Supply of capital to financial intermediaries serving small and growing businesses in South Africa:

Concessionary and commercial funding landscape report

Contents

List of Tables

List of figures

Acronyms

ANDE	Aspen Network of Development Entrepreneurs
BBBEE	Broad-based Black Economic Empowerment
CRISA	Code for Responsible Investing in South Africa
DFI	development finance institution
ESD	Enterprise and Supplier Development
ESG	environmental, social and governance
FSCA	Financial Sector Conduct Authority
GDP	gross domestic product
GIIN	Global Impact Investing Network
GSG	Global Steering Group for Impact Investing
IDC	Industrial Development Corporation of Southern Africa
IFC	International Finance Corporation
IIWV	Impact Investing Wholesale Project
IMM	impact measurement and management
IRR	internal rate of return
MDB	multilateral development bank
MFI	micro finance institutions
MSME	micro, small and medium enterprises
NCR	National Credit Regulator
NEF	National Empowerment Fund
ODA	official development assistance
PE	private equity
SAVCA	Southern Africa Venture Capital and Private Equity Association
SDG	Sustainable Development Goals
SEFA	Small Enterprise Finance Agency
SGB	small and growing business
SME	small and medium enterprises
STEM	science,technology, engineering and mathematics
UA	Unclaimed Assets in South Africa including pension funds, banks, CIS and insurance companies
UN	United Nations
UNPRI	United Nations Principles for Responsible Investment

1.
OVERVIEW

1 Overview

1.1 Purpose of this report

This report serves two main purposes: it is one of the key deliverables (2.1) under the South Africa Impact Investing Wholesale Project (IIWV or the Project) and it provides an overview of the potential sources of capital for such an IIWV with a focus on sizing the market, determining the constraints restricting capital flows towards impact investing and SGBs and identifying enablers, trends and examples of impact and SGB investing.

The report also establishes a connection with the global context of impact investing, the principles of which are being promoted as fundamental to the solution, with concepts framed according to well-established frameworks (such as the Global Impact Investing Ecosystem)[1] and standards (such as the Sustainable Development Goals (SDGs)) and evolving initiatives critical for the mobilisation of capital (such as blended finance) that show how challenges could be addressed. The emergence of an impact wholesaler is a recent development in the pursuit of new solutions to catalyse capital at scale for impact investing and to bridge the gaps that prevent the mainstream financial system from entering the market. Big Society Capital led the way with its impact investing wholesaler focused on providing finance to the social sector in the UK and building the impact investing market, while traction has been seen with other impact wholesalers in Europe, Portugal, South Korea and Japan [2], where each addresses local market constraints. In developing markets, a wholesaler is usually applied to addressing finance constraints of social enterprises, while in emerging markets it is more appropriate to apply to enterprises addressing the UN Sustainable Development Goals, including SGBs with a focus on job creation, financial inclusion and additionality.

Notwithstanding the SDG global call to action, capital flows towards the SDG agenda remain restricted, particularly from private capital providers such as retirement funds and banks.

The recent combination of economic slowdown, high debt exposure in vulnerable countries, trade wars and the COVID-19 crisis leaves South Africa – and its SGBs, the lifeblood[3] of its economy through job creation – particularly vulnerable due to vast inequality and rampant corruption. Unemployment has skyrocketed to 32.5% (and 42.6% based on an expanded definition) leaving more than 7.2 million individuals without a source of income, a situation calling for urgent public and private action.

This near-cataclysmic situation requires a radical rethink to ensure the financial ecosystem in South Africa contributes to the wider economy and liberalises more domestic funding to allow SGBs to grow and thrive. Doing so will contribute to the economic wellbeing of the country and its citizens. This report serves as a foundation for bringing about fundamental and far-reaching change.

This report lays the foundation to test what it will take to mobilise funding from across the South African financial ecosystem to reach under financed sectors such as SGBs. It also seeks to provide a constructive oversight of the market status quo and prevailing attitudes to risk and illuminate opportunities which should be embraced. At the core of the Project is a market-building mandate that includes:

- proving underserved SGBs can be a sustainable investment segment through flexible, innovative SGB financing solutions that address their needs and constraints;

[1]Adapted from Addis, 2018; Organisation for Economic Co-operation and Development, 2019; World Economic Forum, 2013
[2]Global Steering Group, 2018
[3]SGBs employ 50 to 60 % of the work force in SouthAfrica

- mainstreaming impact investing in South Africa by purposefully incentivising alternative financial institutions to develop innovative impact investing solutions that can meet the financial and impact agendas of local (and international) investors; and
- evidencing that collaborative partnerships between international and local, and public and private, financial stakeholders can contribute to solutions that will change the trajectory of South Africa.

Collaboration is inherent in this Project. It is grant-funded by the UK Foreign Commonwealth Development Office (FCDO) and is one of a range of projects seeded by Impact Investing South Africa (IISA) and the UCT GSB4 Bertha Centre for Social Innovation and Entrepreneurship (Bertha Centre). The grant forms part of the IMPACT Programme, managed by Palladium International and administered by Tshikululu Social Investments. It is designed by a core technical team co-led by Dr Susan de Witt and Tracey Austin, and runs from 1 December 2020 to around 31 March 2021.

1.1.1 Problem statement and motivation

Deteriorating economic growth over the past decade exacerbated by the Covid pandemic, spiralling debt, decreasing foreign direct investment (FDI) and capacity constraints to execute necessary reforms are challenges that South Africa faces to get back on a growth trajectory. The South African SGB sector contributes 34% to the country's GDP and constitutes 90% of formalised business, yet remains unserved by local funders mainly due to actual and perceived high risk that restricts institutional investors and banks from supporting large scale efforts into the segment.

At the heart of the conundrum[5] that perpetuates the lack of *access to finance* lie the following restrictions:

- institutional investors (by virtue of their trustees (often advised by asset consultants[6]) who act as their investment decision makers) have a fiduciary duty to their members and are accustomed to capital markets where they could earn attractive returns from low-risk, liquid assets. Notwithstanding regulatory allowances to invest in alternative asset classes (under eg Regulation 28 etc), access to sufficient liquid opportunities in the market and an aversion to risk in the past, caused a lag in incorporating alternative investment strategies. However, traditional asset classes are no longer yielding the performance that they once did and asset consultants and retirement fund trustees are under pressure to find new investment sources to deliver expected returns. Increasingly, alternative assets are being explored as a way to enhance returns[7];

– banks remain risk-averse in lending to SGBs, restricted by their regulatory capital adequacy requirements, high costs of serving the segment and one can argue inflexible lending practices (high collateral) and inability to price risk, within a well-developed corporate and medium-sized business market;

– local DFIs are extensions of Government and have their own capital and capacity constraints but many don't actively target supporting SGBs directly, leaving the national priority of MSME development to smaller DFIs (refer to section 0); and

– a lack of awareness and knowledge of impact investing (beyond responsible investing) and alternative structures (eg permanent capital vehicles) for investment (such as blended finance beyond use of a guarantee/first-loss layer of capital) remains a barrier in attracting capital through innovative financing mechanisms.

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[4] University of Cape Town Graduate School of Business

[5] Source: one of five key factors cited by the International Finance Corporation. (2018)

[6] The dynamics and challenges of this relationship is not explored in this report

[7] Sanlam, 2019

[8] https://www.thusopartners.co.za

- Requirement for diverse, experienced human capital – yet changes to back previously disadvantaged groups is slowly happening (Thuso[8]) but not explicitly linked to SGB focused skills.

However, the state of the South African joblessness impacted by the Covid pandemic has resulted in a broader, more urgent awareness of what sustainability for the country needs to look like and the role all forms of capital across the financial spectrum needs to play in facilitating rapid improvement.

1.2 Structure of the report

The report is structured to provide as complete a picture as possible, starting with publicy available data, upon which the research has been expanded, to provide a summary of research findings. The intention is to ensure the report is practical and dynamic, allowing it to evolve over time as evidence deepens and market precedents such as funding structures are established. We expect this report to require an update in due course beyond this Project, to ensure its usefulness and practical approach.

This report uses the term 'SGB' unless referring to specific research reports where figures are most often related to SMEs or MSMEs. Micro, small and medium-sized enterprises tend to be defined locally and are not subject to a 'one-size-fits-all' definition. This report uses the sizing offered by IFC, StatsSA and South Africa's National Small Business Amendment Act 2003. Where possible, we distinguish between micro and small and medium-sized enterprises.

1.2.1 Literature review

The literature review builds on the content of the preceding Landscape Report, "Small and Growing Businesses in South Africa – Investment and Regulatory Landscape Review". The desktop research is drawn from predominantly publicly available data, referenced sources, anecdotal inputs or other general inferences as appropriate.

The literature review gives an overview of the environment and trends that support the context and serves as introduction for the research conducted in this report (being to explore potential funding pools in South Africa that could be mobilised for impact investing (and SGBs, in particular), using innovative financing mechanisms (such as blended finance structures and impact wholesalers), including:

- The UN SDG financing gap and the factors that have inhibited progress to date, and which are now exacerbated by Covid-19;

- International capital flows and the impact of Covid-19 showing a decline in foreign direct investment (FDI) in developing countries, including South Africa, and thereby decreasing potential investment targeted at the SDGs;

- Global advocacy of the role that private sector capital has to play as the 'missing piece of the SDG puzzle', being in control of large capital pools that could be (partially) directed to SDG investing, thereby filling a significant gap in the SDG funding need;

- Blended finance as an innovative and critical mechanism to mobilise private sector capital towards impact investing globally; the trends observed in international markets in terms of investment focus; the types of investors participating in these transactions, including private sector institutions;

- The trends in blended finance in Sub-Saharan Africa and South Africa, in particular, from an international perspective.

1.2.2 Methodology Investor segmentation and analysis

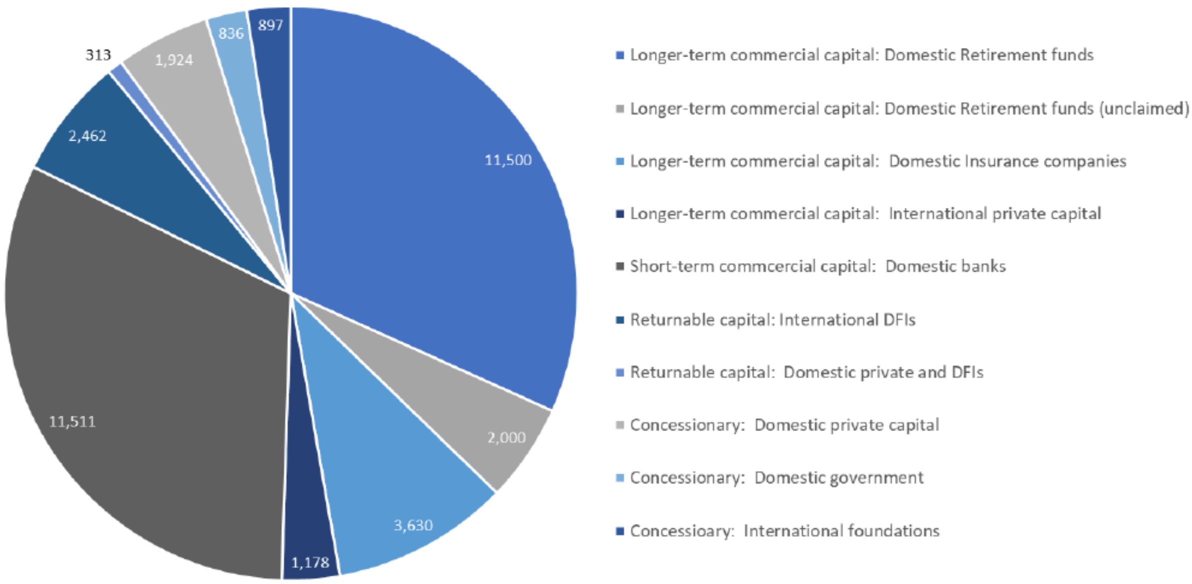
The methodology encapsulates an early analysis to identify potential investor segments, specifically private sector capital pools, but also development financiers, including international multilateral development banks (MDBs) and development finance institutions (DFIs) and domestic DFIs and government incentives targeted at SGBs. It includes:

- A market assessment exercise of the South African savings and investment ecosystem and attempt to classify and size capital pools according to the risk-return spectrum.
- A detailed exploration of the investor segments, their asset portfolios, regulatory environment, constraints and positive examples of successful impact and/or SGB initiatives.
- What it does not include is the supply of capital which is presently allocated under Unclaimed Assets (UA) across the South African financial ecosystem. This is addressed within the Project scope, but an assessment of the UA market was not complete at the time of writing this report.

1.3 Summary of research learnings

The graph below illustrates the attempt to identify and quantify potential pools of capital that could be unlocked for impact investing and investing into SA SGBs under enabling circumstances. Further feasibility assessment and design phase of the IIWV Project will be needed to refine exactly what is needed to create enabling circumstances. This will require range of interviews with actors across the SA ecosystem and is beyond the scope of this report.

Figure 1: A market sizing of potential pools of capital that could be unlocked for an IIWV in South Africa (GBP million)



Note: Data points had to be adapted from a broad range of sources and are in no way exact estimates, nor fully comparable. These estimates serve only to indicate a high-level proximity of pools of funding.

Estimation approach:

Longer term commercial capital refers to institutional investors representing retirement funds[9] and insurance companies, both locally and internationally.

- The **domestic retirement fund** capital estimation is based on regulatory allowances for private equity (10% as current maximum limit as per the Regulation 28 of the Pension Funds Act[10]). This is a conservative estimate considering that Regulation 28 allows for up to 15% of retirement savings to be allocated to alternative assets, which includes private equity and hedge funds, each with a sub-limit of 10%[11]. In addition, Regulation 28 also makes allowance for up to 15% investments in unlisted debt instruments other than those guaranteed by Government or a South African bank, alluding to a potential 25% total allocation to private equity and unlisted debt[12] at present. Notwithstanding, within context of a 2.5% current allocation to alternative assets by retirement funds, an estimate of an increase to 10% would be a significant move towards unlocking capital for SGBs and impact investing;

- **International private capital** is based on aggregated data for Southern Africa (not only South Africa) and is a high-level estimate based on Southern Africa's share of blended finance transactions and the median size of blended finance transactions in Sub-Saharan Africa[13]. The estimate includes the levels at which asset managers, financial institutions (banks) and corporates that have participated in blended finance transactions in Sub-Saharan Africa. Specific information for blended finance transactions in South Africa is not available and it can only be inferred that it ranks well behind the most active regions such as Kenya, Uganda, Tanzania, Niger, Ghana and Nigeria. The estimate indicated will therefore have to be further investigated for a more exact view of potential international capital available for impact investing in South Africa. Furthermore, the most notable Sub-Saharan domiciled investors that participated in blended finance transactions include Standard Bank, DBSA, Nedbank Group, Absa Bank and RMB (all South African headquartered banks and a DFI). Albeit that their participation is small in the international blended finance investor pool and likely to be targeted at large infrastructure projects and funds, it does indicate activity in the South African market. This also means that this international private capital estimate could be doubled counting domestic (bank) sources of capital available.

- **Domestic insurance companies'** estimate is based on current asset allocations to alternative assets, including 1.9% in alternative funds and 0.6% in private equity funds. Since the research did not find a firm expression of intention to adopt more aggressive investment policies (largely restricted by conservative risk management frameworks) that would result in a significant movement towards impact investing in the insurance industry, the current level of asset allocation indicated above was maintained to inform the estimate of available insurance capital.

