Measuring of Social Returns by South African Impact Investors

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by

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Building capacity to mobilize & align F4D

DECLARATION

I, Nelisiwe Pearl Ntombela, hereby declare that the work on which this thesis is based is my original work (except where acknowledgements indicate otherwise) and that neither the whole work nor any part of it has been, is being, or is to be submitted for another degree in this or any other university. I authorise the University to reproduce for the purpose of research either the whole or any portion of the contents in any manner whatsoever.

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ABSTRACT

There is vagueness in measuring the social returns of impact investments. This creates uncertainty for investors on the impact that the investments have on the socio-economic environment in South Africa. There is no standard measurement metric, and this casts doubt on the quality of the impact data reported. This may hamper South Africa's potential to benefit from the positive effects of impact investments. This dissertation sought to understand the social returns measurement instruments within the South African impact investment landscape and explore the factors that influence their utility. The study was exploratory and qualitative in nature undertaking a thematic analysis of interview data from 11 impact investment practitioners in institutions in South Africa.

From the analysis of the interview data, the prevalent measurement instruments within the impact investment landscape in South Africa can be categorised into frameworks, performance indicators, and monitoring and evaluation methods. The findings also revealed that there is no single measurement standard for impact investments in the South African context. Furthermore, the study revealed the subjectivity of social returns, inconsistent and weak reporting standards, inadequate measurement metrics, and a lack of established standards as the main themes when looking at the factors influencing the utility of measurement instruments. Finally, the measurement of social returns can be improved by assigning monetary value to impact, optimisation of measurement through technology, ESG integration and value-driven decision-making, narrative-based impact reporting, and external validation and accounting.

Based on the findings of the study, the author recommends the establishment of a single customised measurement tool that incorporates performance indicators of SDGs and ESGs be adopted in the South African impact investment context and that more research should be undertaken on the use of technology to track and report impact data.

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LIST OF ABBREVIATIONS

DCED Donor Committee for Enterprise Development

DFI Development Finance Institution

EbITDA Earnings before Interest, Tax, Depreciation and Amortisation

ESG Environmental, Social and Governance

GIIN Global Impact Investing Network

GIINOC Global Impact Investment Network and Open Capital

GIIRS Global Impact Investing Rating Standards

GRI Global Reporting Initiative

IRIS Impact Reporting and Investment Standards

KPI Key Performance Indicators

NDP National Development Plan

ROI Return on Investment

SDG Sustainable Development Goals

SSA Sub-Saharan African

UN United Nations

CHAPTER 1: INTRODUCTION

1.1 Background and Context of the Study

According to Choda and Teladia (2018), the concept of impact investment was first devised in 2007 by investment thought leaders who defined it as a practice of nonconventional investors investing development finance resources in organisations in order to yield social and environmental impact together with financial gain generated. According to this definition, impact investment has a combination of outcomes of both social and financial returns as components and subsets. Abrahams and Walaza (2018) state that social impact investment was first introduced in 2007 as an effort to raise capital to fund socio-economic challenges and have social impact while producing financial return on the investment that has been made. The origins of the term "impact investing" come from The Rockefeller Foundation Bellagio Centre and refers to investments that are made in order to generate both financial, social, and / or environmental impact (Rockefeller Foundation, 2021). Reisman and Olazabal (2016) trace the background and origins of impact investment from funders, such as governments, multilaterals, philanthropies, and non-governmental organisations that are prevalent in social and environmental impact, to the advent of market players using the power of private finance and market principles to drive social and environmental change. In 2009, the GIIN was established to build a network of investors and global leaders in order to further develop the emerging impact investing industry (Reisman & Olazabal, 2016).

Impact investment is the investors' intentional objective for positive, measurable social and / or environmental impact (Global Impact Investing Network, 2019). This description also encompasses social or environmental gain together with financial gain, but in this explanation, measurability is positioned at the core of what defines the concept of impact investment. Impact measurement is described as an assurance for impact investors to show their investment performance against their intention to generate financial returns and social or environmental impact (Giamporcaro, 2017). Bennett (2019) also provides a similar description in her literature and states that impact investment is a type of investment that endeavours to obtain positive social and environmental impact together with financial benefit.

In addressing socio-economic challenges, social value and financial return do not need to be viewed and considered separately but as a blended return (Raliphada & Horne, 2017); in impact investment they combine in a singular concept. The measurement of social returns of impact investment is highlighted as a critical and central aspect and component of impact investment. Impact investment

is a new concept, and there is extensive scope for further inquiry and development in this area. The purpose of this research study was to evaluate the measurement of social returns of South African impact investors

Impact investment positions itself as a yardstick for investors to track and report on investments against their intention for impact. Bennett (2019) states that financial returns are evaluated using robust technical estimations and risk assessments. There are various established tools utilised to calculate financial returns, such as Return on Investment (ROI) and Earnings before Interest, Tax, Depreciation and Amortisation (EbITDA). The focus of this research study is on the measurement of the social returns. Investors have, over time, developed an appetite to obtain a level of positive impact from their investment that goes beyond the financial returns (Malumba, 2016). Furthermore, Malumba (2016) posits that investors also want more transparency on how their money is being invested and on the outcomes of the investment. This puts a spotlight on impact investment because it encompasses both financial and social value return. It also becomes important to ensure that there is tangible data available to provide investors on how their financial capital has been allocated. Furthermore, Choda and Teladia (2018) state that there is a need to measure the impact of the actions that are put in place to address the socio-economic challenges. There is mounting expectation for investors to illustrate the generation of social returns in addition to the financial returns (Hoffman & Olazabal, 2018). The following section gives an overview of the context from which the research is drawn, by emphasising the global perspective on measuring impact investment and then looking at impact investment specifically within the local South African environment.

The African continent is facing a myriad of socio-economic challenges, including widespread unemployment, political instability, poverty, and the adverse effects of climate change (Choda & Teladia, 2018). Hand (2018) states that South Africa carries a significant history of persistent social and economic challenges which suggests that the South African social and economic situation is consistent with the African phenomenon presented in this research paper. The National Development Plan (NDP) 2030 reflects on South Africa's social and economic landscape and affirms that the country still faces challenges of inequality, poverty, and unemployment after 1994 at the dawn of democracy. The NDP proposes the capabilities required to improve the South African society and economy. This picture is further reinforced by the United Nations' (UN) diagnosis of South Africa's socio-economic environment. According to the United Nations Sustainable Development Corporation Framework (UNSDCF) (2020), South Africa's socio-economic landscape outlines a daunting picture of entrenched poverty, pervasive unemployment, and food insecurity. Furthermore, insufficient economic growth that is overly dependent on carbon-intensive

energy further impedes development in the country (UNSDCF, 2020). The UNSDCF (2020) also states that the nation grapples with widespread violence and crime, while stark inequalities fracture social cohesion and threaten the very notion of South Africa is a developmental state.

The UN's Sustainable Development Goals (SDGs) set out a global agenda for 2030 to attain a better, inclusive and more sustainable future by finding solutions to the social and economic challenges of poverty, inequality, climate, environment, peace, and justice (Sustainable Development Goals, 2020). While the SDGs were adopted in 2015 and, following that, a plan to address the goals was developed, South Africa's developmental challenges are still increasing and are far from over.

South Africa aspires to and aligns itself with the global SDGs and the local adopted plan set out in the NDP. South Africa has embraced their priorities as a blueprint for addressing socio-economic challenges that the country faces and has also expressed its aspirations to build a sustainable and inclusive society (Sustainable Development Goals: Indicator Baseline Report, 2017). However, Malumba (2016) cautions that the communication of impact is a problem area, and the way organisations report on impact needs to be reviewed and strengthened. Hoffman and Olazabal (2018) also caution that the global development agenda and the investment of private development finance capital in addressing social and economic challenges necessitate tangible measurement and evaluation practices that extend beyond transparency and public good. This suggests that there is a need for established ways to evaluate the social value of investments so that it can be reported on meaningfully.

According to the Global Impact Investing Network (2019), half of the impact investment capital allocations are made in the emerging markets. In addition, 14% of the impact investment capital is allocated directly to the Sub-Saharan African (SSA) region. Furthermore, 41% of global impact investors' geographical footprint is placed in the SSA region (Global Impact Investing Network, 2019). This area, within the emerging markets, has positioned itself as an important stakeholder for impact investment and an African hub for global development finance investment. Bennet (2019) posits that South Africa is a prospective leader in impact investment and measurement, even though the country faces challenges such as high inequality and rife unemployment. This could be attributed to the insistent social and economic challenges that face the country. South Africa has the largest amount of assets in Africa invested for impact at $399.54 billion (Bennet, 2019). This suggests that South Africa has a key global role in impact investment and needs to contribute meaningfully to the measurement of impact investment's body of knowledge. According to Global Impact Investment Network and Open Capital (GIINOC) (2016), South Africa's impact investment

landscape boasts an active domestic DFI base where the three main South African DFIs have allocated more capital in the Southern Africa region than international DFIs. The big four main domestic DFI's are Industrial Development Corporation, Development Bank of South Africa, National Empowerment Fund, Land and Agricultural Development Bank of South Africa, (GIINOC, 2016). This context elevates the approaches of measuring the social returns of impact investments in South Africa (Henriksen, 2020), which suggests that the measurement of impact investment needs to be supported by reliable data and tangible evidence.

The main objective of this research is to investigate the measurement of social returns and its efficacy within the context of South African impact investments. The research assumed an exploratory qualitative research approach for the investigation of the recurring themes and insights of the measurement of social returns of impact investments.

1.2 Statement of the Research Problem and Questions

The research problem can be summarised as per below:

1) It is vague whether the intended positive impact of impact investment is achieved.
2) There is no single standard tool to measure the social returns of impact investments in a meaningful and objective manner (Barnett & O'Flynn, 2017).

   There are limitations in previous research studies in this area of study. This research study focuses on impact investment in (a) developing countries, (b) South Africa and (c) on limitations in previous research studies.

(a) The Developing Countries Case

Investors are becoming interested in impact investment in developing countries, particularly in Sub-Saharan Africa (Global Impact Investment Network & Open Capital, 2016). However, GIINOC (2016) argues that it is vague how Southern African impact investors are measuring the impact yielded by their investments. There is a need for more flexible, innovative and fit-for-purpose improvement in measuring the social impact of investments in Africa (Choda & Teladia, 2018). This will be difficult to achieve if there is a lack of clarity on how measurement is currently being done in the broader African region and in Southern Africa. GIINOC (2016) states that it is difficult to develop tools to track and report on impact measurement in Southern Africa in a precise and effective manner. Furthermore, tracking and measuring impact can be costly and also time intensive, particularly for early-

stage businesses who require these resources for the growth and development of their business (Global Impact Investment Network & Open Capital, 2016). Impact needs to be incorporated into performance metrics of financial investments so that it can be measured in a rigorous and objective manner (De Witt, 2018).

