a developing country but when you look at their business model it is extraordinary what impact it has on the lives of poor people.” (Respondent 4)

Another interviewee, however, cautioned against the approach of the investor being at the centre of the intent to achieve impact:

“That is where impact investors are getting it wrong: they come up with their own theory of change and they take their metrics and they push it down onto the entrepreneur, which is not necessarily amenable to achieving impact. There has to be a meeting point of both.” (Respondent 20)

Asked how important they think it is to measure the social and/ or environmental benefits created by impact investments, all the respondents emphasised that it was crucial. As one respondent argued:

“There is obviously a whole range of ways to measure impact but I think you can’t call it impact investing by just saying ‘we hope to make great social impact’ and not provide some measurements.” (Respondent 13).

Others directly linked the issue to a fund manager’s ability to raise capital:

“You need to measure impact. The flowery story about change is not good enough anymore. The competition for impact investing capital is too big; if you don’t measure no one will allocate funds to you.” (Respondent 4).

The discussions around the definitional dimension of impact investing also included a question on why the respondents thought impact investing was important, probing their motivations to get involved in the activity. The answers were generally couched in the narrative of South Africa being a country characterised by huge inequalities, high unemployment and poverty - all of which would need to receive urgent attention for the country to remain stable in the long run, as some respondents argued. Environmental concerns on the other hand seemed hardly to be a top priority, echoing the findings by research into the environmental dimension of SRI in South Africa by Giamporcaro and Pretorius (2012).

As mentioned above, the practice of investing for impact does have history in democratic South Africa (Viviers, 2007), expressing the commitment by the financial sector to the transformation and development of the country. This notion, it appears, is now being re-vitalised and, at least in parts, being re-packaged in the impact investing terminology. The interviewed asset managers in particular framed their involvement in impact investing activities as a vehicle for the financial sector to contribute to the solutions of the socio-economic problems facing South Africa, which government would be unable to solve on its own. As one respondent observed:

“We have got social issues. Whose responsibility is it to deal with them? Government’s. Business takes care of business. But government has made it clear that they cannot do it on their own. If government is not going to solve it, it is not going away and then it becomes everyone’s problem.” (Respondent 5)

Other interviewees from the asset management industry also stressed the importance of investing for positive social and environmental outcomes for their beneficiary base:

“We typically manage money for large institutional pension funds which have a beneficiary base that on some level can benefit from the outcomes of impact investing and I think we are starting

to see a much clearer understanding of the link between the social outcomes from investments and the long term aspirations of beneficiaries from pension funds. And I think those dots have been more clearly connected and as result of that there is a slow shift in understanding how investing in this manner can be aligned with the vision and mission of a pension fund.” (Respondent 10)

On the other hand, those respondents representing private equity organisations specialised in SME financing generally framed their answers about why impact investing is important in the broad theory of change and discourse of SMEs being job motors and vehicles for broad based wealth creation in society. The majority of these interviewees appeared to be less concerned with how their sector relates to government, and less “under pressure” to demonstrate commitment to the post-apartheid transformation project. A situation that may be explained by, among other things, the fact that this specific section of the private equity sector receives significant parts of its investment capital from international capital sources such as DFIs, and, at least in some instances, invests a good share of these funds outside of South Africa.

4.1.2 Globalisation Forces at Work: IRIS and GIIRS

Although the issue of impact measurement remains extraordinarily diverse with the majority of global practitioners reportedly using proprietary systems, it is one area that is central to the efforts of actors seeking to build a worldwide converging impact investing industry. The introduction of the so called IRIS standards that provide standard social, environmental and financial performance indicators for defining, tracking, and reporting the performance of investment capital has been an important avenue to achieve this. In practical terms, IRIS can be thought of as aiming to become a common global language for impact investing just as the IFRS provide an understandable and comparable accounting vocabulary across international boundaries. Therefore the researcher sought to find out how this calculative framework, which is being mobilised out of the United States, is resonating in the South African context.

The majority of the interviewed South African impact investors indicated that they are making use of the IRIS taxonomy, although in often patchy ways, for example using it only for one specific fund in their portfolio but not yet for others, or using only some of it in parallel with propriety systems. As one respondent admitted, assessing the positive social and environmental impact performance of investments is “*a bit of an emerging science*” (Respondent 17). Most of the respondents felt that although it was important to subscribe to what is internationally accepted, there were some weaknesses to the IRIS framework and thought it to be crucial to adapt it to the local context:

“I don’t think we should be reinventing the wheel. We should be drawing on the resources that are being dedicated to this internationally. And as we try to make it more relevant to the South African context - it’s adding rather than subtracting - we should subscribe to the international.” (Respondent 15)

Another respondent observed:

“The issue with social value metrics is that it is so broad and it also has a language that is very different in different economies and regions. For instance [an indicator like]: ‘How positive do you impact minorities?’ How does that sound in a South African context?!” (Respondent 20)

Hence the way IRIS is being implemented by investors in South Africa appears to be a good example of how a strong global impact investing trend is being adapted to the local context.