- Short-term commercial capital is based on SGB lending extended by South African banks as reported by the IFC[14].

[9] Retirement funds in South Africa comprise pension funds, provident funds, retirement annuity funds, preservation funds, unclaimed benefits funds and beneficiary funds (Financial Services Board, 2018).

[10] SAVCA, 2020a

[11] FA News, 2020; SAVCA, 2020

[12] FSCA, n.d.; Futuregrowth Asset Management, 2018

[13] Convergence, 2020a

[14] International Finance Corporation, 2018

- Returnable capital for purposes of this report is considered to be investments made under a high development or impact mandate, alongside a financial return expectation, but specifically incorporating higher risk appetite compared to more commercial investors in order to achieve development and impact objectives. It includes different supply actors:

  - both domestic and international DFI funding, either as most recent SGB approvals or total portfolios. Relevant domestic DFIs include the IDC, NEF and sefa, whereas international DFIs active in South Africa include CDC, FMO, IFC, EIC and Proparco;

  - angel investing as reported by SAVCA[15]. Angel investors (typically highnet-worth individuals who invest in seed and early stage enterprises) are included in this category due to their high-risk approach to investment in early-stage ventures and objectives to support entrepreneurs and disruptive business models often focused on solving social issues in South Africa, e.g. Team Africa Ventures is an investor in Lulalend, a fintech intermediary focused on serving MSMEs in South Africa.

- Concessional capital is considered to be funding pools with a market development mandate available with no firm requirement for the return of capital (ie grants or first-loss sources of capital), albeit that initiatives could be structured to include normal financing instruments such as equity and debt as part of blended finance structures with the development intention to mobilise capital from other capital providers. Concessional capital providers for purposes of this report include:

  - Corporate initiatives, including endowments to black economic empowerment trusts eg Standard Bank Tutuwa Community Foundation which has a £85.4m endowment in Standard Bank Group shares and it has participated in the Bonds4Jobs social impact bond;

  - Government funding and initiatives eg initiatives of the Department of Small Business Development, which is the central oversight authority for small business development and had a budget allocation of £390m in 2019/20;

  - Initiatives funded by highnet-worth individuals and their families, eg the Oppenheimer, Rupert and Motsepe families contributed £47m each for Covid-19 relief funding, the majority of which was focused on small business support;

  - May include DFIs (especially international DFIs as part of their market-building mandate); and

  - International foundations with funding windows potentially relevant for SGB finance, such as the MacArthur Foundation and Catalytic Capital Consortium that focused on mobilising capital towards impact investing initiatives.

Key observations

- The **largest pools of capital** are constrained by the perceived risk of underlying SGB investments (exacerbated by investment processes that cannot readily undertake due diligence to address this perceived risk).

[15] SAVCA, 2020b

– **Domestic retirement funds and insurance companies** manage an asset pool more than R7trillion/£333 billion[16] that at the estimations reflected in Figure 1 of R360billion/£17 million could be unlocked for alternative assets, including impact investing and SGBs (ie via if the risk-return requirements and familiarity with such alternative assets can be addressed). Only a 5% sub-allocation out of this estimation at R18 billion/£857m could fund 18 SGB funds;

Retirement funds:	• Illiquidity and complexity are deterrents for pension fund allocations to alternative assets; solutions need to address risk and liquidity considerations in forms and language that asset consultants are familiar with; • Investment decision-making is led by asset consultants who play an integral role in advising fund trustees on asset allocation. Major administrators (top 10 administrating 85% of retirement funds) have capacity and are building internal expertise to consider alternative assets, including impact investing. But a long tail of smaller funds and administrators also leaves an important opportunity for an IIWV to serve its market development/education mandate and as a conduit for sustainable/impact investing initiatives; • The retirement fund industry in South Africa is encouraged to consider more sustainable investing by regulatory authorities and has largely incorporated sustainability issues in investment strategies, a positive trend for impact investing. • Regulatory allowances for private debt (15%) and equity (10%) instruments are underutilised leaving a significant opportunity for an increase in allocations from the current 2.5% level. • An IIWV with a clear market development mandate could drive an important learning agenda to help funds build knowledge and understanding of both the impact and financial potential of impact nvesting.
Insurance companies:	• Stringent prudential risk management and solvency capital requirement drives insurers to invest assets in 'safer' investments, primarily in cash and listed equity and debt markets, with little indication of movement towards alternative investments and allocations, including impact investing, SGBs or sustainable assets. • Covid-19 has had a severe impact on insurance companies resulting in a focus on maintaining capital buffers underpinning their stringent risk management requirements. • Strained liquidity and solvency will likely result in close review of risk and conservative capital allocations at portfolio and firm levels over the next two years.

[16] Exchange rates used throughout this document is as follows:
- GBP/USD: 1:1.39
- GBP/ZAR: 1:21
- GBP/EUR: 1:1.15

- International private investors have led the way in impact investing and have been investing in the Southern African region (often the only way SA is included in studies), but have been more active elsewhere on the continent, particularly Kenya, Uganda, Tanzania, Niger, Ghana and Nigeria. In excess of £1bn has been made available to the region in the past and could be built upon. The international private investment potential was not further explored for purposes of this research in lieu of its focus on unlocking local capital pools;

- Banks' SGB lending books exceed £11.5bn and they are the largest source of capital for SGBs at present, yet a funding gap of £21.6bn remains and banks are reluctant to expand exposure to SGBs due to high (actual and perceived) risks of SGBs, inaccessible platforms, and high levels of bureaucracy, collateral and pricing associated with serve the segment.

  - A key constraint that banks face are more stringent capital adequacy requirements introduced under Basel III, which has been detrimental to MSME financing because banks have to maintain higher capital levels due to the higher weighted risk attributable to MSMEs. In the context that banks' performance is highly correlated with how efficiently capital is managed, banks will allocate capital to segments with the lowest capital requirements, therefore avoiding segments like MSMEs;

  - DFIs have been working with banks to provide dedicated MSME funding lines and guarantees, and are widely regarded still to be the most efficient distributors of capital and the potential (large-scale) solution to the MSME access to finance challenge.

- The above estimation for **returnable capital providers** is dominated by international DFIs (£2.4bn), which have been investing in development issues in South Africa for many years, but also include domestic DFIs (£195m) and angel investors (£111m) .

  - **International DFIs:** It was not ascertainable what proportion of the £2.4bn they have invested is attributable to SGBs specifically. The international DFI figure is therefore likely overstated considering that such institutions invest across a range of development issues, including infrastructure (large ticket sizes), private equity (typically private companies outside of SGBs) and corporates.

    - Encouragingly, focused MSME initiatives in South Africa or that could apply to South Africa have been announced by various DFIs in recent years. In particular, the World Bank/IFC initiative to support MSME market development specifically in South Africa shows positive support for the segment, but implementation is focused via the banks.

    - Further, in terms of other, general Africa programmes, South Africa is usually carved out of International DFI geographic mandates on account of its Middle Income Country status, but there is some suggestion this is being revised for SGB-focused ventures at present.

  - **Domestic DFI funding** of £195m is focused on SGB investments, reflecting the MSME or SGB portfolios of the Small Enterprise Finance Agency (sefa), National Empowerment Fund (NEF) and an estimation of the SME book of the Industrial Development Corporation of Southern Africa (IDC).

    - South Africa is in a unique situation in that its government has built up several domestic development finance institutions and government funders with different mandates focused on key development aspects of the South African economy, as well as regional projects. However, only a few are explicitly focused on MSMEs as indicated above;

  - Among the DFIs analysed, the IDC and NEF follow a more direct approach in their investment strategies, whereas sefa incorporates wholesale funding and partnerships. sefa has been the DFI entity tasked to serve small businesses in South Africa, and would be most relevant for an IIWV vehicle focused on reaching underserved SGBs. However, Government has expressed the intention to consolidate small business financial and non-financial services under one entity. It would be ideal to better understand the intended changes in the environment. Such a planning period provides a good opportunity for an IIWV to offer implementation capabilities and partnering opportunities that the department may be looking for and that can crowd-in private sector resources.

- SAVCA's survey in 2020 indicates that angel investors have invested £111m in start-up enterprises whereas foundation investments of £7m refer to a singular example of a corporate initiative investing in start-up businesses. Generally, these investors follow a direct investment approach and are notoriously discrete.

- **Concessional capital** explored includes government, corporate, individual and international foundation portfolios to ascertain potential pools of funding with commensurate impact or development objectives aligned with an SGB finance strategy:

  - Domestic corporates represent the largest potential funding pool in this category (£1.7 bn), which is largely attributable to endowment assets resulting from the broad-based black economic empowerment (BBBEE) transactions where corporates sold portions of their shareholding into trusts (also called foundations) focused on transformation through various initiatives as determined by each entity, such as the Standard Bank Tutuwa Community Trust example mentioned earlier. Challenges that these organisations still face include:

    - Asset management policies procedures or decision-making structures in the large majority of foundations have not been formalised and investment portfolios consist primarily of the sponsoring company's shares, because there is a lock-in holding period. Foundations are dependent on dividend flows to implement activities;

    - The majority of foundations are focused on disadvantaged groups in South Africa with priority areas indicated in terms of geography (within the sponsoring company's operating area) or community of interest (such as education for employees or students interested in the company's business). More than three-quarters of funding was dedicated to education in different forms.

    - The potential for an IIWV lies in how these foundations will finally end up managing and diversifying their assets base. It appears to be still at an early stage of development and an IIWV could play a role in educating trustees about the potential of impact investing that could align with their respective development and impact objectives.

  - The South African government has made significant efforts to fund MSME development in the country and initiatives outside of Covid-19 responses, holds funding pools of £836m, through programmes such as the Black Industrialists and the Small Enterprise Development Agency (Seda) programmes.

    - Through its industrial finance focus, South Africa's Department of Trade, Industry and Competition has a range of sector-specific programmes aimed at leveraging £2.1bn in private sector investments. However, the majority of sectoral incentives have very specific sector or industry objectives that would unlikely be routed through a general wholesale vehicle, but can serve as database of potential support to ultimate investee businesses.

- As the oversight authority for small business development, the Department of Small Business Development and its implementing agencies (particularly sefa and Seda) are important stakeholders to engage with to determine potential government support available for an IIWV, its potential financial intermediary investees and their clients. A key development to keep track of is the intention expressed by government to consolidated all small business activities and financiers (ie sefa and NEF) under one umbrella, but it is understood that these discussions are still ongoing.

- Highnet-worth individuals (HNWI) have contributed to various charitable causes and the above figure of £190m mainly include Covid-19 commitments, which included a specific focus on MSMEs. Information of giving by HNWIs is otherwise limited or focused on grassroots charitable causes and the scope of this research was limited to South African HNWI.

- The Jobs Fund has been a key contributor of first loss particularly over the past 5 years where upward of funds have benefited and leveraged between 1- and 10-times commercial capital. The Jobs Fund has historically made predominantly output-based grant funding available directly to labour intensive organisations but over time shifted focus to leveraged capital through fund structures. Guarantees are anecdotally considered underutilised and thus the concessionary funding has been well received in the market.

- **Examples of impact investing wholesalers** were explored, including the SA SME Fund, Third Way Investment Group, Ashburton Credit Enhancement Fund and 27Four Black Business Growth Fund, which has attracted, or is targeting to attract, capital from a range of the capital provider providers indicated above.

  – Considering the nascent stage of impact wholesalers globally, the above examples are encouraging as proof points for wholesale vehicles in the SA market, particularly the allocation of material amounts of capital from institutional and corporate investors to higher risk strategies;

  – Half of the initiatives focus on strategies that will ultimately reach underserved SGBs, while the other half focus on larger ticket investments, but with ancillary transformation, market development or employment impact objectives.

  – Three out of the four initiatives being driven by asset management groups (Third Way, Ashburton, 27Four) points to intention in the institutional investments market to deliver on transformation and sustainability requirements, while keeping within regulated asset allocation allowances;

  – Risk and return remain key considerations and wholesalers are dependent on concessional mechanisms to offset SGB risk;

  – Asset management groups are in strong positions to leverage relationships with institutional investors, but may lack the expertise and internal capacity in SGB and impact investing, thereby relying predominantly on intermediaries with the necessary experience;

  – More broadly, there are still several areas of development required to fully unlock large funding pools for an IIWV and where an IIWV can play a valuable market development role in the institutional investment market in South Africa, working with association bodies such as ASISA and Batseta:

- Impact focus generally lack a causal approach and is limited to a vehicle level.
- Initiatives are primarily driven by single institutional mandates in one-off funds, which limits widespread adoption and replicability.
- Use of and adoption of new or innovative financing mechanisms, structures and combinations are still limited, for instance:

i. primarily equity is used to invest in venture capital or growth stage mid-cap private equity funds (typically not SGBs) with limited blending of different investment instruments (eg equity, debt, mezzanine).

ii. vehicles are still structured with a finite life, indicating the lack of patient capital, while a reluctance to support secondary intermediation (fund of funds) persists.

- Focus is on supply-side solutions rather demand-side, therefore not focused on lowering the cost of capital to, ultimately, capital recipients.
- Examples of concessional funding is limited (which includes both first-loss equity and guarantee), but no initiatives have benefited from DFI (especially European DFI) support to mobilise capital from more risk averse investors.
- Institutional investors prefer larger ticket sizes (R150m/£7.5m), capped at 20% of the fund.
- Experienced managers are favoured over first-time fund offunds managers (even for non-PE funds), and no/limited technical assistance support is provided throughout the investment chain which inhibits the success of investments.

1. LITERATURE REVIEW

2 Literature review

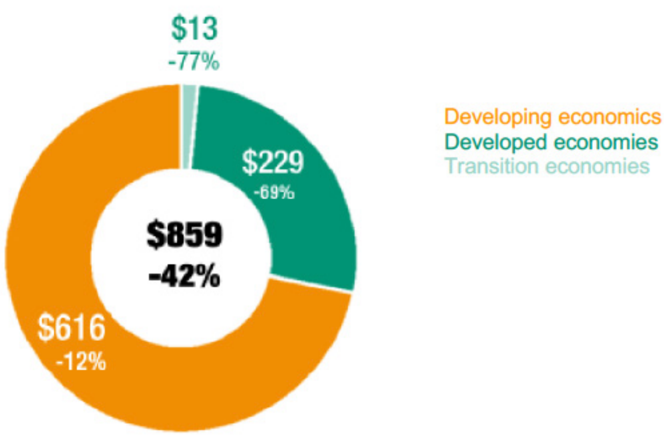
2.1 The SDG financing gap and international capital flows

In 2019, the UN estimated the financing gap to reach the SDGs at $2.5trillion (£1.95 trillion) per annum against a backdrop of moderate economic growth, slow progress on poverty, increasing global hunger, lagging performance by countries on gender equality and an increasing likelihood of a 3°C - 5°C temperature increase due to increased greenhouse-gas emissions[17]. Notwithstanding the SDG call to action gaining momentum across the globe, the UN highlighted evolving and concerning trends in its 2020 report; slowdown in economic growth, decreasing development assistance, increase in financial risks on the back of a period of low interest rates and riskier behaviour, high debt exposure in vulnerable countries and trade wars disrupting trade and value chains; all in the context of the exacerbating and potentially crippling effect of Covid-19, particularly in vulnerable countries and communities[18]. The impact of Covid-19 on SDG achievement in emerging markets like SA is prolific, and since SDGs focus on global goals, arguably the nationalist approach to the pandemic will impact SDG deliver, in emerging markets adversely.