(b) The South African Case

According to GIINOC (2016), South Africa holds the largest market for impact investing, with a focus on domestic DFIs that provide funding to local businesses. This could be attributed to the need for development finance that is brought about by the persistent socioeconomic challenges that the country faces. However, South African impact investors are less likely to make use of globally accepted measurement tools such as Impact Reporting and Investment Standards (IRIS) and Global Impact Investing Rating Standards (GIIRS) (Bennett, 2019). IRIS provides a common set of definitions for the industry and GIIRS utilises a common set of indicators to measure the social performance of funds and businesses that have an intention to generate impact (Jackson, 2013). The difficulty in measuring social and environmental impact poses a risk to the growth of the impact investment market (Hoffman & Olazabal, 2018). This gives rise to the problem that social return of impact investments in South Africa is not measured in a meaningful and objective manner. There is also uncertainty around the meaningfulness of the social value and impact that South African impact investments are making on society and the environment because of the poor accessibility and transparency of the data available (Bennett, 2019). This implies that impact investment practitioners need to be able to generate information on the impact made by development finance capital allocations. Hoffman and Olazabal (2018) posit that current impact investment metrices such as the Global Impact Investing Network's (GIIN) IRIS are no longer adequate as their outcomes are not sufficiently quantifiable. Therefore, there is a need to develop new measurement instruments to appropriately quantify outcomes of impact investments. Bennett (2019) also states that there is no agreement on whether there is a need for standardisation in impact measurement assessment, and the lack of consensus casts doubt and aspersion on whether South African investors are measuring their impact and the quality of the impact data. If this persists, it may hamper South Africa's potential to benefit from the positive effects and social value of impact investments.

(c) Limitations of Previous Research Studies

In her review of recent literature on impact measurement in South Africa, Bennett (2019) recommends future avenues of research on the ways in which impact measurement techniques can be standardised and incorporated into mandatory regulations and compliance requirements. Moreover, previously conducted research is limited in the use of technology systems to track and report impact data (Bennett, 2019). Malumba (2016) highlights another avenue for future research: previous research studies on impact investment are limited on the guidelines for where the capital allocations must be invested, and this negatively affects the growth of the sector.

The study aims to answer the following three questions:

1) How are social returns from impact investments measured?
2) What is the utility of measuring social returns of impact investments by South African impact investors?
3) How can the effectiveness of the social returns' measurement be enhanced?

1.3 Research Objectives

The research objectives of the study are to:

1) Explore the social returns measurement instruments prevalent in current impact investment,
2) Understand the factors influencing the utility of social returns measurement instruments employed by South African impact investors, and
3) Propose improvements for enhancing the utility of social returns measurement instruments.

1.4 Significance and Relevance of the Research

This research study seeks to enrich the impact measurement and management aspect of the impact investment field of study by looking at the data that can be reported on and evidence that can be generated from measurement metrics. Bennett (2019) states that there is reason to doubt whether South African impact investors are having positive impact on society; the manner in which they are measuring their impact; and the level of transparency and availability of impact data. This vagueness has the potential to negatively affect the impact investment industry in South Africa and even diminish the current development finance capital that South Africa and the broader Southern African region enjoys. Furthermore, Bennett (2019) states that growth in impact investment research can inform the decision-making of development finance allocation of capital to

investments that will make the biggest impact in terms of SDGs and plans set out in the NDP. The tracking of impact data can inform future development finance allocation and can ensure that impact investments are made in the areas that yield the most social returns and value. In addition, this can give investors assurance that their impact investments are performing in alignment with their intention to generate both financial gain and social impact. This has the potential to optimise impact investing and contribute positively to the growth of the impact investment industry at large.

The literature reviewed on impact investments suggests that there may be merit in standardising the measurement of impact investments, and this warrants further investigation. This research study provides insight into impact investment practices in South Africa, particularly the instruments used when measuring the social returns of the impact of investments made. Furthermore, it reviews a collection of different impact measurement methods and techniques that are utilised by impact investors to improve on current practices. This research will enrich the existing body of knowledge of impact investment measurement and management in South Africa.

1.5 Organisation of the Research

In this first chapter, the research topic was introduced and a background and context of the research study was provided. In addition, the problem statement was described and the research questions that this research paper seeks to answer were presented. The main objective of the research study was aptly stated as was the significance and relevance of the research study for the stakeholders of the research.

The second chapter, chapter two, provides a detailed review of literature on the measurement of social impact in impact investments. It outlines the historical background of impact investments and presents the impact investment landscape in South Africa. It then thoroughly explains the concept of social impact measurement and delves into the prevalent measurement instruments for impact investment, from both a global and local South African perspective.

Chapter three outlines the research methodology that was used to collect and analyse data. It details the philosophical assumptions, research approach and the research design including the sample strategy, data collection methods and analytical techniques. The third chapter also provides the ethical considerations that were made when undertaking the research study.

In chapter four, the results of the study are presented, and the main themes are analysed using data structures that are also graphically represented. Finally, chapter five presents the summary,

conclusions drawn from the study and makes recommendations for policy formulation. The chapter concludes by highlighting areas and avenues for future research.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter presents an overview of the literature on impact investment in South Africa and the existing theories underlying the measurement of social returns. The chapter is arranged in sections which review the main themes in the literature of social impact measurement and refers to prior research studies that have examined and investigated the measurement of social return of impact investments in development finance. First, the chapter provides a historical context of impact investment and then maps out the landscape of development and impact investment in the context of South Africa. Second, the chapter covers the value of impact measurement and its impact on future investment decisions. A detailed review of impact investment measurement instruments is provided, followed by the conceptual framework that depicts social impact measurement. The chapter concludes by discussing the knowledge gap that has been identified in the measurement of impact investment literature.

2.2 Impact Investment Landscape in South Africa

Impact investing serves as an instrument to activate private sector capital to address socio-economic challenges for sustainable development (Pineiro, Dithrich & Dhar, 2018). Urban and George (2018) state that impact investment provides an opportunity to generate economic and social value that can advance the quality of life and social development. South Africa remains a largely unequal society. According to The World Bank (2021), South Africa is one of the most unequal countries in the world, with a consumption expenditure Gini coefficient of 0.63, and this is prolonged by a legacy of exclusion and an economic growth that is pro-rich and does not create sufficient employment. The country's structural challenges and weak economic growth have made progress on poverty reduction stagnant; this has been amplified by the dire effects of the recent COVID-19 global pandemic (The World Bank, 2021). Furthermore, the unemployment rate reached its highest at 32.5 percent in the fourth quarter of 2020 (The World Bank, 2021). The socio-economic challenges such as inequality, poverty, and unemployment in South Africa make it an ideal environment for impact investments and a critical role player in the impact investments industry.

The Sub-Saharan Africa (SSA) region accounts for 10% of the global impact investments (Mudalier, Schiff, Rachel & Dithrich, 2017). Within the Southern African region, 76% of the impact

investment capital is allocated to South Africa (Global Impact Investment Network & Open Capital, 2016). Moreover, in South Africa, 16% of private equity is geared for impact investing (Raliphada & Horne, 2016). The SSA region is an important stakeholder for impact investment within the African continent as it receives a substantial share of the investments made in the African continent. South Africa is the largest market for impact capital in Southern Africa, with 83.2% of the capital disbursed by DFIs and the remaining 16.8% disbursed by non-DFIs. Figure 1 provides a graphic representation of the market share of the DFI and non-DFI categories of capital disbursements. The non-DFI category is further broken down into the following three sub-categories: fund managers, foundations and banks. This positions South Africa as a major impact investment stakeholder within the SSA region and the broader African continent. However, the GIINOC (2016) states that impact capital still represents a small fraction of the South African investment landscape. Therefore, this suggests that impact investment is a niche area in the investment ecosystem in the country and has the potential to present a myriad of opportunities for growth and development.

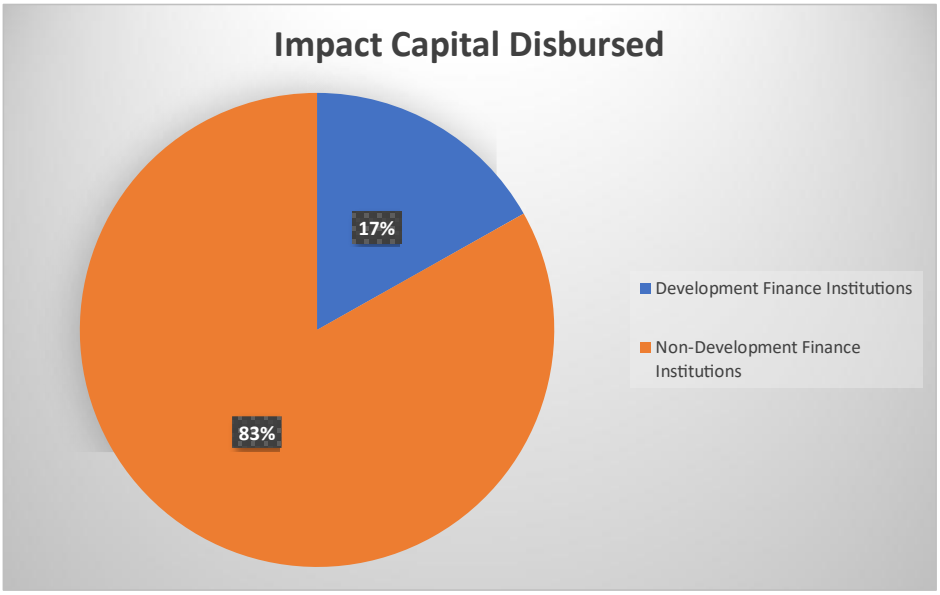

Figure 1: Impact Capital Disbursed

Source: Global Impact Investment Network & Open Capital (2016)

However, South Africa's potential to be a globally dominant impact investment stakeholder may be compromised if a network of industry role players is not established where information is shared. McCallum (2018) warns that there is hesitancy to share knowledge and insight into the practices of South African impact investors. This means that the country's ability to contribute to the impact investment body of knowledge may be limited and that South Africa's role in the broader impact investment industry may be diminished.