The respondents generally agreed that the establishment of common impact reporting standards is important for the future development of the impact investing industry as it makes communication easier, and allows for better coordination and enhances comparability between investments:

“I think every other industry seeks to align reporting standards. It just makes comparing apples with apples possible. It is seen across a number of different industries from the accounting profession to performance standards [...]. So I think it would only be good if this happens on the impact side as well.” (Respondent 21)

But there were also questions raised about standardisation especially as impact investing is still such a new and emerging activity. One interviewee cautioned:

“I think it would be more important to clearly define what an impact investing asset class is. [...] The correct definition needs to come first and then you can start to track and compare within certain industries. But to get standardised measures across multiple industries and geographies might not be possible.” (Respondent 18)

Others questioned whether standardisation is the most suitable development for the objectives defended by the impact investing community, which include the commitment to operate within a theory of change that requires some close engagement with the issue of impact measurement in complex social and environmental contexts. Through the standardisation process, conformity may become overemphasised and critical nuances get lost.

“I think it is important to have KPIs [key performance indicators] that make sure that you compare apples with apples, but the data collection should be more personal than just templates. There are some KPIs that you can collect internationally and it is important to be able to measure and share information. But I think the real value comes with some of the data that is not being collected in a cookie-cutter way across the globe.” (Respondent 4)

By standardising impact measurement and reporting, impact investing may also put the “wrong” pressure on investee companies, sterilise discussion and distract from the impact objectives:

“The problem right now is that the standardisation brings up too much data. That is not what the entrepreneur wants. I think the starting point has to be that: what do you want to achieve with your business? Now let’s overlay the closest metrics that we have and see whether there is a relationship.” (Respondent 20)

This concern was echoed by another respondent:

“I think the problem comes in that you have these IRIS indicators, 200 and something, and then you start thinking ‘how do I measure those things actually?’. But there is no point of measuring just for the sake of measuring. It has to be purpose driven and I think IRIS should position that much more strongly.” (Respondent 7)

As much as the majority of respondents emphasised that it was crucial to measure impact and develop a common reporting language, their methods of assessing social and environmental impact as presented to the researcher often appeared to be thin, partial, pseudo-scientific and *output* driven. While providing legitimacy to the good intentions of the investor, it seems that the impact measurement “science”, at least in the way it is generally being practiced, does little to provide an objective and holistic picture of the development *outcomes and impacts* by impact investments. To be fair however, measuring social performance is indeed complicated, expensive and easily subjective. The situation is little different in the long-standing field of development cooperation which has become increasingly under pressure to justify its existence. Governments and tax payers more and more ask for “hard evidence” of its positive social, political and environmental impacts which in many contexts are very elusive concepts.¹³

The second pillar for building a globally converging impact investing industry has been the ratings tool and analytics platform GIIRS, a “calculative device” that assesses companies and funds on the basis of their positive social and environmental impact performance using the IRIS

¹³ An assessment based on the personal experience by the researcher who himself has been working in this field over the last 5 years.

taxonomy (Brandenburg, 2012). As mentioned above, a number of South African organisations - including Agri-Vie, Business Partners and Mergence - manage GIIRS accredited emerging markets pioneer funds. Besides some representation from East African based funds, South African firms currently represent the majority of GIIRS pioneers from the African continent, demonstrating that the country is a significant anchor to this global institutionalisation movement.

GIIRS potentially addresses some of the issues around the strength and depth of impact assessments in practice that have been raised above. Through its ratings the independently governed platform provides comprehensive, transparent and comparable third-party verification of the social and environmental impacts investment funds and companies claim to achieve.¹⁴ As such, it can play an important gate keeping role that prevents these actors from window-dressing.

However, a number of practical challenges persist as a representative of the platform revealed: at company level, a lack of requisite skills and awareness among staff members has been an impediment to the smooth implementation of the rating process. At fund level, the already high reporting burden on fund managers with different investors requiring different reporting formats makes it difficult to introduce yet another framework to the market (Respondent 2).

The attitudes among respondents towards the establishment of a common impact rating system were mixed. First of all, not all respondents were aware of the existence of the GIIRS rating platform. A number of respondents replied that considering that there currently is no demand on them to be rated and that the market is still developing, they attach little importance to rating systems at this stage. This situation coupled with the costs involved for getting rated makes GIIRS, as one interviewee put it, *“a beggar in a market place that has not formed”* (Respondent 20).

How DFIs view the ratings platform seems crucial in this context as they are a major source of private equity capital on the continent. Once they and other investors start to insist on funds and investee companies being GIIRS rated, the market dynamics would fundamentally change in favour of the platform. At this stage however, GIIRS has still some convincing work to do. One DFI representative disclosed:

“We are not too keen on GIIRS because we found it quite prescriptive on what impact is. We figured out on a quite practical level that a lot of the questions that they have are questions that

¹⁴ For more details on the various steps involved in the ratings process see: <http://giirs.org/about-giirs/how-giirs-works>

we don't view as either relevant to us, or are questions that we think our investees in frontier markets would not be able to respond to. [Nonetheless,] a couple of fund managers we work with use it, but it is not something we asked them to." (Respondent 1)

Another respondent observed:

"GIIRS had modest success so far. The number of investment funds who have taken it up has grown over time but it has not been exponential growth. Maybe there is a need to restructure their model to get more organisations GIIRS rated. Exponential growth will come with a different model." (Respondent 16)

One respondent representing a South African investment fund thought it to be a disadvantage that the closest GIIRS office (being in Nairobi, Kenya) is located far away and that they therefore have to do much of their assessment over the internet and telephone. He further observed:

"A [potential] local version of GIIRS, Greater Capital, got captured by Cadiz which blocked partnerships with others. They could have been an important market maker. At the same time, the GIIRS process brings in international expertise with it which you can localise." (Respondent 5)

The international reputation of GIIRS was an important motivation for one of the interviewed South African firms to become a pioneer fund. Although the organisation - having investments across Africa - was satisfied with the work of an impact assessment service provider based at a local university which it had used in the past, they *"wanted to move to a platform that enjoys more recognition internationally"* (Respondent 17).