The impact of Covid-19 on investment flows

The UNCTAD Investment Trends Monitor shows a **42% decrease in foreign direct investment (FDI)** with developing countries showing a comparatively lower 12% decrease and with a record 72% share of global FDI. Africa saw FDI inflows decrease by 18% to an estimated R38bn and **in South Africa, FDI almost halved from $4.6bn to $2.5bn[19].** South Africa's failure in attracting FDI is attributable to a range of issues, including policy uncertainty and government capacity to implement the necessary reforms and initiatives to create an enabling environment for growth that will put South Africa back on a growth trajectory. The lack of progress or (lack of) outlook of improvement on issues such as reliable power supply to underpin productive capacity; violent crime and social unrest that increase the cost of doing business due to heightened security requirements, high tax rates without much to show for it; marginal deterioration in South Africa's debt levels does not provide the necessary stable investment environment that foreign investors seek[20].

Figure 2: Global Foreign Direct Investment movements in 2020 [21]



[17] United Nations, 2019

[18] Organisation for Economic Co-operation and Development, 2019

[19] UNCTAD, 2021

[20] Business Maverick, 2021

[21] UNCTAD, 2021

SDG investment trends[22] are even more depressed, particularly for Africa:

- Private sector investment flows for SDG investing to developing and transition economies fell by one third due to Covid-19;
- Whereas developing economies saw a lower decline in FDI flows, they saw a significantly larger decline in SDG relevant investment compared to development economies; likely a result of disproportionate public support packages in developed countries;
- SDG investment decreased by 51% in Africa[23].

Against original estimates of annual investment of $4 trillion needed to achieve the SDGs in developing countries when levels of development financing were already not sufficient, the severe impact of Covid-19 has not only stunted progress, but will require unified efforts between public and private sectors to get the trajectory back on track[24].

The role of private sector and other untapped pools of funding of the SDGs

The private sector is seen as the 'missing piece of the SDG puzzle' because it accounts for 60% of global GDP, 80% of total capital flows and 90% of jobs in developing countries and is central to global action plans to mobilise funding towards the SDGs[25]. In South Africa, where FDI has been decreasing while capital outflows increase within a sophisticated financial system, government is reaching a fiscal cliff, yet well-developed financial markets remain anchored in the normal way of doing business and a shift in private capital markets is critical to unlock local capital supply for SGBs.

Classifying different private sector investors depends on their investment strategies, which include mitigating ESG risks in order to protect value (responsible investing), adopting progressive ESG practices and pursuing ESG opportunities (sustainable investing) and purposefully investing in opportunities that generate positive, measurable, social and environmental impact alongside financial return (impact investing)[26]. Collectively, the responsible, sustainable and impact investing market has grown significantly with $30trillion (£ 23.4trillion) assets under management in 2018[27] and more recently, $40.5trillion (GBP 31.6trillion) in 2020 reported by Opimas, a management consultancy focused on global capital markets. They claim a doubling of the market over the past four years and three-fold growth over eight years[28].

However, a large pool of global private capital (including pools of untapped funding from retirement funds and insurance companies) is constrained[29] from purposefully pursuing an impact-driven strategy. GIIN estimated the size of the impact-driven market at $502bn (£392bn) in 2018 and $715 complexity in coordination, lack of standardisation, and origination and management of assets Blended Finance Taskforce, 2018 billion (£558 bn) in 2020[30], which shows notable traction, but still a far cry from large enough allocations to purposefully

[22] UNCTAD's SDG Investment Trends Monitor considers direct investment in SDG sectors by private sector investors through greenfield investments (new projects and expansions by individual overseas investors) and project finance (large-scale projects, mostly in infrastructure industries, requiring multiple investors). Both greenfield investments and international project finance data are on an announcement basis.

[23] UNCTAD, 2020a

[24] (Convergence, n.d.; UN Inter-agency Task Force on Financing for Development, 2020; UNCTAD, 2020a)

[25] OECD, n.d.; UNCTAD, 2020b

[26] Global Impact Investing Network, n.d.-b; Impact Management Project, 2018

[27] Global Sustainable Investment Alliance, 2018

[28] Baker, 2020

[29] Constraints including an understanding of impact investing in clear and familiar language, global and national restrictions on investments in certain asset classes or geographies, organisational mandate and will to purposefully follow an impact investing strategy, expertise and capital allocations to execute such a strategy, transactional factors include high real and perceived risks (including country, credit, liquidity and FX), risk-adjusted return, large deal size requirements and limited investment horizons.

fund solutions for the SDGs. The IFC sizes the market at $2trillion (£1.56 trillion) which includes $1.7 trillion (£1.3trillion) of DFI assets and $415m (£324m) for private impact investing funds [31], but has also estimated that **the private and public market potential (excluding DFIs) for impact investing could be $26 trillion** (£10 trillion) [32].

2.2 Mobilising private sector capital for impact investing through blended finance

Trends in international blended finance

Apart from important strategic advocacy and action plans across a multitude of topics and stakeholders driven by the United Nations, World Economic Forum and OECD, blended finance has emerged as a precedent for mobilising additional commercial capital towards the SDGs.

Blended finance is defined as:

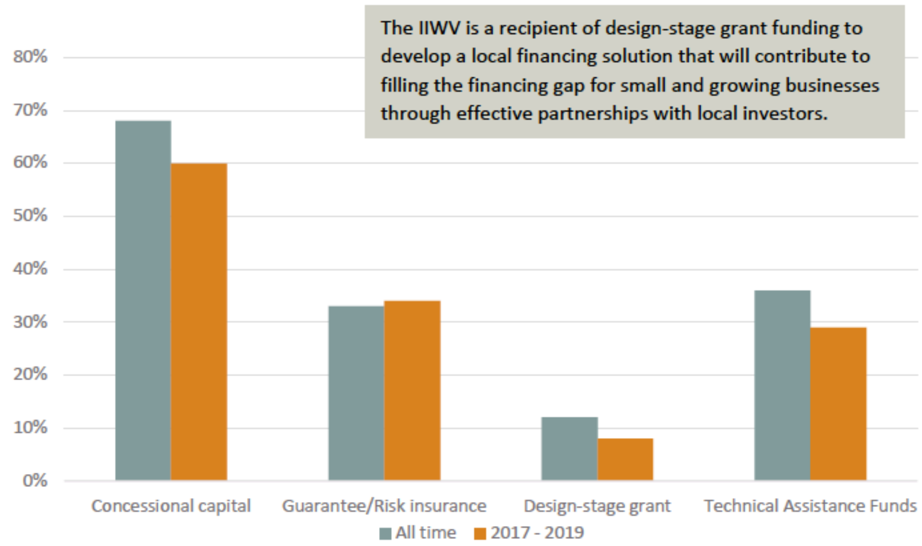
> "the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development"[33].

[30] Global Impact Investing Network, n.d.-b
[31] International Finance Corporation, 2020
[32] International Finance Corporation, 2019
[33] Convergence, n.d.

Table 1: Key characteristics of blended finance

Key characteristics of blended finance are:	Level of adoption/ precedent in SA
• a transaction has a development agenda that contributes towards achieving the SDGs, but also expects positive financial returns that may vary for different investors across a risk-return continuum ranging between concessional and market rate returns.	Low - medium
• concessional funding of public or philanthropic investors is used to offset the risk-return profile of a transaction in order to draw in capital from more commercial private sector investors, calling for effective partnering between the public/philanthropic and private sectors[34].	Low
• blended finance archetypes where concessional funding can be used include:	
• first-loss equity to lower the overall cost of capital and de-risk the project or vehicle for more senior capital tranches;	Low
• a guarantee underpinning the transaction as a risk mitigation instrument for more senior capital providers;	Low
• technical assistance funding to build the capacity of investments, whether it be directly to businesses to become investable or to intermediaries as orientation into a new market or introducing new practices (eg impact measurement and management); or	Low
• design-funding to structure projects such as to attract institutional investments.	Low

Figure 3: Proportion of different blended finance archetypes applied in blended finance transaction[35]

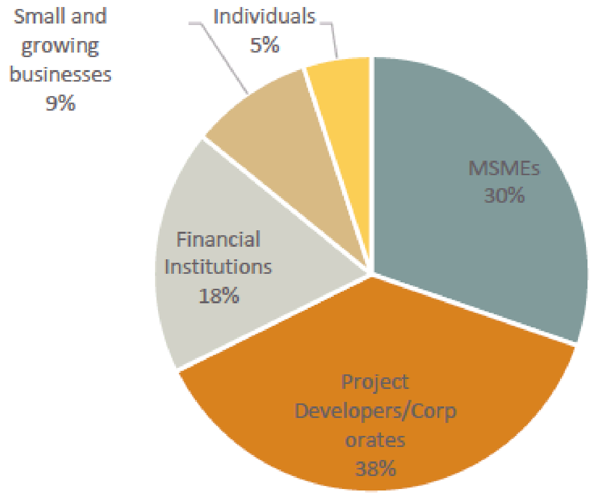


[34] Convergence, n.d.; OECD, 201

[35] Convergence, 2020b 7

Concessional capital is commonly used in funds and companies, whereas guarantees are more prevalent to mitigate risk in projects (eg infrastructure) and bonds or notes are more suitable for individual projects or credit-enhancement of local capital market bonds. Technical assistance is often seen as official development assistance used by donors and development agencies in instances where capacity building is required in new markets to attract and orientate local investors and as a tool to increase the commercial viability of certain sectors or segments (eg small and growing businesses) [36].

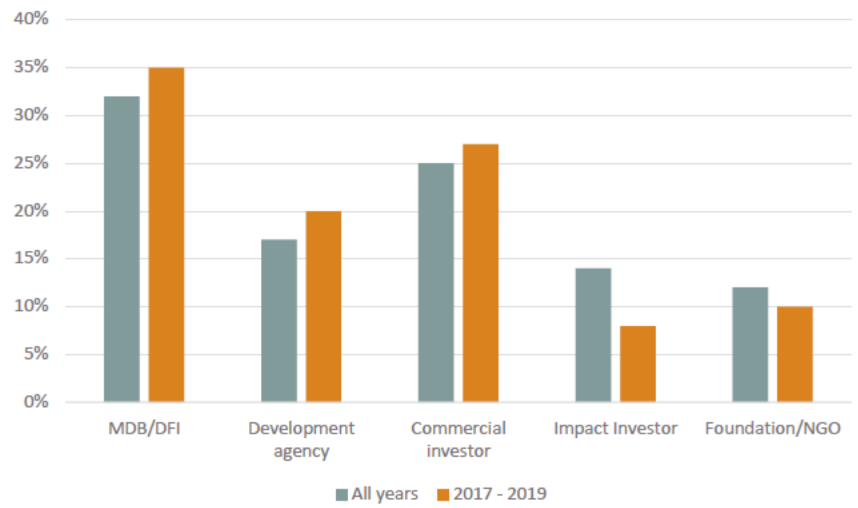
Figure 4: Direct beneficiaries of blended finance transactions [37]



SGBs together with MSMEs have been the largest focus in blended finance transactions, reflecting the flow of capital towards SDG 8: Decent Work and Economic Growth; a major development issue in developing countries and South Africa, in particular.

Public and private investors have been active in blended finance transactions, but public funders in the form of development agencies and multilateral development banks (MDBs) or development finance institutions (DFIs) have increased commitments in the most recent years from 49% to 55% of total financial commitments.

Figure 5: Sources of blended finance financial commitments

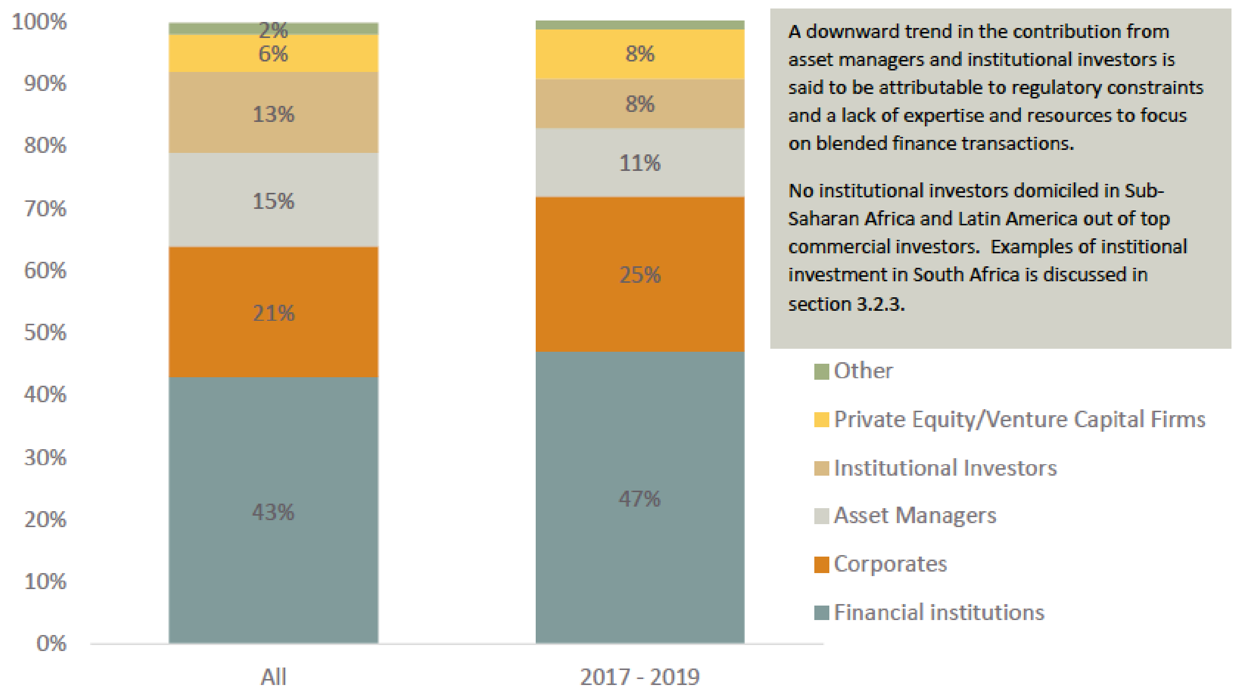


[36] Convergence, 2020b

As can be expected, the majority of concessional financing in blended finance structures is from public funders (80%) and philanthropies (13%).

The drive towards mobilising private sources of capital requires a deeper understanding of which commercial investors are participating in blended finance transactions. As indicated below, financial institutions, comprising commercial banks, and corporates in the form of multinational companies have been the largest participants in blended finance transactions, collectively making up 72% of commercial investor contributions relative to a total 27% contribution by all commercial investors to total financial commitments to blended finance transactions. Effectively, asset managers and institutional investors have only contributed just over 5% (or $4.6bn) in blended finance transactions[38]. Against a market with $40 trillion in sustainable, responsible and impact assets under management (mentioned above), the participation in blended finance transactions represents a fraction of the capital already intended for more SDG-conscious investment strategies. The importance of mobilising this institutional investor set is destined to be the difference between mobilising "billions to billions" and "billions to trillions"[39].