SDGs were founded in 2015 and adopted by 193 UN member countries with the aim to promote partnership between private, public, and philanthropic industries for global social and environmental development (Global Impact Investing Network, 2019). SDGs provide investors with a prospect of supporting the global agenda to end poverty, protecting the planet and ensuring that there is peace and prosperity by dispensing capital investment to business ventures and organisations that address critical socio-economic challenges (Global Impact Investing Network, 2018). While South Africa aligns itself to the broader global agenda through SDGs, it also has its own localised plan to address the socio-economic challenges through the National Development Plan (NDP). According to the National Development Plan (2030), the NDP was developed by the National Planning Commission appointed by the President in 2010 as a vision and national development plan for the country to address the following identified shortcomings since the dawn of democracy: too few people are employed; the quality of school education for black people is poor; infrastructure is not appropriately located, is inadequate, and poorly maintained; spatial divides hamper inclusive development; the economy is intensive on resources; the public health system is not able to meet the demand or provide quality care; corruption and inequality divides the country. The NDP aims to eradicate poverty and reduce inequality by 2030 by drawing on the energies of its citizens, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society (National Development Plan, 2030).

Table 1: Impact Funds in South Africa (Impact Yield, 2022)

Fund	**SDG Goals**	**Asset Class**
Atlantic Credit Enhanced Guaranteed Fund	Goal 1, 8 and 9	Fixed Income
Atlantic Money Market Impact Fund	Goal 8 and 16	Corporate, Energy, Fixed Income Government, Infrastructure Real Assets
Cadiz-Greater Capital JV SRI Bond Fund	Goal 1, 7, 8 and 9	Fixed Income, Private Equity / Venture Capital
Edge Venture Fund	Goal 1, 3, 4, 7, 8, 9 and 16	Private Equity / Venture Capital
Nesa Enterprise Development Fund	Goal 8, 9 and 10	Fixed Income

Table 1 represents impact funds in South Africa according to the fund, associated SDG goals and asset class. Urban (2019) classifies impact investing into three categories: capital markets, the banking sector and other non-banking financial institutions. Furthermore, Urban (2019) states that the banking sector is the most prominent category in the South African financial sector and is involved in different kinds of impact investments to support the economic growth, development, and social transformation agenda in the country. This suggests that the banking sector in South Africa is the most mature financial sector area in impact investment. Raliphada and Horne (2016) state that it is particularly critical to measure social value approaches by the banking industry because it is the financial intermediary, the dominant impact investor in South Africa. Furthermore, Urban and George (2018) suggest that it is beneficial for the South African banking industry to associate themselves with impact investments because it allows the sector to attain financial sector charter objectives.

McCallum (2018) postulates that South African impact investors prefer customised metrics in comparison to globally recognised measurement models. Bennett (2019) is in agreement with this view and states that South African impact investors prefer to use customised metrics and indicators to measure and track the impact of investments and are less likely to lean on internationally recognised impact measurement tools such as IRIS and GIIRS. This is not unique to the South African context, as this trend also presents itself in the broader global context. GIINOC (2016) argues that various impact investors define impact differently, and this approach makes attempts to develop a standard tool for the measurement of social impact difficult and complex. Furthermore, ESG integration has since developed to become prominent within the country's dominant SRI and impact investing.

2.3 The Concept of Social Impact Measurement

Impact measurement is defined as the gathering, examining and communicating of the environmental and social impact of an impact investment (Choda & Teladia, 2018). Impact investing is also defined as *"*investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return*"* (Mudaliar, Pineiro et al., 2017). Mudaliar, Pineiro et al. (2017) continue and state that the representation of impact investing is the investor's commitment to track, measure and report the impact of underlying investments. Raliphada and Horne (2017) also draw attention to intentionality as an important definition component and posit that focusing on the returns and measurement aspects of impact investment at the expense of the social and environmental value and purpose of the investment can

threaten the industry's integrity. According to Jackson (2013), the critical elements of the definition of impact investment is intent of the investor to attain social and environmental impact and the evidence of the impact. Urban and George (2018) state that the attainment of social and environmental changes through capital investments is crucial in defining impact investments. From the various descriptions provided in the literature reviewed, it is evident that the notion of impact investment rests on the following three pillars: financial return, social and/or environmental motivation and measurement. The inclusion of measurement in defining impact investment further highlights the significance of this research study.

Impact investment plays an important and influential role in the larger financial investment sector because of its ability to create a paradigm shift about the intention of investment and that it supports diversity, justice, and inclusion (Global Impact Investing Network, 2019). Choda and Teladia (2018) juxtapose impact investment with traditional financial resource flows and suggest that impact investment allows for funds to be used to intervene in the socio-economic challenges faced to create a sustainable and inclusive society. Urban and George (2018) also state that impact investing is different from traditional investments in that is seeks to achieve a combination of financial returns and is intentional about addressing social and environmental challenges. Impact investment has brought about a consciousness about social value in the traditionally rigid financial industry and has had a positive effect in the broader society.

Impact investment is the main driver behind social and environmental change; however, the manner in which impact is currently defined, measured, and communicated is not clear and is also inconsistently applied across different environments (Verrinder et al., 2018). Verrinder et al. (2018) also state that the intended focus on achieving positive social or environmental outcomes necessitates the measurement of these returns together with financial returns and suggest that they should also be compared to each other. This highlights the importance of tangibly measuring both social and financial returns so that they can be weighted and meaningfully compared. An investor who requires transparency on how their capital is invested would value such information.

Giamporcaro (2017) states that the lack of agreement on impact measurement standard results in various different methods of reporting on social and environmental impact, which may prevent impact investment practitioners from being able to share common measurement and reporting practices and knowledge effectively across different type of organisations and sectors. The use of standardised impact evaluation systems for impact investments enable comparability and accountability for impact investment institutions (Garikayi, 2019). This means that the use of

myriad evaluation methods may compromise the ability for comparison and impact the industry. Mudaliar and Pineiro et al. (2017) suggest that government regulation is required to make impact measurement a mandatory requirement. Malumba (2016) supports this view and states that the inclination to not disclose could be due to a lack of any legal requirement to do so. This implies that the legal enforcement of transparent reporting and accountability may add value to sector and not just the expectation of compliance. Furthermore, it positions government as a critical stakeholder in the enhancement of the impact investment industry.

Roundy et al. (2017) make a distinction between impact and other kinds of investors such as philanthropists and conventional investors in that they strive for a blended return, i.e., both social impact and financial returns together, instead of focusing and placing a higher premium on just one type of return. In defining the notion of social returns of impact investments, Choda and Teladia (2018) claim that there are two different ways to interpret social impact: from the perspective of an investor and of a measurement point of view. Investors view it as a change that has happened as a direct result of actions taken, and evaluators see it as a measurement on why and how the change happened (Choda & Teladia, 2018). While both views are important in that they contribute to the social impact measurement and management body of knowledge, Choda and Teladia (2018) suggest that the evaluator's view of social impact is more qualitative and anecdotal. This is the perspective that this research study has pursued.

Moreover, Choda and Teladia's (2019) perception implies that the interpretation of social impact is informed by the impact investment stakeholder, i.e., the investor and evaluator. The literature available on how to evaluate the social impact of impact investment from the practitioners' point of view is narrow, limited and insufficiently explored. Roundy et al. (2017) postulate that impact investors make investments that are driven by emotion and associated with their own personal value system. The development of finance impact measurement systems are critical because they also allow for an assessment of whether the investment supports the interests of profit generation or is more interested in developing assistance (Garikayi, 2019). This is based on the ambivalence presented by the definition of impact investment.

The global standard for impact investment measurement and management is a combination of qualitative information, metrics that are privately owned and not aligned to external frameworks and metrics that are associated with standard frameworks such as the GIIN's IRIS (Global Impact Investing Network, 2019). This means that impact investors have leeway in the choice of which measurement practice or instrument to align themselves with since there is no single regulated

measurement standard in place. The information generated from impact measurement has the potential to add substantial value for investors and the broader impact investment practice and industry.

Investors' perception is that there has been notable progress made in the impact measurement and management practice of impact investment (Global Impact Investing Network, 2019). According to Raliphada and Horne (2017), the value of impact measurement and reporting is that it illustrates a general commitment to a social purpose. The importance of impact measurement is to account for the outcomes of impact investments (Urban and George, 2018). Choda and Teladia (2008) postulate that measuring the social returns of impact investment has the potential to mature and improve the innovative finance industry through the data and evidence produced on the impact of the actions undertaken to address socio-economic challenges and performance. This implies that the measurement of impact is not only part of the ecosystem but is a pivotal part of what defines impact investment.

According to the Global Impact Investing Network (2019), the majority of investors, i.e., 71%, are motivated to make an impact investment because it enables them to meet their impact goals and objectives. This means that most investors allocate capital for investments that are aligned with the impact they would like to achieve. To enable investors to assess whether their goals are being met, there needs to be an efficient way to measure for both financial and social value. Impact investors need data and evidence on environmental and social impact (Hoffman & Olazabal, 2018), such information is critical for measurement. Barnett et al. (2018) posit that understanding the social impact of investments contributes to enhanced performance and improved reporting of the impact. Choda and Teladia (2018) assert that social impact measurement needs to be approached as robustly and effectively as financial returns are assessed. This highlights the importance of the impact measurement practice and suggests that the social impact aspect of impact investment is as integral as the financial impact subset. Urban and George (2018) refer to shared value as a business' focus on enhancing the competitive edge and at the same time improving the economic and social conditions in the environment in which it operates. This also suggests that there is a link between societal and economic advancement.

The value of social impact measurement is that it can affect the development finance allocation of capital by enhancing information related to both good and bad investment outcomes, and, therefore, influences investors to invest capital to achieve the most from financial, social and environmental returns (Choda & Teladia, 2018). This implies that the measurement of social impact can empower

investors to make informed decisions on future development of finance capital allocations because it helps answer questions on whether the investment has had the desired impact. The measurement of social impact empowers management to make informed choices on the metrics to concentrate on in order to attain growth (Urban and George, 2018). Garikayi (2019) agrees with this view and states that impact measurement is an intentional attempt at supporting policy development that is based on tangible evidence and concrete data. In support of this notion, Reisman and Olazabal (2016) state that the measurement of social impact contributes to the body of knowledge of impact investment data and allows for the improvement strategies to have a better impact in the future. Therefore, effective impact investment measurement and evaluation optimises impact investing by influencing future development finance capital allocation decisions by the investors.

The GIIN's core characteristics of impact investing developed to provide the financial industry better clarity on sound impact investment practices including "using data and evidence for investment design*"* (Global Impact Investing Network, 2019). This suggests that the measurement of social impact performance generates data and evidence which impact investors can use to structure their investments to suit a specific outcome that may be aligned with the goals of the investor. Hoffman and Olazabal (2018) agree with this view and assert that risk management and decision-making are important aspects of impact investment and that measurement and evaluation methods should contribute towards it.