While there is little evidence of actual adaptation of GIIRS to the South African local context at this stage, and also limited room for a rating agency with a global outlook to adapt to local specificities, there appears to be some demand by market participants for it to move into that direction. In fact, as one respondent disclosed, GIIRS is currently discussing to set up a task force to look at the localisation of its system for South Africa. Should GIIRS as the South African market place matures not be able to deliver on the pressure to localise, other rating firms may emerge and become the frontrunners - at least among those South African impact investors drawing their investment funds from and looking to invest in South Africa.

Although arguing from a different perspective, one respondent explicitly expressed the need for more players to enter this marketplace:

“I only think GIIRS is going to be relevant when it has a competitor [...]. When a Fitch or Moody’s looks at this and says ‘you know what we are going to move into that!’, then there is competitive innovation around impact. And it can take a different flavour because one metrics may say you cannot standardise that and it is more important how you manage the deal, how you engage and how the entrepreneur takes it on board, and it’s not about a set of indicators in a dictionary.” (Respondent 20)

Some of the respondents questioned the emphasis on standardised indicators and assessment approaches more generally:

“I think trust with people and the nature of the environment cuts out a lot of the need for these big global standards that everyone is clinging to; because sitting in New York it [global standards] is something they [international investors] can understand. But there is no substitute for getting on the ground to see for yourself and develop trust in your partner. All of this is just adding layers after layers.” (Respondent 4)

4.1.3 Local Divergence: The National Context and Local Embeddedness of Impact Investing

As much as impact investing in South Africa is exposed to globalisation forces, many of the respondents pointed to influences by and the dependency of impact investing on the local context - that is the South African national business system.

On an institutional level, a number of respondents shared the opinion that South Africa’s highly developed financial system sets the country apart from other developing economies, especially on the African continent, and offers a sound foundation for the local impact investing industry:

“One thing in South Africa that is very exciting is that we have the dual capacity to implement impact investing successfully, meaning that we have a sophisticated financial infrastructure, and on the other hand we have a phenomenal pipeline of investable opportunities by virtue of the fact that we have so many social challenges. [...] I think we could be a showcase globally. I don’t think that you find many other environments where you have that common demand for solutions with the financial infrastructure that is able to servicing that.” (Respondent 15)

However, the fact that South Africa has such a sophisticated financial infrastructure with a strong institutional investment market and that it is often seen as *“a first and third world country at the same time”* (Respondent 5) was identified as a contextual influence that shapes, and to some extent limits, the type of investments facilitated by the emerging South African impact investing industry:

“Almost all of the impact investing in the country is using pension fund money or traditional assets. [...] So you are not getting the kind of riskier venture capital as much as perhaps in other African countries. For instance, the CDC [a DFI owned by the UK government] has made money available - but not in South Africa - just for capital preservation.” (Respondent 4)

Another respondent stated similar concerns related to the country’s middle income status:

“I see a continuous problem of South Africa being seen as a middle income country rather than a big economy with narrow ownership. There is this opinion that we don’t need it [patient, high risk impact investing capital] any more. All the [impact investing] infrastructure initiatives are based in East Africa [Kenya in particular] at the moment. It’s a big issue.” (Respondent 20)

In terms of the national policy environment, it is important to point out that there is no market from which government is completely absent. The state is usually a direct market participant providing and purchasing resources, and/ or an enforcer of standards and rules. However, public policy can also help to make economies viable and catalyse investment (Thornley et al., 2011). In the case of South Africa, two of the policies that have already been touched on above appear to be crucial: namely BEE and the recent amendment to Regulation 28 of the South African Pension Fund Act.

To re-iterate, the South African government introduced BBE to address racially based inequities resulting from apartheid-era policies. As the reputation of BEE became damaged for being perceived to benefit only a few privileged individuals, government shifted from BEE to Broad-Based Black Economic Empowerment (B-BBEE)¹⁵ in order to ensure that the policy impacts a broader cross-section of historically disadvantaged communities (Pitman, 2012). There are seven elements of the Department of Trade and Industry’s B-BBEE Codes of Good Practice. These include: ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socio-economic development. Depending on their size, companies that do business with government are scored on their performance in implementing each element, or a combination of elements (Pitman, 2012). In addition, the Financial Sector Charter, which evolved as an industry specific transformation charter as the B-BBEE legislation was being written, sets out a series of indicators and targets for financial services companies in South Africa on issues such as human resources development, procurement policy, access to financial services, empowerment financing and ownership. The Charter has successfully facilitated investment and financing for B-BBEE related services and industries such as the SME sector, low income housing and agriculture (Thornley et al., 2011: 72). However, many South African companies are still not B-BBEE compliant.