Figure 6: Breakdown of financial commitments from commercial investors to blended finance transactions [40]



Although South African institutional investors similarly face unfamiliarity with blended finance structures, this unfamiliarity is one of the largest factors holding them back since regulatory allowances in South Africa are in place to allow greater allocations to alternative assets such as private equity and debt and a supportive regulatory regime encouraging sustainability considerations in investments, which should enable impact investing and related (blended finance) mechanisms. Those who have succeeded are well-known established fund managers, able to inspire comfort in the deviation from standard investment models.

[37] Convergence, 2020b

[38] Convergence, 2020, 2021

[39] Convergence, 2021

Blended finance and impact of Covid-19

Covid-19 has been detrimental to the drive to mobilise capital for the SDGs with challenges faced, among others including, a decline of financing to local financial institutions and SGBs in development countries; depreciation of local currencies, fall in international trade, increased risk perceptions of developing countries, weakened supply chains; declines in FDI (discussed above); and pressure on government fiscal positions thereby restricting ability to focus on development agendas and access to international financing.

Blended finance as a tool initiated by the development community is wellplaced to address each of these challenges having already tested mechanisms in various developing country contexts, such as risk sharing and mitigation mechanisms and wholesale lending, as well as equity and quasi-equity solutions to local financial institutions (especially for SGBs), local currency solutions, FDI mobilisation effects, credit enhancement and donor-supported mechanism to relieve governments and international trade finance solutions. But it also needs the buy-in of a reticent private capital pool focused on survival and preservation during the crisis period[41].

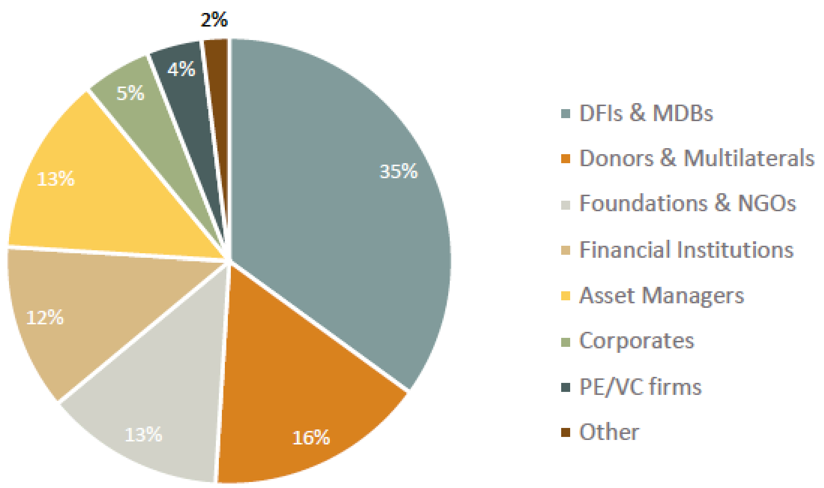
Trends in blended finance in Sub-Saharan Africa

In Sub-Saharan Africa, 216 deals to the value of $45 billion/£39bn are recorded of which 38% (of transactions) is in Southern Africa. Transaction sizes in Sub-Saharan Africa are smaller compared to the rest of the world with the majority of transactions ranging from $10m/£7.2m - $100m/£72m

and a median of $52.5m/£37.8m. Transaction instruments have been similar compared to those shown in Figure 2, while blended finance investments flowed into funds (42%), projects (25%), companies (19%), facilities (7%), bonds/notes (5%) and impact bonds (1%).

Figure 6 and Figure 7 set out the type and most active investors in blended finance transactions in the region.

Figure 7: Sources of blended finance commitments in Sub-Saharan Africa

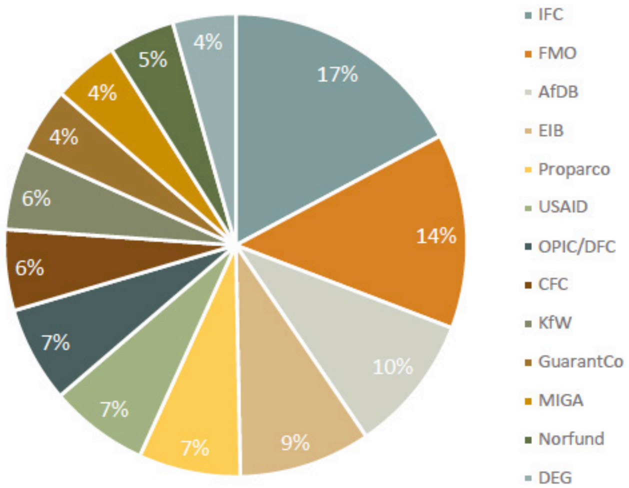


Out of $45 billion/GBP32 billion, a high level estimate indicates that only about $3 billion has flowed to Southern Africa, including South Africa.

[40] Convergence, 2020b

[41] Convergence, 2020a

Figure 8: Investors in transactions targeting Sub-Saharan blended finance transactions



A South African perspective

A convergence interview with Sanlam's Todd Micklethwaite explores how blended finance can be leveraged to attract institutional investors in South Africa. Some of the key points are[42]:

- Lacklustre performance in listed markets, the emergence of impact investing and the urgent development need of the South African economy have put investments into alternative asset classes on the agendas of pension funds. Industry associations have driven the conversation through asset owner forums[43] and government has made concerted efforts to include institutional investors early in the development of its long-term infrastructure development programme. An example is the Development Bank of Southern Africa's mandate to set up an infrastructure fund based on blended finance principles (but as discussed below – does not serve SGBs);

- Pension fund allocations have traditionally been focused on well-known listed markets with double-digit returns, whereas allocation to private markets has typically been low at under 2.5% of total assets under management compared to global allocation at around 25%. Diving deeper into current private market allocations shows that the 2.5% is largely driven by public sector pension funds, such as the Government Employees Pension Fund and the Eskom Pension and Provident Fund;

- A move from defined benefit to defined contribution plans in South Africa has meant liquidity constraints restricting pension fund trustees in their asset allocation decisions. The role of blended finance comes in here to help trustees unlock capital for private asset classes while fulfilling their fiduciary duty to its members. Building awareness at a contributorlevel may support the demand for more impact-focused investing (outside of scope of this report);

- A general aversion for complex and unknown asset classes in the context of the absence of the need to entertain these in the past sees a reluctance in the institutional investor community to engage; and relationships between institutional and donor capital providers are still young and need to be

[42] Convergence, 2020b

[43] Such an example being engagement with the AOFSA via Batseta, under this Project

developed. Impact investing is often used interchangeably with donorfunding and, in extreme cases, philanthropy.

- Engagements with DFIs to provide guarantees is in a process, but it is process of educating trustees (as well as asset consultants) about more complex assets classes and then getting the commitment to mobilise and initiate that takes time.

- Initiatives and structures that are 'elegant' would be easier to get buy-in for from trustees. It is presumed that this means in language, instruments and terms that trustees can associate with.

Examples of blended finance and impact investing wholesale initiatives by South African asset managers are discussed in 3.2.3.

While blended finance instruments are relatively uncommon in the local market there is a growing interest, which has attracted notable institutional investors into high impact transactions. Anecdotally these instruments have tended to be oversubscribed indicating appetite for more products able to absorb some risk for more commercially minded impact investors.

Section 3 of this report focuses on assessing the broader supply-side factors in the South African market, including institutional investors.

Return expectations of capital providers

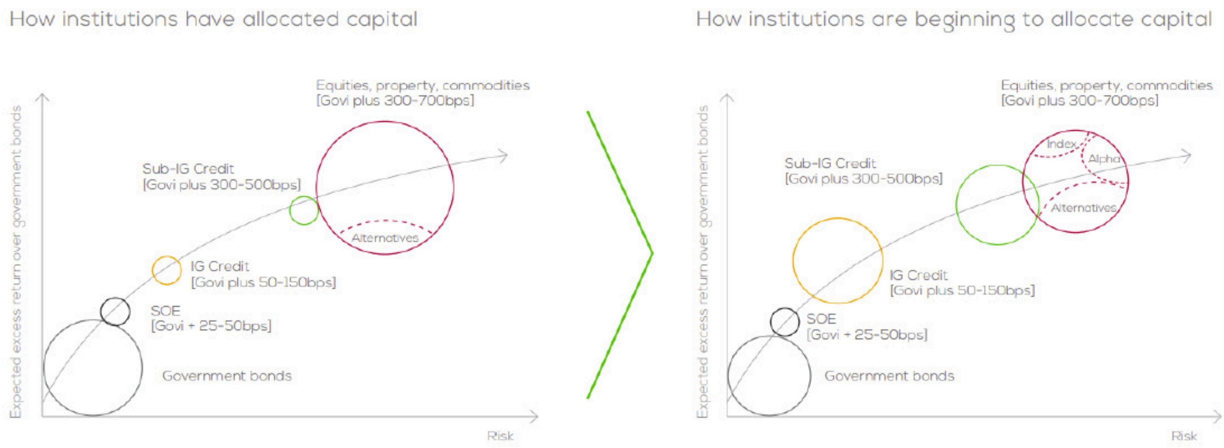
Historically, institutional investors have allocated funds primarily into government bonds and listed instruments (equity, debt, property and commodities) with a small proportion to alternative asset classes as mentioned above. However, some market players, like Ashburton Investments[44], are predicting a shift in the market towards including a more diversified spectrum of investments with growth in credit opportunities, private equity and alternative assets[45]. For instance, Ashburton's alternative asset offering includes two private equity funds (R2bn/£95m), a mezzanine fund (R1bn/£47m), an infrastructure debt fund (R2bn/£95m), unlisted debt funds (R8bn/£380m) as well as the Ashburton Credit Enhanced Fund discussed under section 3.2.3.

Return expectations, however, do not change provided the risk profile of underlying assets match up. The role of catalytic capital is therefore important to enhance the risk profile of private asset classes that can still deliver on institutional capitals return requirements. Where an SGB investment strategy would sit within the risk-return requirements of institutional capital is beyond the scope of Figure 8, but examples as discussed in the rest of this report indicate that the requirement for catalytic capital is a non-negotiable to mobilise institutional monies towards the segment.

[44] The asset management arm of the FirstRand Group, one of the largest financial services groups in South Africa with a market capitalisation of R285bn/£13.6 billion

[45] Ashburton Investments, 2019

Figure 9: Ashburton: A shift beyond the traditional understanding of diversification[46]



At the same time, banks as the largest private sector funding institutions, have their own restrictions to allocate funding to the SGB segment, primarily driven by the weighted risk of SGBs and high costs of servicing that make it inefficient for banks to pursue SGB strategies without catalytic support from government, international donors and DFIs. Although limited information is available about the return or yield performance of SGB banking portfolios and would require further research and analysis, their commercial and risk averse approach to financing is wellknown with SGB non-performing loans typically around 2.5% but as high as 5.2% during the 2008 Global Financial Crisis. Comparatively, the "Small and Growing Businesses in South Africa – Investment and Regulatory landscape review", found that domestic DFIs in South Africa have significantly higher impaired portfolios, reflecting in excess of 20% and as high as 70%.

> The role of blended finance in enhancing the risk profile of transactions could be an important lever in mobilising major capital sources in South Africa, while delivering on their return expectations.

The potential to mobilise capital for SGBs in South Africa through an IIWV

The purpose of section 3 is to assess in more detail this topic and the constraints that capital pools in South Africa face, exploring examples of initiatives that have or can contribute to mobilising these respective capital pools towards an impact investing mandate focused on SGBs and enabled by an IIWV. Key questions explored in the following sections include:

- How big is the potential market for impact-focused capital?
- Who are the investors that (could) provide funding targeting impact investing?
- What is the role of concessional funding and the availability thereof?
- Where and what are they investing in at present?
- What are their return and impact expectations (over what time frame)?
- What are other enablers and constraints e.g. role of technical assistance and advocacy to change behaviours, for the flow of capital?

[46] source: Ashburton (2019)
Acronyms above refer to:
o Govi: government bond rate as base for return expectations
o SOE: State-owned enterprise
o IG: Investment grade

3.

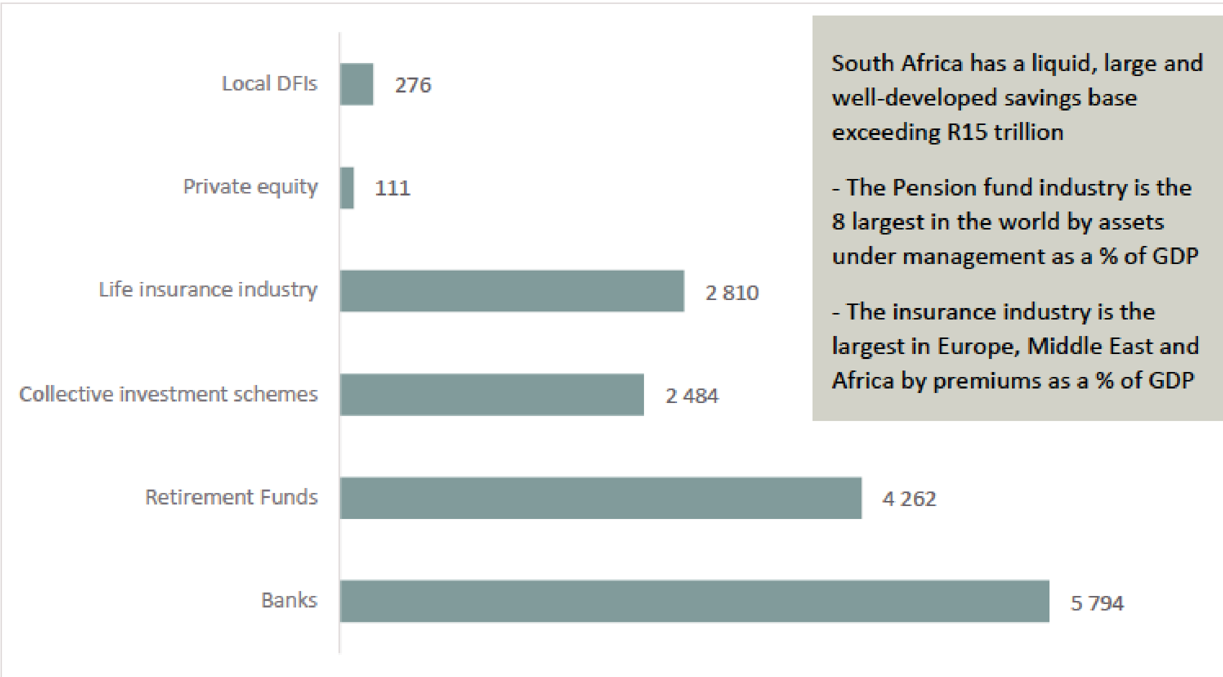
MARKET ASSESSMENT: SUPPLY-SIDE FACTORS FOR IMPACT INVESTING IN SGB IN SOUTH AFRICA

3 Market assessment: Supply-side factors for impact investing in SGBs in South Africa

3.1 Overview of potential impact capital providers in South Africa

Savings in South Africa is concentrated with the large financial industries, such as banks, retirement funds and life insurers, as well as collective investment schemes, which are not explored in this research due to it being retail investment funds, but which should be further investigated in future research.

Figure 10: Total assets in South Africa's savings industry (ZAR billion)[47]



- South Africa adopted a "Twin Peaks" regulatory architecture in 2018 through the Financial Sector Regulation Act 9 of 2017, whereby two regulators were created to respectively focus on financial system stability and market conduct and consumer protection. The Prudential Authority was established as a subsidiary of the South African Reserve Bank to oversee the financial system stability, while the Financial Sector Conduct Authority (FSCA) replaced the Financial Services Board, focusing on how financial institutions conduct their business. A Conduct of Financial Institutions Bill is currently going through its second draft and commentary phase, which will apply to all financial institutions putting in place formal regulation for the conduct of business.