Garikayi (2019) states that it is not clear how the Development Finance Institutions (DFIs) assess the negative and positive effects of their investments. Mudalier et al. (2017) highlight the importance of the measurement of social impact of investments, and state that there is a need for institutions to ascertain whether their actions meet their social and environmental objectives and goals and therefore generate social value for the investors. Choda and Teladia (2018) support the view of Mudalier et al. (2017), and state that in order to realise the true value of impact investment measurement, investors, and experts on the evaluations of impact of social and environmental interventions need to share ideas on improving impact investment measurement, and how investments can be pursued in a more effective and efficient manner. The information sharing and knowledge management practices have the potential to empower institutions to understand the effect their investment decisions have on their desired outcomes for investments.

Sharing knowledge and best practices for impact measurement and management contributes towards strengthening the identity of impact investment for a progressive future of its industry (Global Impact Investing Network, 2019). This can help grow this niche sector of the broader

financial investment industry. Growing the body of knowledge on impact measurement methods and techniques used by impact investors enables the informed decision making on capital allocations of development finance for the investments that will make the largest impact (Bennett, 2019). Burckart et al. (2018) agree and state that impact measurement that has shown itself to be effective over time may inform future capital allocation decisions of development finance. Therefore, it is evident that data tracking and reporting of impact investments over a period can improve future impact investments. In addition, Burckart et al. (2018) posit that high impact industries would benefit from more capital finance to enable them to further promote growth and development. This development would be beneficial to countries, like South Africa, who face a myriad of socio-economic challenges such as inequality, poverty, and unemployment. Furthermore, it aligns with the national development agenda as set out in the NDP.

Verrinder et al. (2018) posit that the consequence of not being able to measure impact is that investors will not be able to adjust their strategies to capitalise on social impact and create interest in impactful investments. This further reinforces the notion that the measurement of impact investments influences future decisions on investments i.e. development finance capital allocation. Garikayi (2019) supports this view, and states that the measurement results and data generated are a critical basis for future capital allocations of development finance. The lack of credible and efficient ways of measuring social impact may discourage potential investors from allocating funds to impact investment because there is no track record of performance on these types of investments. Moreover, development finance capital allocations may be misdirected, where funds may be dedicated to less impactful social portfolios that have the least impact on the development of society and addressing its challenges. This would be detrimental to the growth of the impact investment industry and to that of society. Verrinder et al. (2018) state that the lack of consistency and rigour in impact measurement may allow investors to distort the impact of investments. Furthermore, Urban and George (2018) assert that the impact investment sector lacks consistency and transparency on how fund managers state, compare, assess and report on social impact. This suggests that investors may claim larger impact than that which an investment has achieved and may also undermine social impact created by a particular investment. Given this context, the next section explores the development finance impact investment measurement in greater detail and gives insight to the various ways that impact can be measured. Furthermore, the next section explores global impact measurement standards and examines them from a South African lens.

2.4 Social Impact Investment Measurement

Reisman and Olazabal (2016) state that more robust evidence is required to ensure that there is an accurate account of the effects that various investments have from both a financial and social value perspective. Raliphada and Horne (2016) also acknowledge that the existing literature on social impact measurement is narrow and limited. The measurement practices that evaluate impact and contribute towards evidence focus on output (Reisman & Olazabal, 2016). This suggests that the measurement of impact is still lacking and that the practice is emergent in nature. It is proposed that a suite of options appropriate for impact measurement should be considered based on investment size, terms, investment asset classes, industry, region, stage of investment and the maturity of the investors (Reisman & Olazabal, 2016). According to GIIN (2017), the most prevalent formal impact measurement techniques are Donor Committee for Enterprise Development (DCED), ESG, IRIS and SDGs.

According to the GIIN (2019), 40% of impact investors measure the performance of their investments against the SDGs, and an additional 20% use a combination of SDGs and a myriad of metrics. This positions SDGs as a dominant and critical measurement tool in the global impact investment industry. Moreover, investors use SDGs as a tool to measure social and environmental impact for various reasons, including: the need to communicate the impact that their investments are making, to be in line with a universally accepted global development plan and for the hope to attract additional development finance allocation i.e. identify other investors with which to form partnerships (Global Impact Investing Network, 2019). The SDGs are a relatively dominant and recurring theme in impact investments, as both a measurement framework and as an investment goal that investors aspire to. Barnett et al. (2018) emphasise the role and importance of capital investment in achieving the SDGs. The GIIN (2019) states that investors want to invest in themes that are aligned with the SDGs as investment goals and objectives.

While SDGs are aspirational and set out the global objectives against which various investment goals can be measured, they may not necessarily be an adequate social impact measuring metric that can be applied across impact investment targets. SDGs outline a framework to measure impact investment goals that are aligned with SDGs. This means that objectives that are outside of the goals set out in the SDGs may not find translation with the targets outlined by the framework. However, Niewenkamp (2007) cautions against businesses that emphasise the intended positive impact they would like to achieve and intentionally disregard the negative impact investments may have. This is likely to distort the SDG-aligned impact that they seek. According to Bennet (2019), SDGs are

among the most used measurement frameworks globally; other prominent frameworks are the IRIS and B Analytics/GIIRS.

A majority of the emerging markets also make use of SDGs and the IRIS frameworks to measure their impact investments (Bennett, 2019). Barnett et al. (2018) refer to IRIS, GIIRS and Sustainability Accounting Standards Board (SASB) Benefit Corporations (B-Corps) as standardised metrics that have emerged in impact measurement. In addition, Bennet (2019) also states that IRIS, the SDGs and B Analytics/GIIRS are the most commonly employed measurement frameworks among impact investors on a global scale. This implies that IRIS, GIIRS and SDGs are relatively prominent measurement tools in the global industry.

Verrinder et al. (2018) acknowledge that there are many tools and approaches to measuring impact, and they highlight that IRIS is the most prominent one. This suggests that while the impact measurement concept is new and was only recently, the IRIS measurement tool is recognised as the most established metric. IRIS is a set of a myriad of published standardised performance metrics that addresses the social, environmental and financial performance of organisations (Reisman & Olazabal, 2016). Mudaliar, Pineiro et al. (2017) posit that countries with emerging markets are inclined towards IRIS and the SDGs, while countries in the developed market prefer to use the B Analytics/GIIRS as a measurement tool. Investors prefer IRIS because it provides standardisation of definition and metrics. However, Barnett et al. (2018) criticise IRIS and state that it offers a catalogue of over 500 metrics and this may be an intensive tool for assessing social impact in cases where resources are limited. This implies that IRIS is a complex measuring tool and may not be easily applied to impact investments. Bennet (2019) cautions against the metrics utilised in impact evaluation that are complex and riddled with vast amounts of data.

Bennet (2019) refers to Environmental, Social and Governance (ESG) analysis as a risk-based metric that identifies risk and parallel mitigation strategies used by impact investors in South Africa for measuring and tracking their investments. Barnett et al. (2018) also confirm that ESG indicators are recognised as a social impact measurement tool. Bennet (2019) states that ESG also provides data to prove that funders have an influence in driving objectives and measurement practices used by impact investors. ESG Integration is the integration of environmental, social and governance factors into investment analysis, valuation and decision making based on metrics and research (Giamporcaro, 2017). ESG can be used as a framework to measure social impact to support investment decision making.

Theories of change map the underlying assumptions about how impact is an outcome of planned interventions (Reisman & Olazabal, 2016). Jackson (2013) describes theory of change as a construct of a model that demonstrates the underlying logic, assumptions, influences and connections and expected results of a project and posits that it should be an integral part of the evaluation of impact. Barnett et al. (2018) posit that theories of change may be used to measure social impact. Verrinder et al. (2018) agrees with this statement and asserts that theories of change may be used to communicate impact in a manner that the needs of funders, investors and practitioners are aligned in an interconnected message. This allows the impact investors to communicate the holistic needs of all their stakeholders effectively. Furthermore, audiences that are unfamiliar with impact measurement methods can be able to relate to theory of change in a simple way because it is depicted in a basic graphical manner that is easily understandable (Verrinder et al., 2018). This implies that the theory of change may contribute to the importance of impact measurement because it is easier to understand and is more relatable to stakeholders. Jackson (2013) states that theory of change encompasses the outcomes and impacts that the investor expects the capital allocated to businesses or projects will catalyse. This positions theory of change as an effective instrument to measure outcomes of impact investments. Bennet (2019) also recommends a theory of change metric and states that it articulates impact goals in a clear manner. However, Barnett et al. (2018) criticise the theory of change model and state that it may be inadequate to conceptualise the dynamics and results across a portfolio of investments. Jackson (2013) highlights another limitation and states that theory of change can be invisible, lacks explicitness and that there has not been an evaluation of its impact on the impact investment field. Verrinder et al. (2018) also caution that the implementation of theories of change can be complicated, and that they do not necessarily provide a solution to a complex issue. This implies that the simplicity of theories of change, as a measurement tool, means that it is not able to interpret a portfolio of investments and complex investments and is better suited for a simple investment. According to Verrinder et al. (2018), theories of change enable better communication of impact, identify indicators to be measured and to enable a critical examination of logic. Theories of change can add value to impact investment by attracting more development finance investment, achieving greater impact and ensuring that impact is accurately reported on and not exaggerated (Verrinder et al., 2018). Verrinder et al. (2018) also state that the advantage that the theory of change model has over other measurement tools is the commitment to create change.

There is insufficient knowledge on the approaches and tools that can be used to measure impact (Bennett, 2019). The reviewed literature proposes that impact measurement is a key aspect and is

integral to what defines the impact investment concept. It further suggests that impact data can inform future development finance capital allocations and improve the impact investment's body of knowledge and industry. The next section provides the conclusions from the literature review conducted. The following chapter on research methodology provides the methodology that was utilised to conduct the research.

2.5 Conclusion

The literature review explored how the impact investment industry establishes evidence about its development finance contributions to positive social and environmental impact. The literature review explored various globally accepted measurement frameworks and methods. Furthermore, the literature review attempted to establish the level of adoption of the impact measurement methods and the various contexts in which certain measurement tools are suitable. It also investigated the measurement instruments through the perspective of South African impact investments. This section looked at different impact investment instruments, including SDGs, IRIS, GIIRS, ESG Indicators and Theories of Change. The literature review also established the impact measurement instruments that are more prevalent in the global environment and which ones were preferred in the South African landscape. The challenge remains regarding the adoption of a standardised instrument for measuring impact, and there may be a need to expand academic research to understand the critical factors to develop a measurement model. The next chapter provides detail on the research methodology that was used to conduct this study.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology employed to answer the research questions posed and to satisfy the objectives of study. The literature review explored global impact investment measurement frameworks and models and sought to provide context on the adoption of impact measurement methods. The research methodology describes the type of data, the data collection instrument, and the sources of data. In this chapter, the researcher also describes the unit of analysis and the procedure used to select the sample, highlighting the sample size used in collecting the data. Furthermore, it specifies the inferential analytical technique and the systematic process that were used to analyse the data collected. This chapter provides an in-depth description of how transferability, dependability, conformity, and authenticity were established. Finally, this chapter also states the ethical considerations that were made in conducting the research study. Chapter four then focuses on the presentation, discussion, and interpretation of the data.