¹⁵ Despite the progression from BEE to B-BBEE, many South Africans still use the two acronyms interchangeably.

International observers often regard the policy as a powerful tool to mobilise investments into companies that through their ownership structure, employment and/ or procurement policies generate positive social impacts in terms of the racial transformation of the South African economy (Thornley et al., 2011: 71).

Others, however, argue that B-BBEE in its current form is still too narrowly focused on racial ownership and management requirements, at the expense of employment creation and alleviating poverty for the betterment of marginalised communities in South Africa. One of the South African respondents even found the policy to be an obstacle to the development of impact investing in South Africa:

“If you want to look at a more inclusive BEE, you have got to start to look at social value. [...] I am much less hopeful for impact investing becoming a mainstream trend in South Africa compared to anywhere else in the world. People immediately look at BEE as our form of impact investing and almost let it go at that, and that is such a tragedy.” (Respondent 7)

While acknowledging the potential opportunities that B-BBEE offers for impact investing in South Africa, another respondent argued that the two are yet to converge:

“I think where the opportunity lies in the South African context is that we have not aligned what we mean by transformation and the money that is available for transformation, because it has taken a racial lens to solving social and environmental problems. So I think there is a mismatch between developmental and impact investing capital in South Africa purely because the languages have not yet met. But when I talk to certain players [South African development finance institutions], what gets them excited about deals is the impact. It’s just that their mandate is from a race lens but what they are actually looking for is an impact standpoint. BEE is on a journey that is going to collide with impact.” (Respondent 20)

At the same time, the B-BBEE codes seem to already serve as an important entry point in conversations with stakeholders who still have reservations when it comes to impact investing as it remains considered as something that is not financially viable. As one interviewee remarked:

“In our conversations with corporates we put more emphasis on the enterprise development aspect as that is something they are familiar with through the BEE codes and we add to that an impact investing story.” (Respondent 13)

So despite current imperfections and perceived tensions with the concept of impact investing, B-BBEE appears to be an important local divergence mechanism and political framing that influences and interplays with the South African impact investing industry.

While it is still early days to foresee to what extent the 2011 promulgated revision of Regulation 28 of the South African Pension Fund Act will help to make the pension fund industry a driver of impact investing in South Africa and the region, the revision has at the very least pushed the door open for investors to provide funding for unlisted social enterprises and responsible economic development.

Regulation 28's preamble requires that pension funds take ESG considerations into account in their investment decision making processes and links RI to the fiduciary duty of fund trustees. Further, the regulation's revised asset allocation guidelines allow for investments into alternative asset classes including unlisted debt and equity of up to 35 percent – both of which play a crucial role in impact investing. And lastly, the regulation openly acknowledges the potential for prudent investment to meet the needs of beneficiaries and to contribute to the development of South Africa at the same time (Treasury, 2011).

Respondent 22 observed that for the moment the majority of South African pension funds still grapple with questions of how to operationalise the regulation's focus on RI and how to report on their ESG performance. Only very few pension funds would show pro-active interest in impact investing - a view that was shared by a number of interviewees.

The association of impact investing with an uncertain value proposition, especially among investment consultants, was generally regarded as the main obstacle for the activity to enter the institutional market mainstream:

“South Africa has already had a push back on SRI because when people think of SRI they think they will have to compromise on returns. Impact investing is clouded to a large extent with those same barriers.” (Respondent 7)

Initiatives such as the Sustainable Returns Project led by the IFC and the Principal Officers Association of South Africa (POA), which seeks to integrate ESG considerations into the mainstream of retirement industry investment practices in Southern Africa by providing analysis, training and guidance, play a crucial educational role in this context. Although the project's focus and mandate does currently not include impact investing, its “Responsible Investment and Ownership Guide” makes reference to the concept. In its fourth and final stage (2012-2015), the guide's recommended RI route map encourages funds to engage in

investment grade opportunities targeting, among others, “SME development and/or social impact investment” (POA, 2012: 47).

Despite the generally cautious reaction by the pension fund industry, Regulation 28 has undoubtedly put in motion a shift in the way pension funds think about their investments, which in the mid-term future may extend into greater awareness of and increasing capital commitments to impact investments. However, due to the specific mandate of pension funds, these capital commitments are likely to facilitate only a specific type of impact investments – a circumstance that has already been touched on above:

“Regulation 28 will allow unlisted investments but I cannot see them [pension funds] changing their risk profile. I see it happening at that Cadiz level [a firm that has pioneered impact investing in the asset management industry] where it is much bigger size companies absorbing debt. I cannot see pension money getting heavily involved in early stage equity.” (Respondent 20)

One asset owner that has already conceptualised the shift from RI to investing for impact is the GEPF. Under its 2011 developmental investment policy the GEPF plans to allocate 5 percent of its overall portfolio of over ZAR 1 trillion towards investments that support “positive, long-term economic, social and environmental outcomes in South Africa” (GEPF, 2011: 3). The policy rests on four pillars including investments into economic infrastructure (i.e. energy, water and transport), social infrastructure (i.e. affordable housing, education and health care), the “green economy” (i.e. renewable energy, recycling and conservation), and new enterprises and B-BBEE. Under the latter pillar the policy document particularly states “supporting the growth of impact investing in South Africa” (GEPF, 2011) as one of its investment actions. The Public Investment Corporation (PIC), the GEPFs primary asset manager, is currently operationalising the policy by setting up the requisite fund structures. As the GEPF’s advancements in the field of RI before, the developmental investment policy is likely to have a knock on effect onto the South African pension fund and asset management industry. As one representative of the GEPF observed:

“We have already started to see a lot more interest and proposals coming our way with a focus on impact. But they would obviously use the language of the GEPF, so they are talking about developmental assets and investments. [...] I think we will inspire and are often bench-marked by our local and international pension fund peers.” (Respondent 6)

Another contextual factor that was highlighted by some of the respondents as influencing the form of impact investing as it is evolving in South Africa from the capital demand side is the issue of entrepreneurship. As discussed above, the capacity of South African society for

entrepreneurship is generally seen as relatively weak and a positive entrepreneurial culture appears to be missing. As one respondent observed:

“We have a very bad environment for entrepreneurship and venture capital in South Africa, which they don’t have in East and West Africa. They are much more entrepreneurial driven. [...] Impact investing and a social grant system do not go hand in hand, someone once said to me. South Africa has a massive grant system. We don’t have the appetite in our populous to deliver these things: the services are broadly there, so you do not have to deliver them through entrepreneurial commitment. I think this is one of the key points.” (Respondent 7)

It is interesting to note in this context that while ASISA, the industry body that represents the interests of, among others, the asset management industry, appears to have collaborative discussions among its members on issues relating to investing for impact, the South African Venture Capital and Private Equity Association has not yet formally engaged with the issue of impact investing (Respondent 19).

Another respondent broadly echoed the above concerns around a lack of strong entrepreneurial culture in South Africa, albeit with an emphasis on social entrepreneurship:

“We don’t have in South Africa the class of entrepreneurs that you have in Nairobi, Delhi or San Francisco [...] driven to create fully fledged social enterprises. [...] It’s a problem. We either need to admit that what we believe to be the South African impact investing eco-system is not involved in impact investing, or we need to just say: actually we have 30 percent unemployment, we have a massively traumatised population with huge groups of people that have been marginalised for so long that it is hard for them to start businesses and take control of their financial future, and because of all that, things that would be out in other regions are in here [i.e. considered impact investments].” (Respondent 11)

At the same time, South Africa’s uncompetitive network industries and product markets stifle the entry of those entrepreneurs that do exist, and with that employment creation and innovation. As one respondent observed:

“I think impact investing can be a distraction. We cannot produce a society where 95 percent of the population own nothing and 5 percent everything, and they create this little subset called impact investing. We really have to look at shared value constructs and we have to build a society that completely capacitates and allows new entrants to spur innovation and diversify ownership.” (Respondent 20)

4.2 Research Limitations

There are a number of data limitations to the research conducted that impede on the generalisability of the findings. Firstly, due to the limited time available and the time consuming nature of the interview process, the sample size may not be sufficient to represent the view of the South African impact investing population. Secondly, due to the non-random sampling approach of the research, the findings may be biased and not represent the views of the greater impact investment community in South Africa. In specific, the views of smaller, independent impact investors (i.e. business angels or “philantrocipitalists”) have not been captured. Some of the targeted representatives of relevant organisations such as South African DFIs did not respond to attempts to set up an interview.

In an effort to ensure the reliability of the research, the researcher personally performed all the interviews to maintain consistency across the subject matter. In addition, the researcher followed the auditing approach as suggested by Leedy and Ormrod (2005): complete records of all phases of the research process have been retained in an accessible manner for peers to review the data at any time in order to establish whether proper procedure has been followed as well as to test inter-observer consistency.

The validity of the findings, or in other words the integrity of the conclusions that have been generated from this research (Bryman & Bell, 2007), is subject to the context and time at which the research was conducted. Whilst the results of the research are useful to understand some of the current dynamics in the impact investing industry in South Africa, policy changes by government for example may have a significant effect on the views of the sample population.

The observations and the generalisations presented are those that the author considered to be the most important.

5. Discussion and Conclusion

Evidently, the global phenomenon of impact investing and its emerging calculative infrastructure have reached South Africa. Like in other countries around the world, impact investing in South Africa means different things to different people. It is still a very young, complex and evolving investment activity which is difficult to define and reduce to a common denominator. The activity closely co-exists with other investment strategies whose objectives go beyond pure financial return such as SRI, RI and developmental investing. Although impact investing still occupies a tiny niche in South Africa’s investment market, there is, at least compared to other developing countries, a large community of South African impact investors who are looking to invest in South Africa and beyond. The reasons for this and the way in which

impact investing is emerging more generally is, as demonstrated in this research, by no means accidental but the outcome of influences by global isomorphism forces and South Africa's local context.

Although the approaches to impact measurement among South African impact investors remain diverse, the international movement towards standardisation in form of IRIS and GIIRS, both of which originate from the United States, has made its mark in South Africa. The majority of the interviewed South African impact investors indicated that they are making use of the IRIS taxonomy in one way or the other. In addition, South African firms currently represent the majority of GIIRS pioneer funds based on the African continent, demonstrating that the country is an important anchor to this global institutionalisation attempt. The two initiatives not only enjoy recognition among South African investors due to their global spread but also have been able to fill an existing gap in the local impact investing market: just like in the field of SRI, where for example the provision of ESG ratings for the SRI index of the JSE has been outsourced to a London based service provider (Giamporcaro and Viviers, 2012: 18), a strong local calculative infrastructure is lacking in South Africa. The small size of these markets is likely to be one of the major impediments for local rating houses to emerge as it becomes difficult to develop financially viable business models.