The National Credit Regulator (NCR) continues to protect borrowers against lending abuse. A key result of the model is that all financial firms are overseen by the Prudential Authority, while the FSCA and NCR monitor good conduct irrespective of the type of entity or type of product or service offered.[48]

[47] Intellidex, 2020b

3.2 Overview of analysis framework

This section analysis focuses on key investor segments that have or could have an explicit SME or SGB focus, as set out in Table 2.

Table 2: Key elements when considering potential sources of capital that could be directed to SGBs

Size of assets	How large is the segment and how does it relate to the MSME segment?
Asset allocation	Where do these investors place their capital and what do investees look like?
Regulatory landscape	How does regulation shape the segment?[49]
Investment process and decision making	How are investment decisions made and what guides such decisions? What is the role of asset consultants in investment decisionmaking?
Financial objectives	What are the risk-return expectations? What are typical criteria for risk profiling? How does this affect asset allocation?
Impact objectives	What are their ESG, impact and transformation objectives? What tools and methodologies help frame and assess impact?
Challenges, opportunities, trends (incl Covid)	What is the outlook for the segment?

For each sub-segment, specific examples are identified as innovative approaches to reaching SGBs or potential pools of capital that could be directed towards the segment.

3.2.1 Retirement funds

South Africa has motre than 5,000 registered retirement funds with assets under management of more than R4 trillion (£190bn) of which only 32% receive regular contributions or pay benefits[50]. South Africa's pension fund industry is the eighth largest in the world by assets under management as a % of GDP.[51]

The FSCA's Retirement Funds division supervises retirement funds, beneficiary funds, pension fund benefits administrators and related persons and entities under the Pension Funds Act 24 of 1956. A few funds are not subject to regulation and supervision under the act because they were established under specific provisions of other statutes, which includes South Africa's largest pension fund, the Government Employees Pension Fund (GEPF). The most recent comprehensive figures are available for the industry as at 31 March 2017.

[48] National Treasury & Republic of South Africa, 2018; Schmulow, 2018

[49] Part of the IIWV Project is intended to assess the impact of regulation and, in particular in South Africa, the role of voluntary disclosure of Unclaimed Assets

Table 3: Characteristics of South African Retirement Funds[52]

Size of assets	• 5,118 registered retirement funds of which 1,647 are active (31 March 2018)[53]. • R4.26 trillion (£203bn) assets under management, of which 45.4% is privately administered, 40% under the GEPF and 12.2% underwritten[54] funds and the remaining 2.3% in other funds, including the Transnet funds[55]. • Unclaimed benefits as at 31 March 2019: R42.1bn (£2bn) in 1,141 funds for 4.5 million beneficiaries. • Although South Africa has a large number of funds, there is concentration with the largest 10 funds each managing more than R80bn (£3.8 billion), representing 30%, while the top 100 manages 75% of assets and top 500 make up 95.8% of assets, leaving 4.2% fragmented across 2,600 funds[56 57].

[50] FSCA, 2018

[51] Intellidex, 2020b

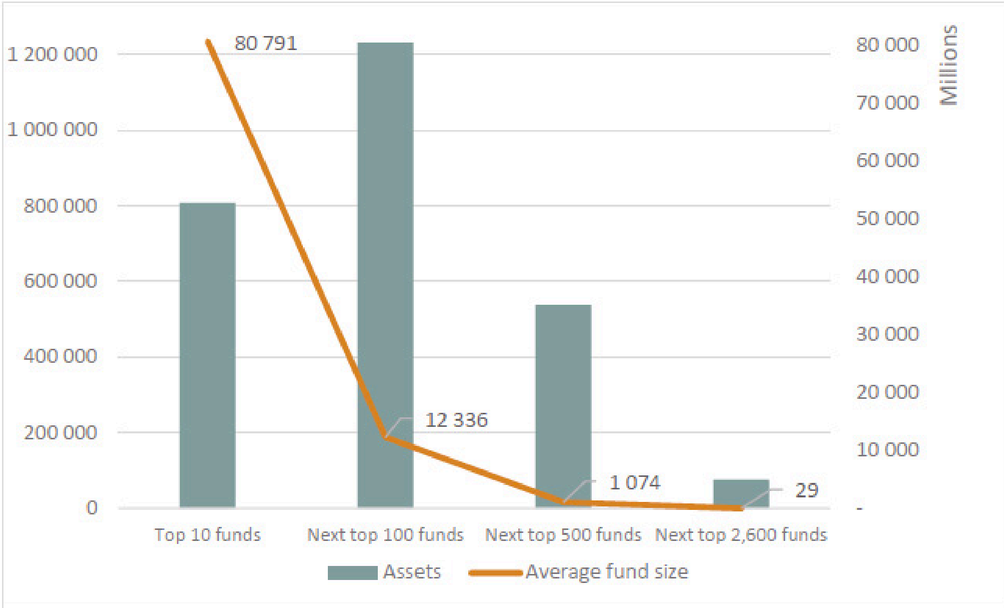
[52] Alexander Forbes Financial Services, 2018; Alsworth-Elvey et al., 2020; Buthelezi, 2021; Dlamini, 2020; FSCA, 2018; FTSE Russell, 2021; Gleeson, 2019; Government Employees Pension Fund, 2020; Heredia et al., 2020; IFC, 2020; Intellidex, 2020b; 2020c; Pensions & Investments, 2020; RisCura, 2019; Statista, 2021 53 Top 10 administrators of active funds were: Alexander Forbes (17.9%), Absa (8.2%), Liberty Group (8.0%), Sanlam Life Insurance (6.9%), NBC Fund Administration Services (4.9%), MMI Group (4.4%), NMG (4.1%), Own administrators (2.5%), Old Mutual Life (1.6%) and all other administrators making up the largest proportion (41.6%). The large number of other administrators indicates fragmentation in the market which has also become a focus point for the FSCA to look at consolidation in the market in lieu of market efficiencies

[54] The only assets of this type of fund are policies of insurance. Contributions are paid directly to the insurer and the insurer then undertakes to pay benefits as and when they become payable by the fund. The fund's liability to the member is limited to the amount payable in terms of the fund policy

[55] The Transport Pension Fund, the Transnet Retirement Fund and the Transnet Second Defined Benefit Fund

[56] The data is based on the FSCA weekly updated fund data and hasbeen filtered to only take into account funds with a reported value for assets. Funds indicated above represents R2.65 trillion in assets, excluding the GEPF and other funds not under the supervision of the FSCA

[57] Including all funds, the largest funds are the GEPF (R1.7trillion/£81.2 billion), the Eskom Pension & Provident Fund (ZAR 141.2 billion/GBP 6.7 billion), South African Retirement Annuity Fund managed by Old Mutual (R108.8bn/£5.2bn), Central Retirement Annuity Fund managed by Sanlam (R101.7bn/£4.8bn), Sentinel Retirement Fund originally started for the mining industry in 1946, now an umbrella fund (R85.2 bn/£4.1bn) and the Transnet Funds (R84.5bn/£ 4bn).



- A further analysis[58] shows that assets are heavily concentrated with the top 10 administrators[59]. The top 10, however, does include a category for Own Administrators, which include more than 280 different entities representing R373bn (£17.8bn) in assets, but the rest are identifiable, large groups.

Administrators	Total Assets (ZAR m)	%	Average fund size (ZAR m)	Average fund size (GBP m)
Top 10	2,215,898	85.1%	221,590	10,552
Next top 20	329,928	12.7%	16,496	786
Remaining 54	57,846	2.2%	1,071	51
Total	**2,603,673**	**100%**		
Comparative eg				
Impact investment allocation overall	**130,184**	**5%**	1,000	48

Large administrators have the resources and capacity to develop internal expertise and initiatives to direct investments towards impact investing and SGBs. The long tail of smaller funds and administrators indicate a significant opportunity for an IIWV to serve as a conduit for sustainable/impact investing initiatives.

[58] Entities evident to fall under the same organisation were grouped to aggregated total funds under each one's administration, but the relationship was not verified independently, except for high level internet searches

[59] Sanlam, Alexander Forbes, Momentum Metropolitan Life, Old Mutual, Liberty, Allan Gray, Discovery, Metal Industries Benefit Administrators, Intembeko Investment Administrators and Own Administrators

Asset allocation	• Aggregated asset allocation of the pension fund industry is typically reported at a high level, not allowing for much disaggregation analysis of portfolios (including for UAs) – it is hoped the COFI bill will alter this for all asset classes. • For FSCA supervised funds representing R2.4 trillion (£115bn) (ie excluding GEPF, Transnet and Post Office funds), the asset breakdown includes insurance policies (presumedly as part of underwritten funds' commitment) (42%), equities (15.5%), collective investment schemes (10.1%) foreign assets (18.1%), debt instruments (8.7%), cash (3.3%) and private equity fund (only 0.3%) while the remaining 2% is spread across a range of other assets[60]. • Investment in MSMEs or SGBs cannot be ascertained at an aggregated level, but the low level of alternative assets in the form of private equity and other alternatives is an indication that pension funds have been slow on taking up a regulatory framework that enables investment in such assets (see regulatory landscape below). Positively, some market players are professing support to impact investing through alternative assets as a means to address MSME access to funding constraints in a commercially viable manner, and the urgency of asset allocation to the segment in response to the impact of Covid-19. • The GEPF reported its asset valuation breakdown in 2018 at 56.8% in local equities, 31.3% in local fixed interest instruments, 6.9% in foreign investments, 2.5% in loans and 1.7% in cash, while the remaining 0.8% was split across local property, equipment and collective investment schemes. However, aligning itself to the SDG agenda, the GEPF has committed 5% of its total portfolio towards domestic development, including SGBs, thereby unlocking a potential R85bn (£4 bn) towards development. A more in-depth assessment of each pension fund's investment policy with regards to alternative assets that will result in impact and SGB investing is required to estimate the potential size of this funding pool.

[60] Including Properties, Hedge Funds, Derivatives, Investment in Participating Employers, Commodities and Other Assets
[61] 702, 2020; FA News, 2020

Regulatory landscape	• Regulated by the Pensions Fund Act 24 of 1956 and supervision consolidated under the Financial Sector Conduct Authority since 2018. • Integration of ESG considerations in pension fund investment decisions were first introduced in 2011 through the Code for Responsible Investment in South Africa (CRISA) and Regulation 28 of the Pension Funds Act, with South Africa being only the second country (behind the UK) to formally encourage such integration. The potential review of regulation 28 is on the cards, particularly to enable retirement funds to invest more in infrastructure, and broader advocacy in the market to increase limits for private market instruments[61]. • The revised regulation sets well-defined, prudential asset-allocation guidelines for pension funds requiring them to take ESG factors into account as part of their fiduciary duty and following responsible investment principles beyond mere asset allocation limits. • An FSCA guidance note in 2019 further reinforces the focus on the sustainability of assets by requiring monitoring and evaluation of portfolios, reporting on compliance with the guidance note and making available investment policies to its members, but it is questioned whether this goes far enough to shift portfolio allocations. • A Conduct of Financial Institutions Bill is currently going through its second draft and commentary phase, which will apply to all financial institutions putting in place formal regulation for the conduct of business. Regulation 28 allows pension funds to invest up to 15% in alternative assets under which private equity funds' limit is 10% and up to a further 15% in unlisted debt instruments. Considering that only 0.3% of FSCA supervised funds' assets were invested in private equity in 2017, pension funds hold a potential untapped capital pool of at least R242bn (£11.5 billion) if a conservative estimate of 10% is assumed to be made available for impact investing.

Investment process and decision-making	Key considerations in investment decisionmaking are: • Regulation and policies: Local regulation (Regulation 28) remains a major driver of asset allocation, but there is often a disconnect between regulatory allowances and actual asset allocations, as can be seen in South Africa with private equity. This stems from both familiarity with alternative asset classes and the availability of attractive investment opportunities. The role of asset consultants and their influence on the investment process is highlighted and warrants a deeper dive to understand challenges and where opportunities lie. In the case of private equity as an example, illiquidity and complexity are deterrents to pension fund allocations. Solutions that offer instruments that address risk and liquidity considerations in forms and language that asset managers are familiar with (eg debt instruments such as bonds, structured notes) could be more efficient in garnering support from the industry at scale, rather than complex fund and equity negotiations.

	• Investment objectives in asset allocation: A recent Intellidex survey[62] indicated that managers considered portfolio sustainability and generating high risk-adjusted returns equally important followed by diversification to manage market volatility. The increased importance of sustainability alongside returns is a significant step towards alignment with global trends in ESG investing and, potentially, impact investing. A large proportion of pension funds (on a weighted basis, reflecting representation of assets under management) reported being guided by the UN Principles for Responsible Investing (85%), CRISA (85%), SDGs (74%) and South Africa's National Development Plan (53%)[63]. • Expertise: Pension funds rely on asset consultants for investment decisions and only larger funds have limited reliance on outside investment consultants. The Intellidex survey indicated more than 80% of funds relied on asset consultants. These consultants are a vital link with asset owners/trustees to facilitate a deeper understanding of impact investing as a potential alternative investment option and guide alternative fund managers in investment policy requirements. Asset consultants themselves may have limited expertise in assets outside typical 'vanilla approaches'.
Financial objectives	Many asset consultants argue that it is their sole responsibility to their clients to maximise financial returns while managing risk (they are also arguably compensated on a related basis in some instances). However, there is a fundamental shift towards sustainability as already mentioned in the previous section and investment along the risk return-impact spectrum is becoming more familiar as the industry's regulatory authority (FSCA) drives compliance with sustainability requirements. Actual returns for the pension fund industry as a whole are not widely reported, but the Registrar of Pension Funds calculated the return on total investments of self-administered funds in 2017:

Year	2013	2014	2015	2016	2017
Pension fund returns (%)	17.3	16.2	9.8	6.6	6.3
FTSE JSE All Share returns Year on year performanace (%)	21.4	10.9	5.1	2.6	21.0
Median SA inflation rate (%)	5.8				
Comparatively impact/responsible funds in the market target	10% +CPI				

Pension funds have offered more stable returns, while outperforming the JSE All Share index in some years and beating inflation in South Africa.

The impact of Covid-19 on the financial performance of pension funds is not yet fully estimated, but indications of growth well below South African inflation have been mentioned.

[62] Representing 65% of total pension fund assets under management, but only 47 funds, indicative that the respondents represented the largest funds in South Africa [63] Intellidex, 2020

Impact objectives	At an aggregated level, the Intellidex survey of 47 pension funds provides the most insight into impact considerations at pension funds: • Key ESG priorities highlighted in the Intellidex survey were social: economic inequity and employment creation; governance: business ethics and corruption; and environment: climate change, water use and renewable energy. • A resounding majority 98.5% indicated that sustainable investing will be playing a more important role in the next five years. Encouragingly, most funds have considered and explicitly incorporated sustainability issues in their investment strategies, the most prominent being: BBBEE (94%), impact strategies aimed at solving social or environmental problems (88%), thematically investing in megatrends related to global sustainability (88%) and integration of ESG risk and opportunity analysis[64]. In addition, 82% (weighted) of funds indicated they will avoid investments that do not meet sustainability requirements or where sustainability factors cannot be assessed ie a negative screen.