3.2 Philosophical Assumptions and Research Approach

According to Saunders et al. (2019), there are four predominant philosophical stances used by business management scholars, including positivism, interpretivism, realism and pragmatism. Each of these philosophies is associated with different ontologies, epistemologies and axiologies. The researcher's choice of any of them is normally influenced by their own ontology, epistemology, and axiology.

According to Martens (2018), ontology refers to the nature of reality or phenomena; axiology is the degree of self-immersion in the study; and epistemology is the knowledge creation process. Epistemology is further defined as the nature of knowledge and the relationship between the researcher and the participants of the study (Martens, 2018). Bryman et al. (2016) also state that epistemology considers what is accepted as knowledge in a certain discipline. This research study follows an epistemological, interpretivism paradigm. The orientation of the research study is qualitative and gathers the opinions of the interview participants, emphasizing how the participants interpret the subject in relation to what they know.

3.3 Research Design

The nature of the study is exploratory, which means that it that seeks to provide a simple understanding and new insights into phenomena with limited available knowledge (Sekaran and Bougie (2013). This approach is best suited for this study because the researcher pursues new understanding into measuring the social impact of impact investments. Impact investment is a new concept and is considered a niche area of research; therefore there is extensive scope for further development. The researcher reviewed current literature on social impact measurement practices and conducted interviews with impact investors in South African institutions.

The research uses of a qualitative research design approach. Sekaran and Bougie (2013) juxtapose a qualitative study to a quantitative one and posit that qualitative research encompasses the analysis of descriptive data or information, and quantitative research is about measurable information. Quantitative research is concerned with testing theories, while qualitative research focuses on generating new ones (Bryman et al., 2014). The qualitative approach is suitable for this research study because it requires a comprehensive analysis of themes and perceptions about impact investments and the measurement of the social returns of impact investments.

3.3.1 Sample strategy

The sampling design that the study adopts is non-probability purposive sampling. Sekaran and Bougie (2013) state that this method is one where samples are collected in a way that does not give the individuals in the population a predetermined chance and likelihood of being selected. In purposive sampling, the selection is limited to certain types of individuals who can give the required data because they are the only ones who have it or they meet the criteria set by the researcher (Sekaran & Bougie, 2013). The researcher believes that this is the most suitable sampling design for this research study because the measurement of social returns of impact investments is an emerging area of research in South Africa. This approach is taken in order to ensure that human judgement does not influence the selection process.

The number of interviews conducted was premised on the principles of data saturation, defined as the point at which there is no new data where new phenomena cannot be observed (Fusch & Ness, 2015). It has been established that South Africa is the largest market for impact capital in the Southern African region, with the majority of the capital disbursed by DFIs and the smaller portion disbursed by non-DFIs, i.e., fund managers, foundations and banks. In line with the research study, the focus was on impact investment practitioners. The researcher intended to recruit at least twenty interviewees in order to cover a substantial amount of organisations in both the DFI and non-DFI

categories; however, the 11 impact investment practitioners interviewed was determined by the quantity of interviews at which data saturation was achieved.

This section on demographic characteristics presents an overview of the participants' biographical data that were collected during the interview process. A summary of the participants' profiles is reflected in Table 2, which highlights the business sector, nature of the organisation, the position or title that the interview participant carries in the organisation. Furthermore, a codification of the nature of the organisation is done to reference the interview participants in the presentation, analysis, and discussion of the findings. The types of organisations operated by the interview participants are spread across a broad spectrum including DFIs, venture capital, investment bank, financial planning and financial services, non-profit organisation (NGO), community development initiative, art museum and a provincial government department representing different sectors including the financial sector, civil society and the private sector. In chapter two's literature review, the researcher took note that the majority of the capital is disbursed by DFI organisations rather than non-DFIs. While the participants' profiles are presented, the researcher could not identify patterns that suggest that the nature of an organisation is an influencing factor on social impact measurement instruments that an organisation selects for tracking impact data. However, the researcher still reflected on the nature of the organisation to give sufficient context to the type of organisations where the interview participants operated.

All interview participants confirmed that their organisations consider themselves impact investors, i.e., they measure both social and financial returns of their investments, and also indicate the type of social impact the organisation intends to provide so that they can provide better insight into the organisation's social impact activities as prompted to do so. It was important to ascertain this information as the impact investment industry is relatively new and there might not be a sufficient and general understanding of the concept. The responses indicated various kinds of social impact that the organisations sought to achieve: from investments with an ESG focus; sustainable development goal on zero hunger; provision of arts education and access to the creative arts industry in Africa for underprivileged communities; access to finance; community projects; improvements to education and school completion rate; financial support to small and medium-sized enterprises; contribution to jobs creation, poverty alleviation, and community development and wealth.

Table 2: Interview Demographics

Business Sector	Nature of Organisation	Position	Years of Experience	Code
Financial Services	Development Finance Institution	Investment Manager	14	DFI1
	Development Finance Institution	Investment Officer	4	DFI2
	Venture Capital	Managing Director	7	VC1
	Investment Bank	Deal Originator	8	IB1
	Financial Planning and Financial Services	Financial Planner	12	FPFS1
	Financial Services	Wealth Manager	10	WM1
Civil Society	NGO	Finance Manager	12	NGO1
	Community Development Initiative	Director	7	NGO2
Private Sector	Art Museum	Coordinator	5	AM1
Public Sector	Provincial Department	Director: Small Business Development	18	PD1
Information Technology	Technology Start-up	Founder	3	F1

Source: own compilation

The interview participants have been operating in impact investments in their industries for a period that ranges between 4 and 14 years, a broad range of years of experience in their respective fields. The majority of the participants, i.e., 7 of the 11 participants interviewed have acquired 10 years of experience or less in the impact investment industry. This is testament that impact investment industry is a niche area and relatively new in South Africa.

3.4 Data Collection

The research was conducted using semi-structured face-to-face interviews, and the researcher also made use of existing literature on measuring the social return of impact investments. This method of data collection was selected in alignment with the research questions that were formulated to ensure that the research study results address the research questions posed. In semi-structured interviews, topics are arranged in a loose format, and the interviewer leads the sequence of the questions asked (Roulston & Choi, 2018). This approach allows flexibility in the collection of the data and use of follow-up questions where deemed necessary by the researcher. These interviews involve a face-to-face meeting in which a researcher asks a participant some questions. This works particularly well when the researcher desires an in-depth understanding of the concepts being considered (Sekaran & Bougie, 2013).

Once the researcher received ethics clearance on 13 July 2022, the data collection process commenced in September 2022 and continued until December 2022. The researcher prepared an interview questionnaire where the interview participants provided their own account of experiences, opinions, and attitudes. The interview protocol / schedule was developed by the researcher according to the Interview Protocol Refinement framework, in order to improve the quality of the participants' responses (Castillo-Montoya, 2016). The researcher ensured that the interview questions developed were in line with the study's research questions. Furthermore, the interview protocol was arranged in a manner to enable an inquiry-based conversation with the participants. After developing the interview protocol, the researcher subjected it to a review by peers and then proceeded to pilot it with impact investment industry stakeholders.

3.5 Analytical Techniques

The research study adopted thematic analysis to investigate the collected data. This is an appropriate data analytical technique for a qualitative research approach because the themes relating to the measurement of impact investments' social influence are identified, analysed and interpreted from the collected data from the interview participants (Sekaran & Bougie, 2013). In inducing the themes of the interview data, the researcher used the participants' language to label the categories such as frameworks, performance indicators and monitoring and evaluation, rather than theoretical language (Terre Blanche, Durrheim & Painter, 2006). As a second step, the researcher organised the material in processes and functions in order to produce the appropriate themes such as measuring for impact, factors influencing the usefulness of measurement instruments and enhancement of measurement instruments (Terre Blanche, Durrheim & Painter, 2006). The researcher found a suitable level of complexity in the number of themes that relate to the research study (Terre Blanche, Durrheim & Painter, 2006).

According to Bryman et al. (2014), transferability refers to the contextual uniqueness and importance of the aspect being studied; dependability refers to the maintenance of records of all phases of the research process; confirmability is being able to show that the researcher has not unknowingly allowed personal values to influence the research and authenticity is establishing the credibility of the findings. Bryman et al. (2014) suggest that transferability, dependability, confirmability, and authenticity can be used to measure trustworthiness.

3.6 Ethical Considerations

A letter seeking permission to conduct the research and interview impact investors in South African institutions was prepared (Sekaran & Bougie, 2013), and an invitation informing the recipient of the research study, providing details of the project's purpose, and asking the potential participants to take part in the study was sent out to the sample participants. Participants were requested to return the approved letter, indicating agreement to participate in the research study (Sekaran & Bougie, 2013). The participants were not coerced into participating in the interviews and did so of their own free will (Sekaran & Bougie, 2013). Bryman et al. (2014) state that informed consent requires that the research participants must be fully aware of the full research process. The research study participants were also informed that the interviews were being recorded, and that they could choose not to continue with the interviews should they so wish to do so. The participants in the selected sample were advised that should they choose not to be involved in the research, or wish to discontinue at any stage, there would be no negative consequences (Sekaran & Bougie, 2013). The participants' information was treated with absolute confidentiality (Sekaran & Bougie, 2013). Furthermore, the researcher kept the responses provided by the participants anonymous to ensure that the privacy of the respondents was respected.

This chapter explained the research study's methodology. The next chapter on data presentation and analysis discusses the findings of the collected data, organised into a thematic analysis of first order concepts, second order themes and aggregate themes.

CHAPTER 4: DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter focuses on the presentation, discussion, and interpretation of the main findings from the data collected. A total of 11 impact investment practitioners in South African institutions participated in the interview process. This section presents the main findings of the data collected, which were coded into first order concepts to select the main elements from the interview data, second order themes were formulated from reviewing the coded data and identify meaning and then aggregate themes that were developed from combining the information structures. Some of the interviewees' statements are included in the discussion to demonstrate the feelings and opinions expressed by the participants. The aggregate themes are organised into data structures that are graphically represented in a simple manner to clearly communicate the data flow from first order concepts to second order themes and then into aggregate themes.

4.3 Discussion of Thematic Findings

The thematic analysis of the responses about measuring the social returns of impact investments revealed the prevalent instruments within the impact investment measurement environment. The results of the research study also indicated the factors that influence the utility of the social returns measurement instruments employed in the organisation. Various participants also suggested various methods that can be used to enhance the utility of social returns measurement. For a better and more in-depth understanding of the data collected, the researcher organised and tabulated the interview participants' responses into an Excel spreadsheet. This gave better insight and enabled the researcher to identify and analyse the emerging patterns in the data. In conducting the thematic analysis, the researcher used the following process: codification of the responses from the interview participants into first order concepts, analysis of the concepts and formulation into second order themes and finally the grouping of the second order themes into aggregate themes.