At the same time, it appears that the market is not yet mature enough to fully accept dominant, consensual and accepted calculative frameworks as definitions and understandings of impact investing are still widely divergent. Furthermore, as shown in the research findings above, there is evidence of processes that seek to localise these global influences: some organisations, for example, would generally work with the performance indicators as defined in the IRIS taxonomy to assess impact, yet complement those with indicators that better reflect South Africa's local social and political context - producing glocalisation results at least at a company level. GIIRS has still to convince fund managers and investors in South Africa and beyond of the value proposition of getting rated at a cost. The future growth potential of GIIRS in South Africa in particular seems to depend on, among other things, its ability to further adapt to the local context and show more local presence. However, GIIRS first of all would need to be sure of the profitability of such strategy. At the same time, if it fails to localise, other local or international service providers that fill this gap may emerge and contest GIIRS's position; provided that the impact investing market grows. On the other hand, the emerging "hegemony" of the IRIS taxonomy - primarily due to its in-built adaptability and less prescriptive nature - seems to be largely unchallenged.

Generally, the prospects for calculative frameworks such as IRIS and GIIRS to gain in importance, and the commodification process of positive social and environmental impacts to accelerate,

will be closely linked to the mobilisation of corresponding political framings - an interplay that has also been observed in research into the chances for the commodification of environmental risks in the South African investment industry by Giamporcaro (2010). In other words, once South Africa's investment community will start to be asked more inquisitive questions about the positive social and environmental impacts it claims to have by DFIs, asset owners, pension fund beneficiaries, or even by government, calculative devices such as IRIS and GIIRS that are able to facilitate adequate and transparent answers will be in higher demand.

The need to deal with the social and racial legacy of apartheid and the existence of a sophisticated financial system with a large institutional investment market which controls significant stakes of the South African economy are central context specific factors shaping the way in which impact investing is currently evolving in the country. In order to avoid political interference and regulation by government, for example in form of legislation enforcing prescribed assets for retirement funds, South Africa's financial community has since the early 1990s been under pressure to demonstrate its commitment to the development and racial transformation of the country. As noted above, government-private sector relations are generally tense. Unsurprisingly therefore, some of the most visible promoters of impact investing in South Africa are "financial-first" investors from the asset management industry, in addition to a number of private equity and venture capital investors, the majority of which provide finance and technical expertise to SMEs. The global mobilisation efforts around impact investing appear to some extent have reinvigorated the developmental commitment by South Africa's investor community but now packaged in the impact investing terminology and based on international calculative frameworks, giving them the opportunity to market their products to investors around the globe by using platforms such as GIIN's ImpactBase.

However, the rhetoric and practice of impact investing on the one side and of "developmental" investing on the other are yet to fully converge. Firstly, although a relatively large number of investors make reference to positive social and/ or environmental impact, only very few organisations employ the term impact investing to label their investment activities. The majority of South African pension funds still grapple with questions of how to operationalise Regulation 28's focus on RI - making impact investing a distant endeavour. Perceptions that impact investing will necessarily compromise financial returns seem to be persistent. Secondly, the B-BBEE policy remains a powerful political framing through which finance for development and transformation is mobilised. However, its narrow focus on racial ownership and management requirements at times prohibits broader social impacts that could be achieved. For example, a business, although having great potential to positively impact the lives of people in previously disadvantaged communities, may be ignored by investors under the current framework simply due to its ownership structure. If B-BBEE is indeed on a journey that is going

to collide with impact investing, as observed by one of the respondents, this could provide a significant boost to the impact investing market in South Africa. However, this will not happen naturally but will require concerted “political re-framing” efforts in form of lobbying and awareness-raising by those seeking to develop the market in South Africa.