[64] Percentages indicated are weighted reflecting the larger pool of capital (and larger funds) supporting these sustainability issues. Unweighted results showed lower percentages, indicating smaller funds' lag in adoption of sustainability practices.

[65] ICLG.com, 2020; SAnews, 2020

Trends, opportunities and challenges	Apart from sustainability trends previously mentioned, pension funds and asset managers are starting to see the potential of investing in alternative assets in the private market such as private equity, private debt, infrastructure and SGBs as investable listed assets continue declining and alternatives offer better returns. Impact nvesting is still not being embraced to the extent necessary to bring about systemic change and all this despite reasonably small allocations being sought for SGB funding • Larger funds and asset managers appear to have more proactive approaches to sustainable investments and, largely the scale to build internal capacity to pursue more aggressive alternative asset and SGB-specific approaches (eg Old Mutual's Masisizane, Sanlam's Legacy SME Fund), while smaller funds appear more reluctant. A deeper understanding of smaller funds seeking alternative investments, but lacking scale, finding the appropriate vehicle structure (including permanent capital vehicles) and relevant human resources (aversion to first-time fund managers) to actively pursue it themselves, are key to explore as potential investors to the IIWV. • Covid-19: The impact on pension funds is expected at various levels: reduced member contributions, early withdrawals enabled by government's Covid-19 tax relief inventions[65] (due to lay-offs or employers unable to pay salaries and therefore pension fund contributions) and likely reductions or shifts in investment by the funds across asset classes. Unions and members have also been putting pressure on pensions funds to help alleviate the immediate negative economic impact of the pandemic, particularly in some sectors – one response has been from Sanlam Investments, which invested R2.25bn (£107m) of its own capital in three funds launched in June 2020 to support companies affected by Covid-19[66]. The FSCA has also encouraged retirement schemes to amend their rules to accommodate the shortfall in contributions. • The main challenges limiting a move to sustainable investing across large and smaller funds are lack of transparency and reported data and difficulty in measuring of such investments, and while all funds still emphasise financial performance concerns, smaller funds seem to be more concerned. Smaller funds were also more uncomfortable about their own internal capacity and familiarity, regulatory issues, liquidity characteristics, and cost underlying such investments. An IIWV with a clear market development mandate could drive an important learning agenda to help funds build knowledge and understanding of both the impact and financial potential of impact investing.

3.2.2 Insurance companies

The insurance industry in South Africa is the largest and most established on the African continent; it accounts for 70% of total premiums, split between life insurance (80%) and non-life insurance (20%). Insurance penetration in South Africa is more than 5x that of its nearest regional peers, with premiums representing 12.5% of GDP.

[66] Africa Global Funds, 2020

The Insurance Division of the FSCA is responsible for supervising and enforcing the regulatory objectives of maintaining a fair, safe and stable insurance market that protects policyholders. The risk-based supervisory framework also embeds solvency assessment and management by the Prudential Authority (Reserve Bank) for insurers together with various market conduct requirements under the FSCA that protect customers. As at 31 March 2018, there were 78 long-term insurers with assets of R2.9trillion (£138.8 billion) and 96 short-term insurers with R149bn (£7.1bn) in South Africa.[67]

Table 4: Characteristics of South African Insurance companies - Sources[68]

Size of assets	• Long-term/life insurer[69]: As at 30 June 2020, life insurers had R3.1trillion (£147bn) in total assets on their balance sheets, of which ZAR2.9 trillion (£138bn) constituted Investments. • Short-term insurers[70] assets of R149bn (£7.1bn) were predominantly invested in cash and deposits (33%), shares (25%), debtors and debentures (18%), stocks (17%) and fixed assets (7%).
Asset allocation	• Investment portfolios of long-term insurers were concentrated in investment funds (53.9%) followed by equity (15.5%), government bonds (9.2%), corporate bonds (7.8%) and cash (7.1%) with the remaining 6.5% across structure notes, mortgages and loans, collateralised securities, and property.[71] • The large portfolio in investment funds could be encouraging for potential impact investing allocations. Of R1.6 trillion (£74.4 billion), 43% was invested in equity funds, 29% in asset allocation funds, 13% in debt funds and 8.5% in money market funds, but only 1.9% in alternative funds and 0.6% in private equity funds, while real estate, infrastructure and other funds constituted the remaining[72]. • The disaggregation still shows very little movement towards alternative investments and allocations to impact investing, MSMEs or SGBs, or sustainable assets is not provided at an aggregate level. • For short-term insurers, different insurer types have different asset allocations, but largely follow a more conservative approach with most types holding close to or more than 70% in cash, government bonds and corporate bonds, while listed equity only constitutes between zero and 16% and investment funds, which are likely collective investment schemes, could make up to 20%. Private equity or alternative assets are not clearly indicated in any information reviewed[73]. • The quality of own funds will determine the risk that insurers are prepared to take when investing their assets. • Stringent prudential risk management and solvency capital requirements drive insurers to invest assets in 'safer' investments.

[67] FSCA, 2018
[68] McKinsey, 2020
[69] Top 10 long-term insurers being Old Mutual Life, Sanlam Life, MMH, Liberty, Alexander Forbes Investments, Investec, Allan Gray, Alexander Forbes Life, Sygnia Life and Discovery Life
[70] Top 10 short-term insurers held 59% market share in 2018, being Santam (18%), Hollard (7%), Guardrisk (7%), Old Mutual Insure (6%), OUTsurance (5%), Munich Reinsurance (5%), Bryte Insurance (3%), Centriq (3%), Auto and General (2%) and ESCAP (2%)
[71] SARB Prudential Authority, 2020
[72] SARB Prudential Authority, 2020
[73] SARB Prudential Authority, 2020
[74] Deloitte, 2017
[75] Deloitte, 2017

Investment process and decision making	Entrenched in the business of risk assessment and management which requires conservative capital planning and guided by regulatory (SAM) requirements to ensure solvency and stable financial systems, insurers investment decisions are primarily guided by risk-return optimisation models, and they largely opt for safer investment categories. Large groups have internal group capacity (eg. Old Mutual, Sanlam), while others that are smaller or less diversified may use external asset managers to manage their portfolios. Limited public information is available about who manages and makes investment decisions on insurers' asset portfolios, but it is expected that asset managers overlap with those in the pension fund industry.
Financial objectives	Financial performance of insurers is mainly reported and analysed from a business profitability and solvency perspective. Although assets under management performance is indicated as an important financial Key Performance Indicator for insurers and investment income is taken into consideration in profitability analyses, **little is available about the returns that insurers target on their asset portfolios.** Reference to investment yields ranging between 2.9% and 8.1% was found in supporting workbooks for a presentation on the insurance industry by the SARB Prudential Authority, but no further details to analyse such returns. A further consideration is that **with assets predominantly invested in the (listed) capital markets, relevant benchmarks for equity or debt instruments will be targets for any asset manager of an insurer's portfolio.**
Impact objectives	• The Prudential Authority of the SARB has two statutory objectives for insurance: i) the safety and soundness of insurance firms; and ii) policyholder protection[76]. This entails a risk-based framework introduced in 2018, which requires insurers to identify and assess all material risks, including, for instance, climate risk, and have a clear risk management strategy in place. Further, through its membership to the International Association of Insurance Supervisors, it has committed to raise awareness of climate change risks and support capacity building efforts. Its work is still at an early stage of instilling a sustainability mindset in the industry. • Further, **the South African Insurance Association endorses various international sustainability frameworks (including the UN Principles for Sustainable Insurance)**, but does not require its members to commit to these principles, which also have not been widely adopted in South Africa[77]. • Individual examples do, however, follow responsible investment principles – for instance, Santam and its fund manager, Sanlam, are signatories to the UNPRI and CRISA and have invested in i) the Resilient Investment Fund focused on private sector credit and generating financial returns alongside impact; ii) the SA SME Fund focus on SMEs and BBBEE and the ASISA ESD Fund with a focused on SMEs and BBBEE in the value chains of its funders.

[76] National Treasury Republic of South Africa, 2020

[77] National Treasury Republic of South Africa, 2020

Trends, opportunities and challenges	• One of the major developments in the insurance industry was the change to the Twin Peaks regulatory framework in 2018 with the introduction of a host of new legislation and standards (including the SAM framework) being phased in[78]. There is still a certain level of alignment happening in the market. • Fintech disruptors have brought forward the pressure on insurers to become digitally-enabled and already some major players in the non-life industry (Santam, Old Mutual and Guardrisk) have partnered with insuretech companies. • The **COVID-19 pandemic** and its resulting economic crisis is hitting the insurance industry in South Africa hard as cash-strapped customers see insurance (particularly life insurance) as a discretionary purchase and opt to cancel, but it has also led to large scale claims for business interruption due to Covid-19. Insurance companies legally opposed the claims, but a court decision has ruled that they pay the claims, albeit that insurers are still looking for ways to minimise payouts[79]. The total grosswritten-premium pool is forecast to fall by 15% until 2022 and only return to pre-pandemic levels by 2024. Most insurance companies will be forced to focus their efforts inward on a "survive and then thrive" strategy. Only the top five life and general insurers are seen to have large enough capital buffers and less reliance on new business to weather the storm, while some 80 others are expected to be under severe pressure. The linkages to retail customers as product consumers is an avenue to be explored to shift the needle towards more impact-oriented investment strategies. The impact on solvency positions due to lower interest rates, wider spreads and lower equity values is expected to focus on insurers protecting their solvency. Strained liquidity and solvency will likely result in close review of risk and conservative capital allocations at portfolio and firm levels over the next two years[80].

[78] Deloitte, 2018

[79] Campbell, 2021; Sanlam, 2020

[80] McKinsey, 2020; Woods, 2020

3.2.3 South African wholesale vehicles

Multimanager investments are a familiar part of the investment ecosystem. They include, among others, collective investment schemes, mutual funds and private equity funds of funds (FoFs). Multimanager investments are also a common practice among DFIs, as they make indirect investments to stimulate local private funds. Wholesalers aggregate investment and diversify across a range of assets. The emergence of an impact wholesaler is a recent (but still relatively nebulous[81]) development in the pursuit of new solutions to catalyse capital at scale for impact investing and bridge the gaps that prevent the mainstream financial system from entering the market.

A wholesaler is particularly suitable as a regional or local solution to align to national or regional development agendas and leverage international, national or regional capital earmarked for development or impact by drawing in local commercial investors. In developing markets, a wholesaler is usually applied to addressing finance constraints of social enterprises, while in emerging markets it is more appropriate to apply to enterprises addressing the UN Sustainable Development Goals, including SGBs with a focus on job creation, financial inclusion and additionality. While it embraces a degree of intermediation – it can embody direct investment – the mix of these two components will be reviewed as part of this Project but is not yet ready at the time of writing this report.

In addition to diversifying risk and providing otherwise nascent intermediation between the supply and demand sides of a market, wholesalers play a self-appointed (ideally neutral) market-building role by:

- strengthening intermediary capacity by supporting fund managers and anchoring/co-investing in new/existing funds[82]/vehicles;
- leveraging new capital by addressing risk-return preferences through blended investment strategies (and the use of concessionary buffers like first-loss and guarantees);
- addressing investor preferences in terms of investment size and diversification requirements;
- supporting access to international (often concessionary) capital that might otherwise be too costly and complex for local SGB funds to raise; and
- leveraging local capital to raise international SDG-seeking funding, or vice versa.

The focus of this section is on private sector wholesale vehicles that have been established in the South African market with a particular impact or developmental agenda (as self-defined).

[81] Varying greatly by country and source of funding

[82] Note not all 'funds' being referred to here are private equity funds

Table 5: Characteristics of four local wholesale funds

Description	SA SME Fund[83]	Third Way Investment Group[84]	Ashburton ACEF[85] funds[86]	27four Black Business Growth Fund (BBGF)[87]
Description	Established by CEO initiative representing 50 listed companies.	Independent and black-owned asset manager with: • an infrastructure-focused fund of funds; • partnered with Maia Capital Partners to launch a Debt Impact Fund in 2020.	Blended finance project leveraging a Jobs Fund (National Treasury) **50% first-loss capital guarantee to catalyse pension** fund investments. ACEF Funds invest unlisted credit instruments in medium- to large corporates and on-lenders, which then invest in actual SMEs.	Blended finance project leveraging Jobs Fund (National Treasury) **first-loss capital to catalyse** pension investments. BBGFs invest in black private equity funds focused on investing into mid-sized South African businesses for growth and job creation.
Size of assets	R1.4bn/£67m committed	Core Plus Fund (CPF): R2.5bn/£119m, raising R3bn/ £142m Maia Impact Debt Fund (MIDF): Target ZAR3bln/ £142m	ACEF I: R785m/£37m (closed) ACEF II: R200m/£9.5m raised; target R900m/£43m	Target R1.2bn/£57m, of which R200m Jobs Fund first-loss capital. R710m/£34m raised (second close)
Asset allocation	Venture capital funds: 57% Growth capital funds and companies: 43% R925m/£44m deployed	CPF: Greenfield and brownfield renewable energy and other infrastructure – large tickets. MIDF: Blended mezzanine and senior debt focused on infrastructure in social sectors.[88] Appears to be direct investments.	Invest in diversified intermediaries that invest in SMEs.	Invest in private equity funds managed by black fund managers. Investing R100m/£4.8m to R200m/£9.5m in five to seven funds. Diversified underlying mid-sized investees of ±50.

[83] SA SME Fund, 2020; Ventureburn, 2018b

[84] Africa inc., 2020; FA News, 2020; Maia Capital Partners, 2020; Third Way Investment Partners, n.d.