4.3.1 Measuring for impact

From the data collected, the prevalent measurement instruments within the impact investment landscape in South Africa are classified into three categories: conceptual frameworks, performance indicators and monitoring and evaluation. Each of these aggregate themes is discussed in detail below.

4.3.1.1 Frameworks

Frameworks emerged as an important category during the data analysis. According to Jabareen (2009), a conceptual framework is described as a network of connected concepts that give a comprehensive articulation of phenomena. The underlying second order theme for the conceptual frameworks is goal-oriented measurement and prioritisation informed by the investor. The data revealed that the participants used conceptual frameworks based on the outcomes that the organisation sought to achieve and the network of concepts of the framework outlined by the investor. The interviewee's organisation provides their clients with a conceptual framework to identify and prioritise over 100 social and environmental impact preferences and ranks them according to their perceived importance (IB1). This measurement instrument evaluates and prioritises the social and environmental indicators as preferred and set by the investor.

DFI2 described a practical measurement approach and explained:

> *We put a simple measurement framework in the area that aids in understanding the outcomes the company is anticipating delivering and how to track them. This involves consciousness of youth empowerment, job creating, precedence increase in sectors, geographic unfold, and funding return. The company has a loan administration system that keeps records of all clients that have been funded, including development impact details. On a quarterly basis, the company populates a spreadsheet from the system with all the data.*

DFI2 refers to the measuring instrument as a framework that compares the organisation's investment against the set outcomes that the organisation seeks to achieve. Barnett et al. (2018)'s criticism of the IRIS measurement instrument in the literature review is that an instrument that offers a large catalogue of metrics may be an intensive tool for assessing social impact where there are limited resources.

4.3.1.2 Performance indicators

The results of the data analysis reveal that performance indicators are a prominent theme and are significant in measuring impact. The underlying second order themes formulated for the performance indicator aggregate theme are: customised indicators, performance measurement using general indicators, measurement through ESG indicators, and a combination of tailored indicators and surveys of the target population. For instance, DFI1 indicated that they have developed their own customised environmental and social indicators such as: the amount of carbon dioxide

emissions reduced; number of jobs created; and income generated. DFI1 explained that the indicators that they have developed are considered separately from the return on investment in their organisation. DFI1's emphasis on the distinct ties in with the impact investment definition provided by Raliphada and Horne (2017) and by Bennett (2019) in the literature reviewed in chapter two. Raliphada and Horne (2017) stated that focusing on the returns and measurement aspects of impact investment at the expense of the social and environmental purpose of the investment can threaten the integrity of the impact investment industry. The DFI1's organisation utilises customised indicators to measure impact investments' social returns. VC1 mentioned that the organisation has a tailored questionnaire and that key performance indicators (KPIs) are created to sustainably manage ESG over a period of time. This fits with the view presented by McCallum (2018) that South African impact investors have a preference for customised metrics in comparison to the globally recognised measurement models such as IRIS.

A participant, NGO1 stated that "*the organisation does a baseline study on its target population and profiles each individual child or caregiver at inception of Programme*". In NGO1's organisation, KPIs are checked at periodic intervals against the implementation plan established at the beginning of the programme and an assessment of progress is made at the end of the programme through end-line studies. The programme's outcomes are then evaluated through a monitoring and evaluation system employed by the organisation (NGO1). AM1 also listed the performance indicators used in their organisation. For example, they stated that the number of children, schools reached, and educational books distributed are used as indicators to measure impact.

Global Impact Investing (2017) stated that the most commonly used formal impact measurement techniques are donor committees for DCED, ESG, IRIS, and SDGs. In this study's data, VC1 highlighted that they make use of an ESG (Environmental, Social and Governance) scorecard. This is one of the globally accepted instruments and is consistent with the argument made by GIINOC (2016) that ESG integration has developed to become prominent within the dominant SRI and impact investing in South Africa.

Surveys of the target population were used to measure social returns in the data collected from participants. However, it is worth mentioning that surveys are conducted as a supplementary means of measurement to augment other techniques and not as main technique. This is substantiated by the views expressed by NGO1, who stated that, in addition to using indicators to measure performance, the caregivers are surveyed, and they provide reports on how the interventions have changed the environment in which they operate. This is also supported by participant AM1, who

stated that verbal surveys are used as an instrument to obtain updates from the target population on an annual basis.

4.3.1.3 Monitoring and evaluation

Monitoring and evaluation was identified as an aggregate theme for measuring social impact. The underlying second order theme identified for monitoring and evaluation using thematic analysis is the monitoring of performance after the intervention has been made, i.e., the impact of the investment made. The data collected from the research study's participants show that monitoring and evaluation is used as a mechanism to measure the social returns of impact investments. PB1 stated that the organisation conducts an assessment of the business that is considered for funding, and then they monitor the impact of the incentive grant after the funding has been provided in order to determine whether an additional allocation of resources is required to sustain or grow the business. The monitoring of the performance process involves assessing the funded business, tracking its progress to monitor the impact of the incentive grant on the business and determining resource allocations based on the observed outcomes.

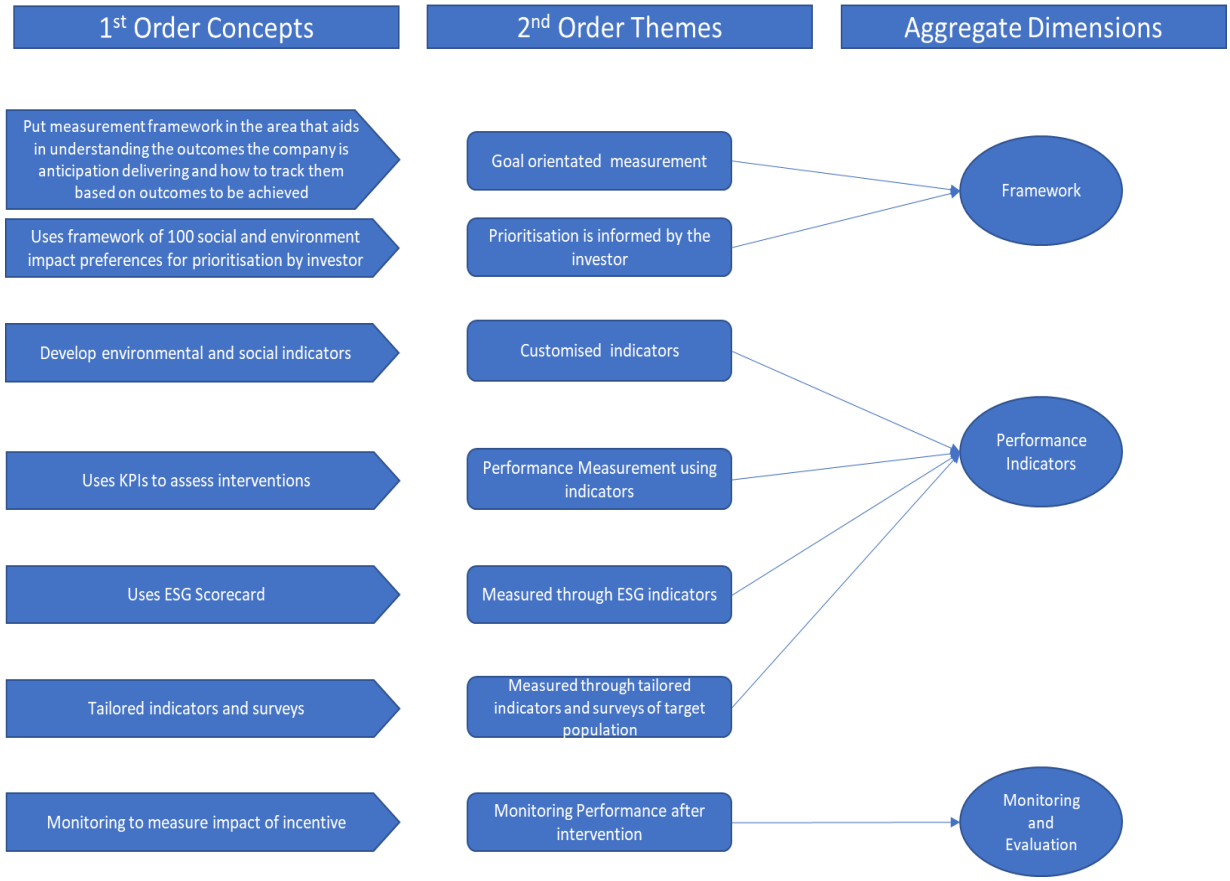

Figure 2: Data Structure: Measuring for Impact
Source: own compilation

4.3.2 Factors influencing the usefulness of measurement instruments

The study's findings revealed that the subjectivity of social returns, inconsistent and weak reporting standards, inadequate measurement metrics, and the lack of established standards are the four main thematic findings when looking at the factors that influence the utility of measurement instruments of impact investments' social, which are discussed in detail below.

4.3.2.1 Subjectivity of social returns

Subjectivity of social returns emerged as an aggregate theme of the factors influencing the usefulness of measurement instruments. The underlying second order themes for the subjectivity of social returns are: non-financial metrics used for evaluating social returns, no clear monetary value assigned to social returns and the difficulty in quantifying social returns as a result.

An interview participant, NGO1, suggested that the measurement of social returns is riddled with subjectivity. NGO1 works as a Finance Manager for an NGO that, through its interventions, seeks to make positive impact in early childhood from age groups 0-5 years from underprivileged communities. The organisation would not know information with precision on how the child would have performed when having gone to formal nurseries (NGO1). This suggests that the evaluators may be biased towards the data presented related to when the child attends formal nurseries only and does not make an assessment, in juxtaposition, with data of when the child does not attend formal nurseries. This suggests that the information considered is one-sided. AM1 shares the same sentiment as evident in the statement that the lack of comparative information and feedback can only be subjective. NGO2 attested to this and stated that the returns may be emotional, or motivational, or other subjective returns for individuals that are not quantifiable and can only be explored qualitatively. The lack of objectivity may compromise the measurement data tracked of social returns of impact investments. DFI1 stated that some social returns cannot be costed in monetary value to inform the viability of the project. This means that social returns cannot be assigned financial value in the way that financial returns are measured. VC1 revealed that social returns do not all have a clear monetary benefit and stated that wellbeing improvement comes at an initial cost, with the benefits increasing over time.