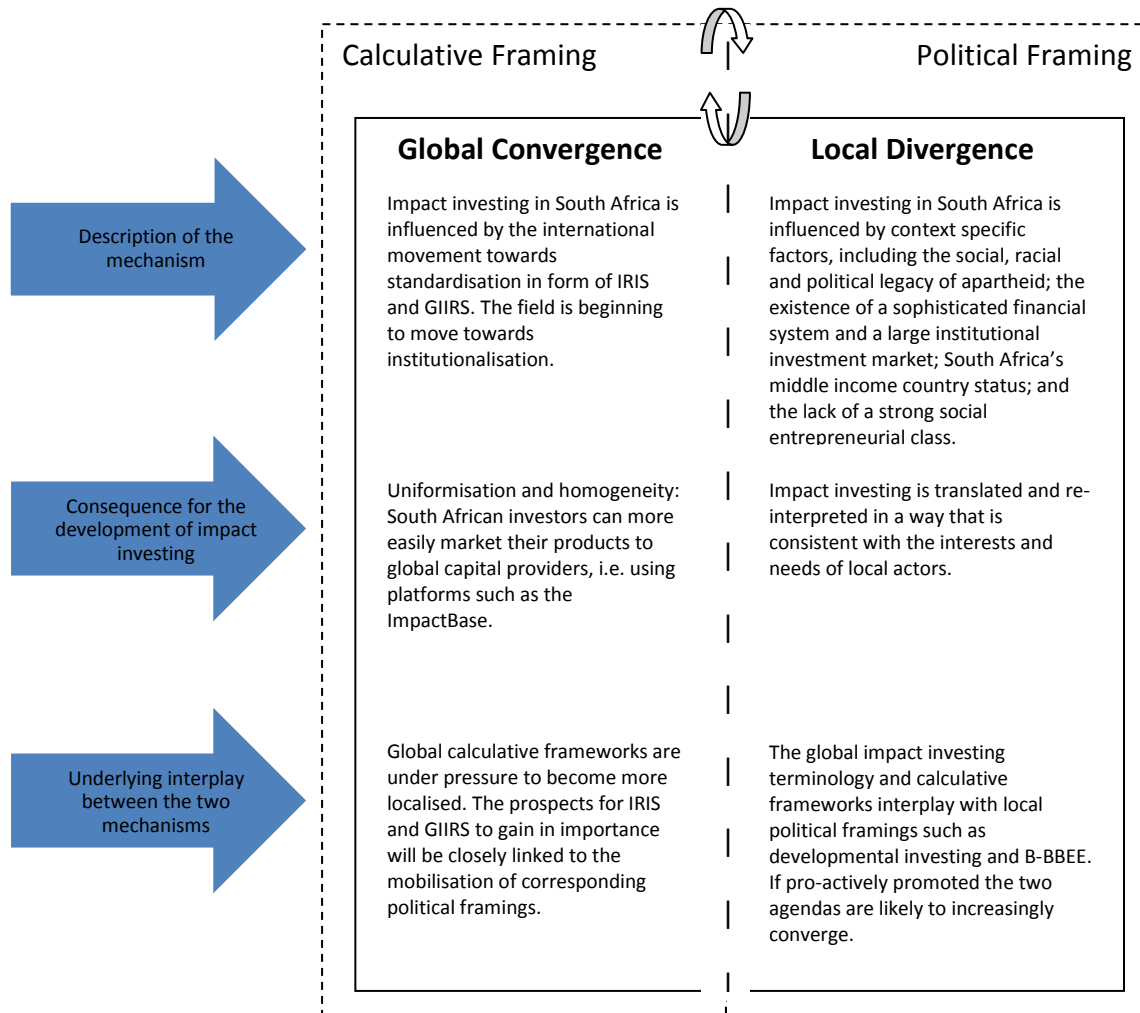
Lastly, the existing leaning in large parts of the South African developmental investing and impact investor landscape towards institutional investors together with a lack of a significant class of social entrepreneurs and an entrepreneurial culture more generally, impacts on the type of impact investments facilitated. With the typical investment being that of a company with an established track record which is able to absorb significant amounts of debt or equity and that, albeit it operates in a sector serving the needs of marginalised groups, was not necessarily designed with the intent of achieving a defined social objective, some respondents have questioned whether this would still be considered impact investing in other contexts at all.

Early stage equity and “impact-first” driven investment opportunities will find it rather difficult to attract capital in South Africa. International DFIs that would be able to make the required high-risk and patient capital available tend to ignore South Africa for such projects due to its middle income status. It will therefore be up to local DFIs and local “philanthrocapitalist” to fill this niche. The potential is there, but as of yet they appear to not be playing the leading role they could.

Platforms such as SAIIN will have an important lobbying and marketing role to play in order to further build the market place. However, the network appears to currently lack the financial resources to play this role to the full. Furthermore, the fact that the South African impact investing market comprises players whose principal mandates and outlooks are largely divergent - with on the one side South African pension fund asset managers looking to invest in South Africa and regional representation of global private equity investment firms on the other - further complicates the situation. Some organisations therefore appear to prefer working through their individual industry associations such as ASISA, or global associations such as GIIN.

This research, using a qualitative empirical approach, has sought to analyse the development of impact investing in South Africa as an investment activity that is influenced by both global isomorphism forces and its local context. Its findings contribute to the body of literature on globally diffusing alternative investment strategies that explores and theorises the empirical interplay of these two mechanisms in different geographical regions. It also offers some insight into how calculative and political framing mechanisms that underlie these forces work together to construct what is the South African impact investing market. The main research findings can be summarised as illustrated in figure 3 below.

Figure 3: Interplay of global and local forces influencing impact investing in South Africa.



Source: Modification of Louche (2008).

While the research is limited by the fact that the South African impact investing market is still at an early stage of development, it is hoped that the exploration provided delivers a useful first-level analysis and deepens the understanding of some of the dynamics shaping the industry going forward. For future research, it would be interesting to study the evolution of the interplay between the identified mechanisms over time. Furthermore, the influence of variables such as the type of investor (i.e. impact-first vs. financial-first or asset managers vs. private “philantroc capitalist”) could be given closer attention as they are likely to impact the strength of the influence of both the global convergence and local divergence mechanisms at play.

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Appendix A – Interview Guideline

The guideline below formed the general basis for the semi-structured interviews conducted for this research. However, in order to bring it into line with, for example, the organisational background and time requirements of the respondents, some questions may have been added, taken out and/or modified.