[85] Ashburton Credit Enhanced Fund I and Ashburton Credit Enhanced Fund II

[86] Ashburton Investments, 2019; 2020; Money Marketing, 2019; The Jobs Fund, n.d.; 2019; UNPRI, 2019

[87] 27four Investment Managers, n.d.-b; n.d.-a; 2020; 27four Platform Services, n.d.; Africa Global Funds, 2019; Cranston, 2018; Money Marketing, 2018; UNEP Finance Initiative & UN Global Compact, 2020

[88] Education, Healthcare, Housing, Clean Technology, Financial Inclusion, Gender Inclusion

Description	SA SME Fund[83]	Third Way Investment Group[84]	Ashburton ACEF[85] funds[86]	27four Black Business Growth Fund (BBGF)[87]
Regulatory landscape	Operating as a company. No clear description of the regulatory landscape for specialised NBFIs, but as part of the financial services industry it is expected they will be subject to the National Credit Act, FAIS Act[89], FICA[90], POPI[91] and the Companies Act.	Falls under FSCA regulatory oversight* as Financial Services Provider in terms of the FAIS Act. *discussed in sections 3.1, 3.2.1 and 3.2.2	Falls under FSCA regulatory oversight* as Financial Services Provider in terms of the FAIS Act, and the Collective Investments Scheme Control Act (45 of 2002) and is a full member of the Association for Savings and Investments. * discussed in sections 3.1, 3.2.1 and 3.2.2.	The 27four group of companies includes a life insurer and as a result is considered an insurance group. It therefore falls under regulatory oversight of the FSCA and the Prudential Authority.
Investment process and decision making	Independent Investment committee, comprising leading SA business people.	Undisclosed.	Process not described. As asset manager, investment decisions will depend on discretion of mandate. Since retirement funds rely heavily on expertise of asset managers, their recommendations will likely drive investment decisions.	Same as Ashburton. Also provides platform services to fund managers, assets consultants and financial advisors taking regulatory burden and administration off these investment organisations.
Financial objectives	Fund expects to return 2x despite 0% expectation; no hurdle rate.	CPF: CPI + 4% target MIDF: Multidimensional view on returns; ie financial and impact. Targets not disclosed.	CPI + 3% target ACEF I delivered 10.65% as at 31 December 2019.	CPI + 10% net IRR; benchmarking returns above SA's listed market.
Impact objectives	SME, VC and fund manager market development agenda beyond impact objectives of transformation (BBBEE) and job creation.	CPF: Renewable energy & infrastructure MIDF: Impact-focused on social sector infrastructure	Specific impact objectives combining job creation, training and development, capital leveraged, impact measurement and learning. For instance - ACEF I: Jobs created: Created 10,020 against target of 9,635. Funds leveraged from the guarantee mechanism: Target R298 690 340 /total fund size closed: R785m.	27four classes its approach as responsible investment, but the BBGF has defined impact targets: – Transformation of the financial services sector and the development of black private equity managers – Create more than 3,500 jobs in these companies – Drive transformation in underlying investee companies – Provide positive socioeconomic outcomes, such as improved access to services

[89] Financial Advisory and Intermediary Services Act

[90] Financial Intelligence Centre Act, 38 of 2001

[91] Protection of Personal Information Act (or POPI Act) is South Africa's equivalent of the EU GDPR

Description	SA SME Fund[83]	Third Way Investment Group[84]	Ashburton ACEF[85] funds[86]	27four Black Business Growth Fund (BBGF)[87]
Observations	CEO initiative capital was a once-only opportunity. It is understood that new fundraising avenues are being explored, but that some challenges have been experienced in approaches to asset managers. Understanding the key learnings from the SA SME Fund team would be valuable in context of the IIWV feasibility.	A clear strategic direction by the Third Way group to pursue impact-related opportunities in South Africa; renewable energy and social infrastructure, in particular. Limited information is available on the progress of capital raising and deployment of the initiatives. One transaction of R225m /£10.7m announced in 2020. A deeper dive is needed to ascertain success factors and challenges of these Third Way group initiatives.	Jobs Fund learnings indicating potential for similar initiatives: Successful in attracting pension capital; leveraging >2x what was anticipated. • Positive shift in SME risk perception by fund investors. • Success of the concessional guarantee as an incentive for risk averse retirement funds to invest. • Although a positive proof point, retirement funds still require risk mitigation before investing in SMEs. • Replicability seen in other similar funds launched. • Intermediaries with SME experience are an important link where wholesalers and retirement investors lack SME expertise. • Likewise, wholesalers with impact investing experience are key to instil investor confidence. • Managing impact investment portfolios is costly and may require subsidisation where costs fall outside what investors are used to.	Positive feedback from retirement fund investors: • Consolidated Retirement Fund for Local Government: *"CRF seeks to achieve commercial returns for its members, limit downside risks and have a positive impact on South Africa and expects asset managers to create products that meet all three requirements. We are confident that the 27four BBGF II will achieve these requirements through the innovative Jobs Fund mechanism that has been negotiated."* • The above is a strong indication of retirement fund investor expectations – risk and return requirements remain unchanged, but where these can be delivered, retirement funds will allocate capital to innovative, alternative investment initiatives.

Key observations:

- Considering the nascent stage of impact wholesalers globally, the above examples are encouraging as proof points for wholesale vehicles in the SA market, particularly the allocation of material amounts of funding from institutional and corporate investors to higher risk strategies and sets pricing precedents of how this risk is perceived by funders.
- Half of the initiatives focus on strategies that will ultimately reach underserved SGBs, while the other half focus on larger ticket investments, but with ancillary transformation, market development or employment impact objectives.
- Three out of four initiatives being driven by asset management groups points to the institutional investments market to deliver on transformation and sustainability requirements, while keeping within regulated asset allocation allowances.
- However, risk and return remain key considerations and wholesalers are dependent on concessional mechanisms to offset SGB risk.
- Asset management groups are in strong positions to leverage relationships with institutional investors, but may lack the expertise and internal capacity in SGB and impact investing, thereby relying predominantly on intermediaries with the necessary experience.
- More broadly observed in research and discussions during the course of the Project have been that:
  - Impact focus may be restricted at a vehicle level, such as transformation to get more black or women fund managers into the market with no theory of change or causal approach to impact. Otherwise, impact focus is broadly on economic growth, job creation and transformation, but not thematic;
  - Initiatives often represent a single institutional investor's specific mandate as a single/one off fund (low replicability) and remain driven by returns (citing fiduciary duty as the reason for this);
  - Generally, use equity to typically target VC funds and/or growth stage mid-cap private equity (typically not SGBs); limited concessional funding is available (few examples of first loss as well as guarantee pools), but have not benefited from DFI[92] (especially European DFI)/similar concessional funding to entice risk averse funding pools;
  - Investment strategies do not blend equity and debt instruments and at best would combine mezzanine and debt[93];
  - A reluctance to support new or innovative approaches, such as permanent capital vehicles[94] a finite fund life is preferred (lack of patient capital), and support secondary intermediation ie at the FoF and the recipient fund level;
  - Focus more on the capital supply-side needs, rather than demand-side – thus not focused on lowering the cost of capital to ultimate capital recipients ie SGBs;

[92] SA DFIs are undergoing major transformational change, pending varied returns and impact

[93] Regulation 28 provides caps for pension funds to invest under and ,while not prohibitive, tends to encourage siloed/bucket investing by fund managers (to be evaluated further)

[94] En Commandite Partnership favoured – based on research of similar funds

- Institutional investors typically favour minimum ticket sizes <R150m/£7.5m, capped at 20% of fund;
- Struggle with government support, yet the evidence and reasons for this are vague[95];
- No technical assistance support throughout the investment value chain – inhibiting success of investments;
- Experienced managers are favoured over first-time Fund of Funds managers (even for non-PE funds); and
- Need funds to recycle capital to the maximum level possible to ensure fund economics work (especially for smaller funds).

3.2.4 Development finance institutions

South Africa is the largest market for impact investing in Southern Africa, representing 76% of impact transactions, which have been primarily driven by DFI investment, excluding bilateral and multilateral government assistance[96]. The below sections describe the local and international DFI environment in South Africa.

Local development finance institutions

South Africa is in a unique situation in that its government has built up several domestic development finance institutions and government funders with different mandates focused on key development aspects of the South African economy, as well as regional projects. Typically, the main domestic DFIs are considered as the:

Domestic DFI institution/body	Support provided to SGBs
Industrial Development Corporation (IDC) set up in 1940 to promote economic growth and industrialisation in South Africa. Under its objective to lead industrial capacity development, it also targets the promotion of entrepreneurship and SGB growth[97]. It provides a broad range of debt, equity and quasi-equity, guarantees, trade finance and venture capital allowing for ticket sizes as low as R1m/£7,000 and up R1 bn/£47m, but focuses on arge industrial investments (average ticket size R115m/£5.5m.	Specific SGB activities are further discussed below, but makes up less than 15% of investment approvals.
Development Bank of South Africa (DBSA) established in 1983 and focuses on social and economic infrastructure, regional integration and promotion of sustainable use of scarce resources. It started remodelling itself as a Green Investment Bank in 2017, the first such initiative in a developing country at the time[98]. Focused on large infrastructure projects, the DBSA does not have as a direct priority development and investment of MSMEs, but rather contributes to the enabling environment within which MSMEs operate.	Indirect

[95] Gauteng Provincial Government in protracted discussions on SA SME's Crisis Partnership Fund
[96] Global Impact Investing Network, 2016
[97] IDC, n.d.
[98] DBSA, 2020; Naidoo, 2019

Domestic DFI institution/body	Support provided to SGBs
National Empowerment Fund (NEF) was established under an Act of Government in 1998 to drive black economic participation by providing financial and non-financial support to black-owned and -managed businesses, and by promoting a culture of savings in black people. It is well positioned under this mandate to focus on MSMEs in the South African market and offers various products that also serve the SGB segment[99].	Direct – further discussed below.
Small Enterprise Finance Agency (sefa) provides financial products and services to qualifying MSMEs and Co-operatives, as defined in the National Small Business Act of 1996 and amended in 2004, through a hybrid of wholesale and direct lending channels. It is owned by the IDC following a merger of three previous agencies-Khula, South African Micro-Finance Apex Fund and the IDC's small business funding unit. It focuses exclusively on MSMEs and Co-operatives[100].	Direct – further discussed below.
Land Bank of South Africa: Established in 1912, the Land Bank provides financial services to the commercial farming sector and to agri-business and makes available new, appropriately designed financial products that would facilitate access to finance by new entrants to agriculture from historically disadvantaged backgrounds. The Land Bank's mandate includes direct and indirect lending facilities to medium primary and secondary agribusinesses.	Direct, but narrow focus on new entrants to agriculture (small farmers). It has commissioned research studies to explore broadening participation in small scale agribusinesses, its focus is exclusively on the agriculture sector and wholesale lending facilities are focused on intermediaries that serve smallholder farmers. It is deemed an unlikely investor in an IIWV with a broader SGB mandate, but could be a co-investor in intermediaries in the agri-business value chain[101].

The table 6 focuses on the domestic DFIs that have a broad inclusion of SGBs in their investment policies and mandate with a focus. The table gives information about their operations to date, but a decision has been made by the Cabinet of South Africa to consolidate the NEF, sefa and the Small Enterprise Development Agency (SEDA) to form an entity that will offer both financial and non-financial support to small enterprises[102].

[99] National Empowerment Fund, n.d.-b

[100] sefa, n.d.

[101] Land Bank, n.d.; Land Bank of South Africa, 2019

[102] Department of Small Business Development, 2020

Table: Local DFI characteristics

<table>
<tr>
<td>Size of assets</td>
<td>
Asset and transaction sizes indicate the strategies of each of the DFIs covered below. IDC focusing on industrial development, more than 80 years old, and typically larger transactions sizes. As it owns 100% of sefa, it is likely letting its subsidiary focus on MSMEs. The NEF follows a BBBEE mandate, but focusing on the SGB segment, whereas sefa's strategy includes MSMEs (ie including SGBs, but extending to micro businesses through micro-financiers too).
<table>
<tr><th>DFI</th><th>IDC (2018)[103]</th><th>NEF (2019)[104]</th><th>Sefa (2019)[105]</th></tr>
<tr><td>Total assets</td><td>R142bn/ £6.8bln</td><td>R4.5 bn/ £212m</td><td>R2.2bn/ £105m</td></tr>
<tr><td>Total approvals/ disbursements</td><td>R16.7bln/ £795m (approvals in 2018)</td><td>R576m / £27.4m (approvals in 2019)</td><td>ZR1.2 bln/ £58m</td></tr>
<tr><td>Number of approvals</td><td>202</td><td>61</td><td>72,897 (includes Micro businesses)</td></tr>
<tr><td>Average transaction size</td><td>R82.7m/£3.9m</td><td>R9.4m/£45,000</td><td>R16.7k/ £797 m</td></tr>
</table>
</td>
</tr>
</table>

[103] IDC, n.d.; 2018

[104] National Empowerment Fund, n.d.-b; n.d.-a

[105] sefa, n.d.; 2019

Funding allocations

Each of the organisations have funding allocations to SGBs. sefa follows a wholesale lending and partnership approach with the objective to promote MSME finance and crowd-in capital. The IDC and NEF appears to be more focused on a direct approach and own solutions, rather than leveraging intermediary partnerships. All organisations align their funding allocations to national government plans.

DFI	IDC (2018)	NEF (2019)	sefa
Specific SGB programmme	EIB SME Midcap Fund (E50m/ £43.5m) launched in 2015. Transactions between R1m/£47,000 – R120m/£5.7m Gro-E Youth scheme (R950m/£45m) funding ZAR1m/GBP47k – ZAR50m/GBP2.4m MSME also covered through normal IDC funding, but no clear reporting.	100% MSME focus; including SGBs, through different funds focused on: Strategic projects (up to ZAR75m) Start-up and very small to small businesses (R250,000 – R10m) Small to medium businesses (R2m – R75m) Rural and Community Development (R1m – R50m) Women empowerment (ZR250,000 – R75m) Enterprise supplier development Total value of book and deals as quoted under size of assets fall within the SGB segment.	100% MSME focus through: Direct lending: Transactions between R50,000 and R15m. Portfolio size: Wholesale lending (up to R100m/£4.8m) division that includes finance and guarantees to banks, retail intermediaries, specialised funds and joint venture partners to promote MSME finance and crowd-in other capital. Sefa also has various partnerships, subsidiaries and investments (eg Business Partners Limited, Godisa Supplier Development Fund, etc.). In 2018, it concluded a E30m/£34.5m Enterprise and Supplier Development Fund with the EU to crowd-in and de-risk other public and private sector funds.

DFI	IDC (2018)	NEF (2019)	sefa
Value of SGB transactions	R2.3 bn/ £109.5m (approvals in 2018)		Estimated R900m/£43m disbursed through direct (18%) and wholesale lending (72%), R90m/£4.3m in the form of guarantees.
Number of SGB transactions	105 - 110		790 in direct and wholesale lending 163 in guarantees
Average deal size	R22m/ £1m		SGB size through direct and wholesale lending: R1.1m/£54k Guarantees: R555,000/£25,000
Sector distribution	Metals and mining (52%), Agri value chain (5.9%), chemicals and pharmaceuticals (13.1%), ndustrial infrastructure (8.3%), textile industries (3.6%), Other manufacturing, tourism & services (15.5%), Other (1.6%)	Manufacturing and energy (15% each), construction & materials and retail (10% each), tourism and entertainment (9%), media (8%), transportation and property (6% each), services and mining (5% each), other (11%)	**Focuses on:** - services (including retail, wholesale and tourism); - manufacturing (including agro-processing); - agriculture (especially land reform beneficiaries and contract-farming activities); - construction (small construction contractors); - mining (specifically small-scale miners; and - green industries (renewable energy, waste and recycling management).

[106] CEIC, 2020

[107] Statistics South Africa, 2021

<table>
<tr>
<td>Regulatory landscape</td>
<td>As established and (originally) funded by the South African government, all DFIs are regulated by Acts of Parliament and overseen by relevant government departments.

<table>
<tr><th>IDC</th><th>NEF</th><th>sefa</th></tr>
<tr>
<td>Established by an Act of Parliament (Industrial Development Corporation Act, No. 22 of 1940) and is fully owned by the South African Government under the supervision of the Department of Economic Development. Guided by the National Development Plan, the New Growth Path and the Industrial Policy Action Plan as well as BBBEE and youth development objectives of government.</td>
<td>Governed by the Public Finance Management Act No 1 of 1991 (PFMA), including the National Treasury Regulations, the King III Report on Governance for South Africa and the Protocol on Corporate Governance in the Public Sector, 2002. Alignment with all government policies is expected.</td>
<td>Wholly owned subsidiary of the IDC, founded in 2012 – in terms of the Industrial Development Corporation Act, No. 22 of 1940 (IDC Act) – following a cabinet decision and the 2011 State of the Nation Address to merge the three agencies: Khula, the South African Micro-Finance Apex Fund and the IDC's small business funding into a single entity.