VC1 also felt that investors pose a challenge because they are mostly concerned about good stories that can be published, and they also demand quick results. This suggests that investors may be superficial in the way in which they assess social value. It also suggests that they make development finance capital allocations to impact investments only to improve their organisation's public relations. NGO2 acknowledges this effect of social value on organisations stating that the

measurement of social returns of impact investments can generate positive brand effects for an investor. Roundy et al. (2017), as already noted, agrees with the sentiment that impact investors may make investments that are driven by emotion and associated with their own personal value system. The published positive stories likely contribute to the marketing efforts of the company that made the development finance capital allocation.

4.3.2.2 Inconsistent and weak reporting standards

It was revealed that inconsistent and weak reporting standards is an important thematic finding for the factors that influence the usefulness of the measurement of social returns of impact investments. The underlying second order theme for this aggregate theme is the divergence in reporting requirements and the data integrity issues that may arise. DFI2 stated that anomalies in the data captured on the system negatively affect the development impact statistics against the set targets. This implies that data integrity of tracked and reported data is an issue for impact investment measurement and management. It was further revealed that the reporting of measuring outcomes is influenced by the source of funding, i.e., the investor, in that the funder dictates the template to be used to report on the outcomes of the measurement conducted (NGO1). This reinforces the idea that impact goals and objectives are informed by what the investor seeks to achieve. For an NGO, who might have various funders for respective services, it can be administratively cumbersome to report to the funders because of the many templates that the NGO is required to use. This may hamper the accuracy of the information measured and communicated, which may in turn, negatively influence future development finance funding allocations.

The reporting of measurement outcomes was also a challenge in the data analysis. DFI1 said that there are challenges with reporting impact metrics to investors. However, DF1 stated that she believes that with the increased guidance from Global Reporting Initiative (GRI) Standards in their organisation, there has been improvement because of capacity building and policies that demand more environmental and social benefits. NGO1 stated that some funders have specific reporting templates and other funders utilise electronic systems requiring the organisation to record the KPIs of the programme. DFI2 referred to specific challenges with their organisation's loan administration system in terms of capturing accurate client information and supporting documents by the lending division.

4.3.2.3 Inadequate measuring metric

An inadequate measuring metric was identified as an aggregate theme on the factors influencing measurement instruments' utility. This aggregate theme is underpinned by the second order theme

that the measurement metric does not capture individual efforts and that this may have unintended positive and negative impacts, and the inadequateness of the monitoring and evaluation system used to measure impact. The data collected from the research participants presented limitations of measurement metrics used in the various organisations across the private and public sectors and civil society. PB1 believes that the process can be affected by bias from the people that conduct the pre- and post-funding assessment and the people that perform the monitoring function for impact measurements. The measurement process requires accountability which can fall through the cracks, and this can directly impact the envisaged outcomes (PB1). This means that the measurement is not infallible to inaccuracies that can be brought about by bias from the personnel that conducts the assessment and monitoring. This further implies that improvement of technology and strengthening of systems may be required in these processes.

The data collected from NGO2 presented a different view on the measurement inadequacy noting that metrics are inadequate because they do not capture the personnel efforts of the subjective and spill-over effects of investment and meaningful changes and improvement. This means that the measurement instruments do not capture the efforts of individuals, as well as the unintended positive and negative impacts of an investment.

4.3.2.4 Lack of established standards

The absence of a standardised measurement tool also arose as an aggregate theme for the factors influencing the usefulness of measurement instruments. The underlying theme, and second order theme, is that there is a lack of consensus on how social returns of impact investments are measured. NGO1 bemoaned the absence of internationally recognised standards for measuring child performance, and consequently the organisation resorts to the minimum expected performance of a child after having exited the programme. This may have a negative effect on the outcomes that the organisation sought to achieve in implementing the programme. AM1 also cited the lack of consistency across industries as a challenge. Giamporcaro (2017) agreed with the views presented by both NGO1 and AM1 in the data collected, noting that the lack of consensus on one impact measurement standard results in impact investors reporting on social and environmental impact in different ways.

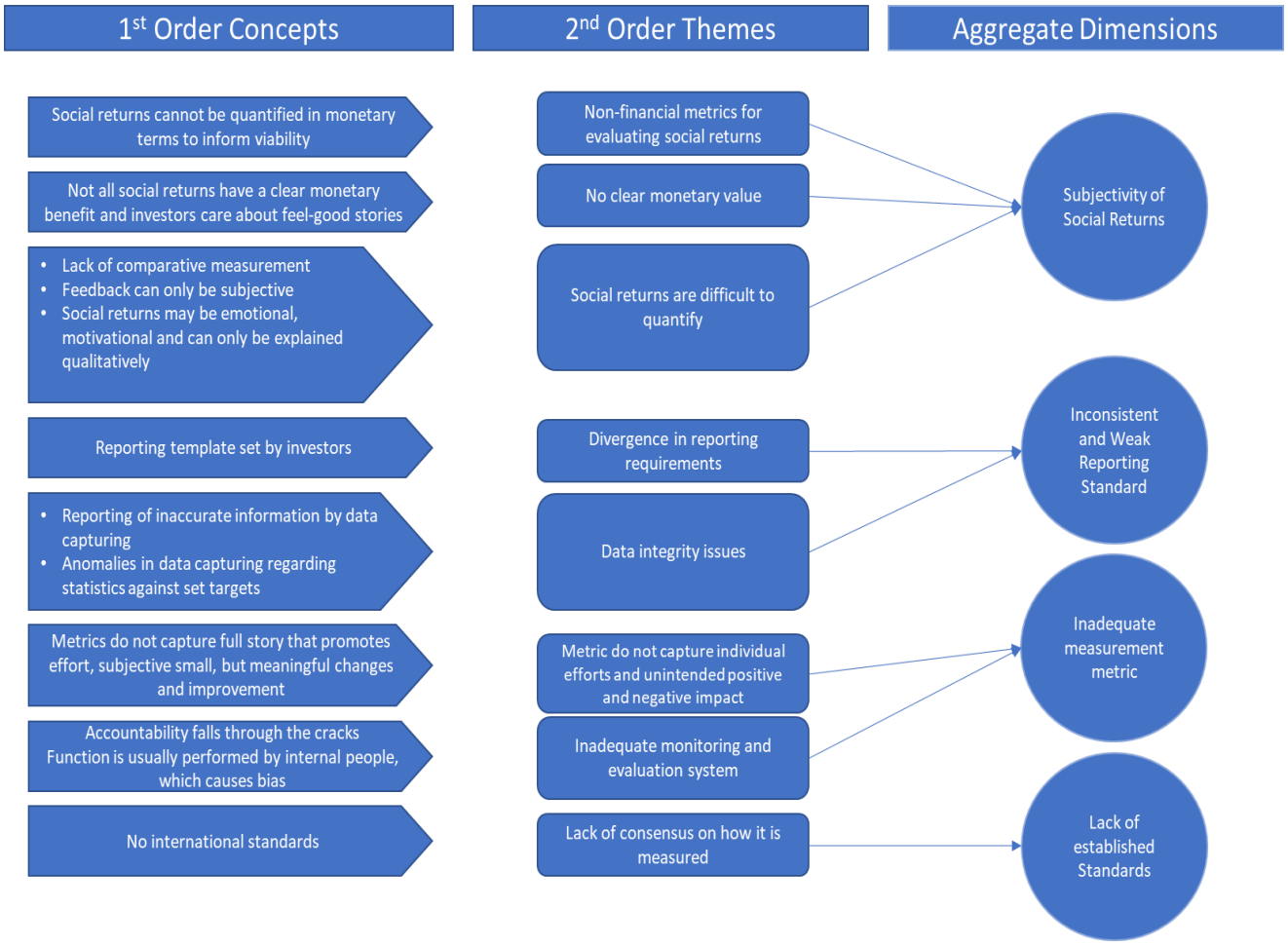

Figure 3: Data Structure: Factors influencing the usefulness of measurement instruments

Source: own compilation

4.3.3 Enhancement of measurement instruments

The literature review revealed that the rationale for measuring impact is the utility for future investments. This was corroborated by the data collected from the interview participants. For instance, NGO2 reported that the measurement of social returns of impact investments provides a basis for future development finance investment decisions. AM1 linked the measurement of impact investments to a more effective allocation of development finance resources. AM1 also stated that:

> *It is important to gauge the extent of your investment in order to alter the plans and investment should it be ineffective.* and
> *Without proper metrics and comparative information, it is difficult to motivate for more funds.*

The researcher sought to understand mechanisms to enhance the utility of social returns measurement of impact investments. The interview participants proposed various solutions to the challenges faced and improvements in measuring the social returns of impact investments. These can be grouped according to the following aggregate themes: monetary impact of social value; optimisation of measurement through technology; ESG integration into value-driven decisionmaking; narrative-based impact reporting; and the external validation and accounting.

4.3.3.1 Monetary impact

Monetary impact, as an aggregate theme, is underpinned by the second order theme of financial evaluation and cost benefit analysis of social value. Economic valuation and cost-benefit analysis, i.e., tangible monetary impact, was highlighted as a theme in the proposed improvements for enhancing the utility of social returns measurement. DFI1 believes that the cost of social returns and assigning a financial value to it can enhance the measurement of impact. DFI1's response suggests that indicators can be assigned a financial weight so that social returns can be measured more effectively. This may be a contradiction in terms because it suggests that impact can only be measured in the manner that financial returns are done.

4.3.3.2 Optimisation of impact through technology

An aggregate theme identified for the enhancement of measurement instruments is the optimisation of impact through technology. This arises from the second order theme of the proposal of the use of artificial-intelligence (AI)-enabled measurement of social returns, data quality management, and capacity building. In improving how social returns of impact investments are measured, the data suggest that the use of technology systems can enhance the utility of measurement instruments. NGO1 recommended the use of artificial intelligence to measure social impact generated from impact investments. DFI2 agrees with the direction of using technology to improve data tracking and impact measurement. DFI2 suggested that the organisation needs to invest in a better loan administration system with significant updates and new features. This recommendation was coupled with capacity building of personnel to ensure that they are able to use the technology to add value. In addition, there should be regular training of employees on the system to ensure accuracy in development statistics (DFI2).

4.3.3.3 ESG integration and value-driven decision making

ESG integration and value-driven decision making was presented as an aggregate theme in the data collected from the participants. This is underpinned by the incorporation of ESG principles in defining an organisation's values. The data revealed that investors are likely to support investments

that have a “feel good” narrative associated with it. This suggests that impact investments may only be done for public relations and marketing purposes. ESG integration and value-driven decision making was proposed as a way to enhance the measurement of social returns. VC1 stated that the inclusion of ESG principles in the organisation’s cornerstone value system, as opposed to a mere box-ticking exercise, can enhance the measurement of social returns.