General:

1. Gender?
 - a. Male
 - b. Female

2. Briefly outline your educational background?
 - a. Finance/Economics
 - b. Business/Management
 - c. Natural science/Developmental studies
 - d. Arts/History/Law
 - e. Other (please specify)

3. What organisation are you working for?
 - a. Foundation
 - b. Rating Agency
 - c. Private Equity Firm
 - d. Asset Management Firm
 - e. Development Finance Institution
 - f. Other (specify)

4. Briefly describe your job function and role in the organisation?
 - a. Portfolio/Investment Manager
 - b. Financial Analyst
 - c. Extra Financial Analyst
 - d. Investors Relations
 - e. Marketing
 - f. Other

5. How long have you worked for your current organisation?
 - a. 0 to 5 years
 - b. 5 to 10 years

- c. 10 to 20 years
- d. More than 20 years

Defining impact investing:

6. How would you define the term “impact investing”?
 - a. Which of the following definitions do you associate with most? Why?

*“Impact investments are investments **intended** to create positive impact beyond financial returns” (O’Donohoe, Leijonhufvud and Saltuk, 2010)*

*“Impact investing is any profit-seeking investment activity that **intentionally** generates **measurable** benefits for society” (Grabenwarter and Liechtenstein, 2011: 10)*

- b. Do you agree with the following statements? Why?

In poor regions such as Africa literally every investment that creates jobs can be considered an impact investment.

Too stringent definitions hinder market development.

7. How, if at all, would you distinguish its underlying motivations and practices from other fields such as Socially Responsible Investment (SRI) and Environmental, Social and Governance Standards (ESG) integration? What terms does your organisation use to refer to its investment strategy?
8. What is the approximate value of your organisation’s impact investments and how does this compare to the organisation’s overall investments?
9. Would you consider your organisation as one that seeks to optimise social/ environmental impact with a floor for financial returns, or as one that seeks to optimise financial returns with a floor for social/ environmental impact?
10. Why do you think impact investing is important? What is impact investing the answer to in the context of South Africa?
11. Do you see the *intent* to generate benefits to society as a sufficient condition for an investment strategy to constitute impact investing? How important do you think is it to *measure* the social and environmental benefits created by impact investments?

Practices and Assessments:

12. What analytics platform does your organisation use to assess the positive social and environmental impact performance of its investments? How was it developed?
13. How important do you think the establishment of common impact reporting standards is for the future development of the impact investing industry?
14. How important do you think the establishment of common rating systems is for the future development of the impact investing industry?
15. What do you think are the top three barriers to the establishment of a common market infrastructure in the impact investing market in South Africa? (i.e. the establishment of a common market infrastructure/ common reporting standards)
16. What do you think are the top three enablers to the establishment of a common market infrastructure in the impact investing market in South Africa? (i.e. conducive laws, regulations, fiscal measures)
17. What role do you see the Impact Reporting and Investment Standards (IRIS) initiative and the Global Impact Investing Rating System (GIIRS) play in this context?
18. At which stage do you think the impact investing market in South Africa finds itself at the moment? How do you think it differs from that in other regions?
19. Has your organisation engaged in lobbying for the adoption of IRIS and GIIRS over the last two years in South Africa? If so, in what context (i.e. among business peers, capital providers)?

Outlook:

20. What market trends do you foresee for the impact investing industry in South Africa over the next 5 to 10 years?
21. What do think will be the top three drivers of future growth in the impact investing market in South Africa?

Appendix B - List of Organisations Interviewed

- Abraaj Group
- Agrie-Vie
- Atlantic Asset Management
- B-Lab
- Business Partners Limited
- Dalberg Global Development Advisors
- Edge Growth
- FMO
- Futuregrowth Asset Management
- Government Employees Pension Fund
- Greater Good SA
- GroFin
- IFC
- Impact Amplifier
- Leapfrog Investments
- Mergence Investment Managers
- Nexii
- Norfund
- Obviam
- Old Mutual Investment Group South Africa
- Rockefeller Foundation
- South African Venture Capital & Private Equity Association
- Sustainable Returns Project

Appendix C - Informed Consent Form

Principal Researcher: Jochen Luckscheiter

Project Title: Constructing an Impact Investing Market – A View from South Africa

Project Overview and Purpose:

This research study is being undertaken for a thesis that forms part of the requirements to complete a Master of Commerce in Development Finance at the Graduate School of Business, University of Cape Town under the supervision of Dr Stephanie Giamporcaro.

The purpose of the study is to examine the impact investing industry in South Africa with a specific focus on market infrastructure building. In specific, the research seeks to explore the different perceptions of this evolving investment strategy and to ascertain the different approaches among practitioners in the impact investing industry and related fields towards the issue of impact measurement.

Due to the exploratory nature of the research a qualitative approach has been adopted, using interviews to learn more about the practices, assessments and aspirations of impact investing practitioners. The research will aid in expanding the knowledge about the impact investing field and add to the limited literature focused on impact investing in South Africa.

There are no known risks or dangers to you associated with this study. Unless you provide an explicit approval, the researcher will not attempt to identify you with responses given during the interview, or to name you as a participant in the study, nor will he facilitate anyone else's doing so.

I acknowledge that I am participating in this study of my own free will. I understand that I may refuse to participate or stop participating at any time without penalty. If I wish, I will be given a copy of this consent form.

Signature: _____

Date: _____

Please Print Name: _____