IMPACT INVESTING SOUTH AFRICA

LETTER TO THE PRESIDENT
RECOMMENDATIONS FROM IMPACT INVESTING SOUTH AFRICA

We are in the midst of unprecedented change, on a global scale. The pandemic has exposed cracks in our economic system that, along with the imminent climate crisis, will force us to rethink how we allocate resources and account for our impact on people and planet. We will need to move deeper and permanently into a paradigm of partnered inclusive, sustainable growth if we are going to survive and thrive. The question is how. There is a financial toolbox that has emerged over the last 10+ years that will not only help us to address the short-term issues but serve as a foundation for long term restructuring. This toolbox is known as impact investing.

Impact investments are those made with the outright intention to generate positive, measurable social and environmental impact while seeking a financial return, ranging from commercial to sub-commercial. The principles of impact investing include cross-sector collaboration, inclusive growth, and addressing the Sustainable Development Goals through market-based solutions. For impact to be effective, it requires intervention at scale, which in turn relies on strong trusted partnerships. It is driven by the private sector, whose success is premised on requisite policy support.

At a micro level the innovation in this field has enabled investors to provide flexible capital in underserved parts of the economy. At a macro level it has provided a basis on which positive and negative externalities can be priced, so the real cost of net impact is factored into the value.

Impact investing has grown in size and recognition and is currently on every multi-lateral agenda including the UN, WEF, OECD, the G20, and IFC, in line with the global commitment to the UN SDGs. With this new paradigm comes the opportunity to shape a new economy, where financial analysis not only includes risk and return, but also impact.

As government responds to the COVID-19 crisis, we encourage keeping the principles of impact investing in mind. Impact Investing South Africa (IISA) have outlined some recommendations of how to achieve this, not only as we respond to the immediate crisis and prioritise survival, but as we position ourselves for recovery in the long term.

Survival Phase

Time is of the essence in addressing the challenges of COVID-19. The proposed stimulus package will encourage survival of businesses and organisations in the short term, getting them through the eye of the storm. To utilize the principles of impact investment, we recommend that government:

1. **Embed impact principles in government stimulus packages.** Government's response to the crisis has been swift and comprehensive. However, the pot of funding from which government can draw is not endless. To ensure the largest possible social value from this funding, it should be deployed strategically and with intent. To achieve this, we recommend that the R200b loan guarantee scheme be tied to social impact targets, such as preservation of jobs within the enterprises benefiting from the loans. The loans should also require both financial and social reporting, including the number of jobs created or maintained as a result of the fund. This will not only allow government to report on the impact of the loan guarantee scheme, but will assist the impact investing ecosystem in setting baselines and benchmarks of key job metrics. In simple terms, the structure should be outcomes rather than input based.

2. **Utilize blended finance models that leverage additional funding.** Government's COVID-19 support package is comprehensive, but our country's needs may outweigh the relief capital available. Government funds can thus crowd-in investment from the private sector. A new model, the Green Outcomes Fund, is currently being piloted between National Treasury and local fund managers to increase investment into small green businesses and stimulate job creation. Such a structure could offer government the opportunity to catalyse much-needed investment into businesses that present solutions to health, social, and economic challenges associated with COVID-19. In addition, since it only disburses valuable government grants when the desired outcomes have been achieved, it ensures that no cent goes to waste. We recommend that blended finance approaches be institutionalised into the government policy and spending programmes.

3. **Design a Pay-for-Success COVID-19 initiative.** Standing on the shoulders of lessons learned from South Africa's own Social Impact Bond, a Pay-for-Success COVID-19 Initiative has the power to encourage entrepreneurial innovation in pursuit of

containment of the virus through mass testing. A proposal by Sir Ronald Cohen[1] outlines the benefits to governments of participating in this innovative financial mechanism, which provides incentives for companies and investors to join the fight against COVID-19. There are currently a number of projects underway with National Treasury in education, health, early childhood development and workforce development that could be replicated or expanded in other departments and/or sectors.

4. **Forge partnerships with the private sector.** The private sector has already taken significant steps to demonstrate its commitment to relief efforts during the pandemic, but more formalised partnerships are needed to effect change at scale. The financial sector can be called on to leverage their resources, including wide client databases, financial distribution channels, and teams of innovation experts, to support government's relief efforts. Lessons can be drawn from the Rupert family's partnership with Business Partners, a small-business investor with the capabilities, systems, and expertise to manage a R1b relief fund.

   Government can also encourage more financial sector players to extend flexible terms during the crisis, including restructured payment schedules, deferred interest payments, extended loan periods, or extending bridging loans. Financial institutions and asset managers could use this opportunity, with government's support (in the form of incentives and/or technical assistance) to drive product innovation such as pooling early stage, small deals that offer high social and environmental impact. The JSE and multiple banks are already working on products such as social and sustainable bonds, but there is plenty more that can be achieved with these models.