4.3.3.4 Narrative-based impact reporting

Narrative-based impact reporting, as an aggregate theme, was proposed as a measure to enhance impact measurement instruments. The second order theme associated with narrative-based impact reporting is the reporting of measurement data using a narrative in order to communicate the social value and impact generated. NGO2 said that the measurement of social returns of impact investments can be enhanced using a narrative as an acceptable additional means of reporting. This response aligns with Verrinder et al.’s (2018) and Jackson (2013) suggestions that theories of change enable better communication of social value and impact, identify the indicators to be measured, and assist with the critical examination of the rationale behind.

Theories of change as a measurement tool was revealed to be an inadequate metric in the reviewed literature. The researcher posits that theories of change can be incorporated into a custom measurement instrument to ensure that measurement outcomes are fully captured into the information reported to the investor as a way to improve the communication of social value.

4.3.3.5 External validation and accountability

The thematic analysis of data collected also positions the external validation of data and accountability of the impact reported as an aggregate theme for the enhancement of measurement instruments. The second order theme associated with this aggregate theme is the third-party verification and audit of processes to strengthen objectivity. PB1 proposed that the measurement of social returns must be independent to ensure objectivity. This can counter the problem of bias and a subjectivity that may be inherent in the monitoring and evaluation of performance as a measurement instrument of social returns of impact investments.

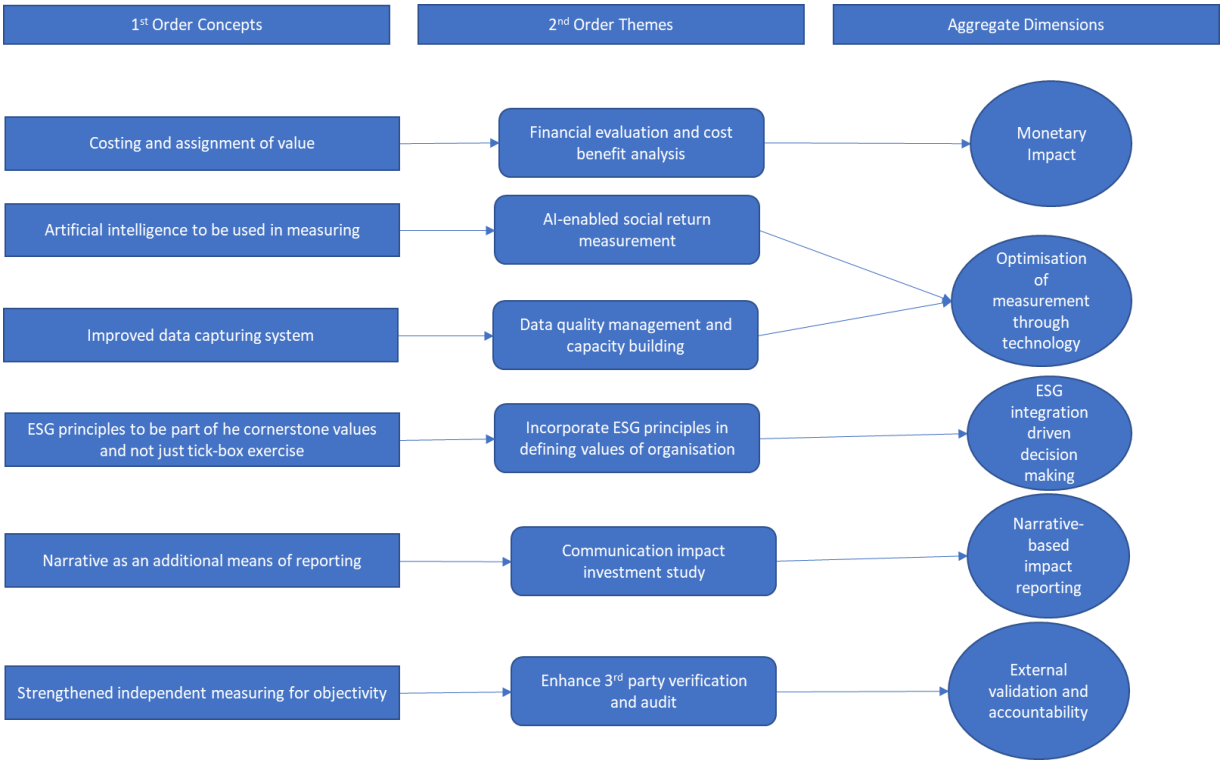

Figure 4: Data Structure: Enhancement of measurement instruments

Source: own compilation

4.4 Discussion of Findings

Through the thematic analysis of the results, the study revealed findings, each a construct of the measurement of the social returns of impact investments. Based on these themes, data structures were developed (see Figures 2, 3 and 4) illustrating how impact is measured, the factors influencing the utility of measurement instruments and the enhancement thereof. The data structures are a graphic representation of the thematic analysis conducted on the data collected from the interview participants.

This study illustrates that there are various instruments used to measure the social returns of impact investments in South Africa. While frameworks, performance indicators, and monitoring and evaluation emerged as aggregate themes for measuring social returns, the results of the research study demonstrate that there is no single measurement standard that was identified for South African impact investments. This is consistent with the views expressed in the literature review (e.g., McCallum, 2018; Global Impact Investment Network and Open Capital, 2016; Verrinder et al., 2018).

This study also augments prior research on the evaluation techniques of financial returns (Bennett, 2019). The thorough and in-depth analysis of data suggests that because social returns are not quantifiable, i.e., with no financial weights associated to it, they are difficult to measure because they are not expressed in monetary value. The data collected also demonstrated that subjectivity arises from a lack of comparative information. Furthermore, there is bias from the people assessing and monitoring social value and impact, and this may influence the measurement and reporting of impact. This revelation reinforces prior research on the emotion-driven impact investments and particularly, the association of investments with investors' own personal value systems (Roundy et al., 2017; Choda & Teladia, 2018). The research study reveals valuable insights into ESG Integration and value-driven decision making as a mechanism to improve the measurement of social returns of impact investments. It is not enough for impact to be generated for the organisation's public relations and marketing purposes, but social values must be incorporated into the organisation's moral fibre. This is consistent with prior research (Giamporcaro, 2017).

The results of this research study support the findings of Giamporcaro (2017), who found that impact investors report on influence in different ways due to the lack of consensus on one universally accepted measuring standard for the social value of impact investments. In line with prior research on theories of change, such as those of Verrinder et al. (2018), and Reisman and Olazabal (2016), this research study further reveals that the use of a narrative as an additional means of communicating and reporting on impact can enhance the measurement and reporting of impact.

In summary, the analysis of data revealed that the measurement instruments of social returns of impact investments can be categorised into three frameworks, performance indicators, and monitoring and evaluation methods but, more importantly that there is no singular, standardised method of measurement.

This chapter provided a presentation, discussion, and analysis of the data collected from the sample interviewed. The next and final chapter presents the study's summary, conclusions made and provides policy recommendations based on the findings and possible avenues for future research.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary and conclusions of the study's findings. The chapter also provides relevant policy recommendations and introduces avenues of future research based on the data analysis findings. The recommendations can assist with future research and policy formulation on the measurement of social returns of impact investments.

5.2 Summary, Conclusions and Recommendations

This research study investigated the measurement of social returns for impact investments in South Africa and the factors that influence the utility of measurement instruments. The study also looked at proposals to enhance the measurement of social returns. In summary, the research provided insight into impact investment practices in South Africa, particularly the metrics applied when measuring the social returns of impact investments. The research aimed to enrich the impact measurement and management aspect of the impact investment field of study by looking at the data and evidence that can be generated from measurement metrices. The study was exploratory and qualitative in nature and aimed to answer the question on how social returns of impact investments are measured. The study was motivated by a perceived gap in literature on the standardisation for impact measurement and the quality of the impact data to inform future investment decisions.

Overall, the results of the study show that there are various measurement tools used in the South African context which can be classified into frameworks, performance indicators, and monitoring and evaluation. The study's findings also revealed that subjectivity of social returns, inconsistent and weak reporting standards, inadequate measurement metrics, and a lack of established standards are the aggregate themes when looking at the factors influencing the utility of measurement instruments. Finally, the research proposed that measurement of social returns can be improved by assigning monetary value to impact, an optimisation of measurement through technology, ESG integration and value-driven decision-making, narrative-based impact reporting and external validation and accounting.

The study identified that while there are commonly used global techniques to measure the social returns of impact investments, such as SDGs, ESG, and IRIS, there is no standardised metric used in the South African context. The study also found that the tracking of impact data can influence future development finance allocations and investments. In addition, the measurement of impact investments can give investors assurance that their impact investments are performing in alignment

with their intention. This is important because intentionality is a critical component of how impact investment is defined. Furthermore, it advises investors on the performance of their investments. The measurement of social returns of impact investments has utility in the socioeconomic context in South Africa.

Overall, the result of the study is that the various measurement tools used present a challenge because of the lack of consistency across industries. The lack of standardisation creates a problem of different reporting templates for measurement outcomes used by the impact investment practitioners and the investors. The reporting is a critical element as it lets the investors know whether the outcomes of their investment are aligned to their intention. It also influences future development finance capital allocation decisions.

Based on the findings presented in the study, the following recommendations are made with the objective to enhance the measurement of social returns of impact investments:

- Creation of a standardised measurement tool that integrates indicators aligned with SDGs and ESG and is customised for the South African landscape.
- Leveraging technology to enhance the tracking and reporting on impact data
- Development of a impact investment measurement and reporting policy to regulate the proposed customised and standardised measurement tool to foster transparency and accountability in the industry.

5.3 Avenues for Future Research

Impact investment is a niche sector in South Africa's investment ecosystem and presents myriad opportunities for research. One avenue is the professionalisation of the impact measurement profession in South Africa to improve the body of knowledge on the measurement of social returns of impact investments and attract future investment allocations for development. Based on the study's findings, more research can also be undertaken on the use of technology and technology systems to track and report impact data. There may also be a need to further expand research to understand the critical factors for the development of a single measurement model that may be used to measure the social returns of impact investments customised for South Africa.

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Appendix

Questions

Section 1: Demographic information

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

Section 2: Interview/Survey questions

1. Is the company categorised as a Development Finance Institution (DFI) or Non-DFI i.e. fund managers, foundations and bank?
2. Does the organisation identify as an impact investor? If so, what is the social impact that the company intends to achieve?

How are social returns from impact investments measured?

3. Does the company have methodologies to measure the social returns of the impact investments?
4. How does the company go about measuring impact? Please explain the process.
5. Are there challenges faced in measuring social returns of impact investments? Please explain.

What is the utility of measuring social returns of impact investments by South African impact investors?

6. What is value of measuring social returns of impact investments for the investors
7. Are there challenges faced in reporting impact metrics to investors? Please explain

How can the utility of these social returns measurement methodologies be enhanced?

8. How can the measurement of social returns of impact investments be enhanced?