IISA, made up of representatives of private sector, donors, and the public sector (see Annex 1 for a list of IISA members and affiliations), **offers a unique platform to nurture these discussions that government is welcome to utilize** to achieve new partnerships and innovations. It also facilitates local and international collaboration, sharing of knowledge, and forging of partnerships.

[1] Sir Ronald Cohen is the Chairman of the Global Steering Group for Impact Investment and The Portland Trust. He is a co-founder director of Social Finance UK, USA, and Israel, and co-founder Chair of Bridges Fund Management and Big Society Capital

Revival Phase

The after-effects of the lockdown combined with the looming economic recession mean that strong leadership and government support will continue to be needed in the long term. Impact investing principles offer opportunities to use finance in a way that optimises social and environmental well-being. The following are recommended:

1. **Support the development of a pipeline of businesses seeking to address challenges associated with the COVID-19 health and economic crisis.** Government can facilitate the flow of investment to where it is most needed by developing a database of investable businesses targeting the effects of COVID-19. These businesses may include health innovations, sanitation solutions for communities without running water, edtech solutions to facilitate distance learning, fintech providing increased access to finance and lowered reliance on cash, social distancing enablers, and a myriad other innovative solutions. The database should be searchable by region, sector, impact theme, investment type required, and other fields that will allow for swift matching between companies and investors. The Bertha Centre (which acts as the secretariat for IISA), based at UCT's Graduate School of Business, has begun investigations into such a mapping.

2. **Showcase investment gaps and opportunities to impact investors worldwide.** Investors looking to deploy capital in South Africa may need some guidelines as to where they can have the most impact. IISA, in partnership with UNDP South Africa, is undertaking a mapping exercise which outlines high-potential opportunities for investment that align to both the Sustainable Development Goals and the National Development Plan. This mapping will provide potential investors with an overview of investment opportunities offering the highest social, economic, and environmental opportunities. In light of COVID-19, it will shine a light on themes and investment cases that will offer both positive returns and long term support of the country's development goals.

3. **Build enabling legislation for impact investing.** One of the key success factors of impact investing industries globally is the level of regulation in support of the ecosystem. South Africa already offers Regulation 28 and Section 12J incentives, but there is more that could be done, particularly during the pandemic. This could include the introduction of new tax incentives to individuals, corporates, and foundations for donating or investing in the fight against COVID-19. It could leverage off the B-BBEE incentives, or create entirely new enabling regulations. IISA is currently undertaking research into tax legislation

surrounding impact investing and blended finance opportunities for foundations, in an effort to encourage intentional spending by CSI and grant-making organisations towards impact investing.

4. **Support the development of an Impact Investment Wholesale Vehicle,** which is comprised of different pools of capital with varying risk/return requirements, working together under a collective investment mandate to bring about impact in an intentional, measurable manner in South Africa. With a market-building mandate, it will attract new sources of local commercial capital (notably Pension and Retirement Capital), anchor new intermediaries, and promote impact integrity. Such a vehicle, currently in an exploratory stage by IISA, will aim to target funds that invest working capital and growth capital into Small and Growing Businesses.

This is a time of crisis, but it is also a time of opportunity. This is the moment for leadership to show that it can take decisive action that will not only create social impact today, but will prioritise social and environmental priorities in the financial markets for a scalable revolution tomorrow. Not only for South Africa, but as a thought leader for the continent. The guidance of the President is the most appropriate way that we can achieve this. **Impact Investing South Africa is willing and available to interface with the planning of responses underway within government, to offer support, ideas, and expertise around the incorporation of impact investing at this time of both unprecedented challenges and unfathomable potential for change.**

ANNEX: IISA members and affiliations

Member	Roles & Affiliation
Elias Masilela	• Executive Chairman, DNA Economics • Commissioner of the 1st & 2nd National Planning Commission
Heather Jackson	• Head: Impact Investing, Ashburton Investments
Isaac Ramputa	• CEO, Financial Sector Charter Council • Chairperson, ASISA Foundation
Basil Maseko	• Tax and Financial Sector Policy, South African National Treasury
Jon Duncan	• Head: Responsible Investing, Old Mutual Group
Jonathan First	• Head: Syndication Finance, Development Bank of South Africa
Khulekhani Mathe	• Head: Financial Inclusion, Banking Association of South Africa
Martie Janse van Rensberg	• Independent
Monique Mathys-Graaff	• Senior Advisor: Impact Management Project
Olano Makhubela	• Deputy Registrar of Pensions, Financial Services Board
Pat Pillai	• Founder/CEO, LifeCo UnLtd SA
Paul Currie	• Chief Investment Officer, Development Bank of Southern Africa
Sizwe Nxasana	• Founder/CEO, Sifiso Learning Group
Tanya van Lille	• Director of Southern Africa Venture Capital Association (SAVCA)_
Tracey Austin	• Independent
Tshediso Matona	• Secretary of Planning, National Planning Commission
Wendy Lucas-Bull	• Chairperson, Barclays Africa Group Limited, Absa Bank Limited and Absa Financial Services Limited

The UCT GSB's Bertha Centre for Social Innovation & Entrepreneurship acts as the secretariat for IISA