The Department of Small Business Development is sefa's executive authority. Programmes are aligned with the New Growth Plan, Industrial Policy Action Plan and the National Development Plan.</td>
</tr>
</table>
</td>
</tr>
<tr>
<td>Investment process and decisionmaking</td>
<td>Across all organisations, investments follow a process of screening,due diligence, and management evaluation (internal committee), but the final decision resides with a board appointed investment committee, which typically would include a majority of independent board and/or committee members.</td>
</tr>
<tr>
<td>Financial objectives</td>
<td>As DFIs, these organisations are prepared to take on more risk than what banks or other private sector investors are willing to consider, as can be seen in the high levels of impairments (vs a banking non-performing loan rate of 5%[106]).

Typically, these organisations strive to become self-sustainable (which the IDC and NEF have attained, while sefa is still struggling).

Pricing of transactions varies depending on whether programmes are subsidised by government or donor initiatives. Compared to financial performance or expectations of retirement funds (~6%), insurance companies (3% - 8%) and SA SME wholesalers (CPI + 4%/~7.3% for debt, CPI + 10%/~13% for equity)[107], South African DFIs do not offer hugely concessional funding in terms of pricing – it could be argued that it is concessional on a risk-adjusted basis.

<table>
<tr><th>Objective</th><th>IDC (2018)</th><th>NEF (2019)</th><th>sefa</th></tr>
<tr><td>Impairments</td><td>17.4% against target of 16.4%</td><td>18% against target of 18% (27% in 2020)</td><td>47% against target of 26%</td></tr>
<tr><td>Financial indicators</td><td>Net income as % of total assets: 5.3% against target of 4.4%</td><td>Return on investment (before impairments): 9% against target of 9% - 10%</td><td>Cost-to-income ratio of 105% against target of 100%</td></tr>
</table>
</td>
</tr>
</table>

DFI	IDC (2018)	NEF (2019)	sefa
Funding terms	Dependent on whether specific (subsidised programme) or normal IDC funding, eg - Gro-E Youth Scheme: Prime less 2%-3% (debt), 5%-6% IRR (equity) - SME and Midcap programme: normal IDC risk pricing less 0.3% - Blended UIF job creation programme: 8.64%-10.94%	May not require security or collateral in the form required by banks, but require own contribution. Interest rate structure also differs from what the banks will charge depending on the level of funding and the fact that the NEF will, in most cases, bear higher risk provided the return is also higher.	No specific pricing terms disclosed, but previous interactions with sefa point to wholesale lending rates linked to Prime with discounts for development impact.
Impact objectives reflect alignment to South Africa's triple challenge of unemployment, inequality and poverty, aiming to stimulate industry that can drive economic growth and create jobs.			
	IDC	**NEF**	**sefa**
	Funding to black industrialists, women-empowered businesses, youth-empowered businesses, support of government localisation initiatives. Direct jobs created and saved.	Number of jobs created Investment in women businesses Investment in less developed provinces Entrepreneurial training, incubation and social facilitation and investor education sessions	Number of jobs facilitated Disbursements to youth-owned, black-owned and women-owned businesses and disabled people (respectively) Disbursements to businesses in priority rural provinces and townships (respectively)

[108] DFI Working Group, 2019

[109] Global Impact Investing Network, 2016; THK Working Group, 2020

Main observations	• Fully aligned to national government priorities, domestic DFIs have various funding pools that aim to reach MSMEs and SGBs, in particular. • Their larger appetite for risk to facilitate their development and impact mandates sets them apart from private sector capital pools. • Concessionality in the cost of funding is limited to the availability of government or donor funding, but ultimately does not reflect true risk adjusted financial objectives. • Among the DFIs analysed, the IDC and NEF follow a more direct approach in their investment strategies, whereas sefa incorporates wholesale funding and partnerships. • sefa has been the DFI entity tasked to serve small businesses in South Africa, and would be most relevant for an IIWV vehicle focused on reaching underserved SGBs. However, with the intended changes to consolidate the small business financial and non-financial services under one government entity, it would be ideal to better understand the intended changes in the environment. Such a planning period provides a good opportunity for an IIWV to offer implementation capabilities and explore partnering opportunities that the department may be looking for and that can crowd-in private sector resources.

Development funding – international

International DFIs are national or regional DFIs that are funded primarily by the governments of nations that are not in South Africa. For purposes of this report, no distinction is made between the public and private DFIs of specific countries, nor Multilateral Development Banks (MDBs) or regional Development Banks.

The important role of these organisations in funding and supporting underserved markets in developing countries, including development of financial markets that serve MSMEs, is undeniable. Total DFI projects costs globally are estimated to exceed $100bn (£72 bn), of which $69bn (£50bn) was mobilised in the private sector and blended concessional finance only made up $6bn (£4.3bn) in 2018[108]. Aggregated data of DFIs is limited and the table on page 54reflects findings of a study commissioned by GIIN in 2016 focused on South and Southern Africa as well as the DFI Blended Concessional Finance Working Group update in 2019[109].

[110] CDC Group, 2019
[111] FMO, 2018
[112] IFC, 2019b
[113] EIB, 2019
[114] Proparco, n.d.

Size of assets

There are views that active domestic DFIs in South Africa, together with an advanced banking sector and BBBEE initiatives, have crowded international DFIs out. Notwithstanding, up to 2015 international DFIs had disbursed almost $10bn (£7.2bn) in 187 transactions (indicating average ticket size of $53.5m/(£38.5 billion). In terms of specific DFI examples, focusing on the largest DFIs, South Africa has been a priority featuring in the top 10 countries of most DFIs:

DFI	IDC (2018)[103]	NEF (2019)[104]	Sefa (2019)[105]
Total assets	R142bn/ £6.8bn	R4.5 bn/£212m	R2.2bn/ £105m
Total approvals/ disbursements	R16.7bln/£795m (approvals in 2018)	R576m/£27.4m (approvals in 2019)	ZR1.2bln/ £58m
Number of approvals	202	61	72,897 (includes Micro businesses)
Average transaction size	R82.7m/ £3.9m	ZR9.4m/ £45k	R16.7bln/ £797

Funding allocation

A key part of DFIs' development and impact mandates is to nurture the private sector by fostering MSME growth. In context of the high cost of directly serving MSMEs and lack of risk mitigation through security or public sector mechanisms (like in infrastructure projects), DFIs opt to fund impact fund managers and banks, particularly those focused on or willing to accommodate SME investments.

Africa remains a key development focus for all DFIs and a coalition of DFIs committed to invest at least $4bn (£2.9bln) towards sustainable recovery of the Private Sector in Africa by the end of 2021, particularly focused on inclusive financial solutions for MSMEs.

Generally, DFIs publicly commit to strategies at a continent or regionallevel, and do not distinguish individual country targets. However, the in-country presence of DFIs such as AFD/Proparco, FMO, KfW/DEG, EIB, World Bank/IFC and, more recently, the US DFC, indicates these organisations, commitment to the country.

Other considerations for funding allocations:

- Investment philosophies align with political priorities and budget cycles of home governments and DFIs often have very specific investment targets by sector, geography, and time frame. Impact intermediaries are vulnerable to changes in DFI priorities, placing emphasis on demonstrating that impact funds can deliver financial returns and thereby attract private capital, such as from institutional investors;
- Investment targets encourage DFI investment officers to look for a smaller number of large investment opportunities — particularly when one considers the complicated diligence and structuring costs associated with small deals.
- However, DFIs seek additionality as a principle to avoid distorting private markets and crowd-in private capital into difficult to serve markets.

Notwithstanding developmental mandates, many DFIs follow commercial approaches to investments, seeking near-market, if not full risk-adjusted, returns, unless specific concessional public funding windows are made available by their home governments.

Regulatory landscape	Multifaceted, including home country regulation, intermediary domicilium regulatory environments and country of investment's regulatory frameworks. The scope of regulation of DFIs is beyond the scope of this report.
Investment process and decision making	The largest DFIs (IFC, EIB, FMO, DEG, Proparco, CDC) typically have in-country offices that lead deal origination, but appraisal support teams and decision-making bodies typically reside in home country structures. These in-country teams would be a first point of contact to establish interest in an IIWV initiative.
Financial objectives	Financial objectives of each DFI depend on how their own balance sheets are capitalised (ie concessional government funding; capital markets) and availability of specific concessional donor contributions (eg home country government; such as DFID to CDC, or regional, such as the EU support to EDFIs). Typically, balance sheet operations will expect returns at risk-adjusted or near market rates, while concessional mechanisms will accept lower returns and higher risk (e.g. Proparco's FISEA in the past, FMO's MASSIF and CDC's Catalyst funds). For instance, IFC has indicated return expectations of >15% in USD from private equity funds, but its specific SME-focused programme could accept 5%-6% due to the concessional support underpinning the programme. In terms of debt, EDFIs have indicated requirements of margins between 250bps – 350bps above EURIBOR for a typical five-year loan. On the other hand, other DFI lenders have supported debt funding with margins as low as 1%. The level of concessionality available in funding terms will depend on each DFI's funding pool, available windows and current pulse as influenced by COVID.
Impact objectives	DFIs have a direct mandate from governments and intergovernmental organisations to promote international development. Evaluating their success in this regard requires a formalised methodology to measure impact. Generally, their approaches include two pillars: • ESG monitoring that is an overarching requirement; • Specific impact objectives aligned to their mandates and investment strategies. For instance, FMO has job creation and greenhouse gas avoidance objectives; Proparco focuses on improving living conditions for communities, fight against climate change and development of Southern countries; CDC invests in sectors where growth leads to job creation; IFC aims to work with private sector in developing countries to create markets and opportunities for all. Irrespective of different expressions of impact objectives and strategies to implement, MSMEs as drivers of job creation and economic growth and Africa as a development priority is almost universally accepted by DFIs. In addition, the global push by DFIs to mobilise private capital through blended finance mechanisms and to support innovative, local financing solutions makes them a key investor set to explore further for an IIWV. However, South Africa's status as Middle Income Country means it is a lower priority for international development funding pools.
Trends, opportunities and challenges	Blended finance with a view to leverage limited DFI funding pools and attract private capital for local contexts is a major objective as the development community seeks solutions for SDG financing gaps. • Apart from normal DFI operations in South Africa, recent MSME initiatives in South Africa or Africa that may also apply to South Africa include:

	– EU initiatives: i) EDSE programme of E38m (£33m), partly for Fund of Funds to sefa for MSME investments; ii) SME Access to Finance initiative through the EIB for SMEs, including in Sub-Saharan Africa, in the form of senior loans and guarantees, but unclear if South Africa is specifically included; – AFD/Proparco: Choose Africa Initiative channelling E3.5bn (£3bn) to MSMEs in Africa by 2022, including allocations to private equity (E1bn/£870m) and Financial Institutions/Banks (E2.5 bn/£2.2bn). The allocation to South Africa and availability of funding for non-traditional investment vehicles has to be confirmed; – DFID/CDC: The Impact Programme as part of CDC's Catalyst strategies, which includes a focus on funds or other intermediated structures that provide significant development benefits through reaching underserved people, development nascent or frontier markets; – World Bank/IFC: Broader programme to support MSME market development in South Africa, including increasing access to finance. The programme seems to primarily focus on support to the banking market and clarity is needed on whether alternative investment structures can be supported. – FMO NASIRA guarantee programme, but which seems to focus on local banks. Clarity is needed to ascertain whether the facility is available to other types of investment vehicles. – USAID: Various global programmes (such as CATALYZE focused on mobilising blended finance for specific development objectives; Prosper Africa Trade and Investment activity recently announced, but not open as yet, USAID country mission objectives will be valuable to ascertain relevant, upcoming funding windows. DFI's dependency on concessional funding windows could be a challenge in securing large scale funding for SGBs in South Africa. However, a wholesale vehicle already provides a level of risk mitigation compared to direct investments in SGB-focused intermediaries or the SGBs themselves that would otherwise be unattractive for DFIs.

3.2.5 Other government development funding and initiatives focused on SGBs

The Public Investment Corporation

The Public Investment Corporation (PIC) is discussed separately here; although the funds under its management are typically retirement funds already covered in section 3.2.1, its position as a state-owned entity in charge of R1.9trillion (£90 billion) (in a total retirement industry of R4.26 trillion/GBP202 billion, therefore controlling 45% of retirement assets under management in South Africa) makes it important to further investigate its commitment to impact investing and innovative financing solutions. This section focuses on identifying specific SGB and impact investing strategies and programmes that would be relevant to an IIWV.

Table 7 - Private sector and impact investing assets

	Alignment with impact Investing, SGBs and wholesaler
Still acting within its fiduciary duties and the guidelines of Regulation 28, the PIC has had 6.7% invested in unlisted domestic investments at the end of 31 March 2020, comprising **private equity (0.95%), impact investing (3.02%)** and **unlisted Properties (2.69%)**.	Specific allocation to impact investing
The impact investing portfolio provides **loan and equity funding** to new and established companies diversified across sectors, stages of development and asset classes. **Key sectors of focus** include economic, environmental and social infrastructure, energy, **SGBs** and priority sectors with high job creation potential such as agriculture, tourism, manufacturing and mining beneficiation. Private equity is focused on companies where transformation can be promoted and which will deliver strong financial returns through established business models well positioned for regional and national growth. The impact investing and private equity portfolio under management was valued at R69.4bn/£3.3 billion with disbursements of R10.1bn/£480m in 2020;	Specific focus on high development and impact sectors, including SGBs
The Isibaya Fund is its division that focuses on impact investing, private equity and fund of funds investment, which specifically makes provision for investing in SGBs in a manner that will yield satisfactory returns for investors (retirement funds) while contributing positively to the economy in terms of entrepreneurship, new enterprise development and job creation.	Specific division focused on impact investing, SGBs and fund of funds (wholesale)
The most relevant and notable example of **PIC support to impact investing in the SGB segment is its R500m/£23.8m commitment to the SA SME Fund** alongside 50 listed businesses which developed as part of a collaborative initiative between business, labour and government in 2015. High level discussions have divulged that the corporate support that initiated the SA SME Fund may not be replicated, but the inclusion of SGBs and impact investing in the PIC strategy together with its strong standing in the retirement fund and asset management fraternity could hold potential for an IIWV focused on the SGB segment in another form.	Example of wholesale support

	Alignment with impact Investing, SGBs and wholesaler
Externally managed fund programme The relevance of this programme for an IIWV is the potential opportunity it can provide to black-owned asset managers as instrumental in the deployment and management of such a fund, which will also position them well for PIC support. The main objective of the programme is to enable external asset managers to contribute to delivering sustainable returns to client, focusing on increased allocations to and development of black owned asset managers as well as encouraging transformation at large, established firms.	Potential IIWV relevance in fund manager selection and development

The PIC controls a large pool of capital and has been progressive in its approach to support impact investing, largely driven by national government priorities. Their support for an IIWV could be a significant boost in the development of such an initiative.

PIC salient facts:

- registered as a financial services provider with the Financial Sector Conduct Authority (FSCA).
- owned by the South African government, established in 1911.
- governed by the Financial Advisory and Intermediary Services Act, 2002, and regulated by, among others, the PIC Act 23 of 2004, the Public Finance Management Act 1 of 1999 (PFMA), the Companies Act 71 of 2008 and adheres to the provisions of the Financial Intelligence Centre Act 38 of 2001 (FICA).
- operates principally in South Africa and invests offshore and in the rest of the African continent.
- signatory to the United Nations Global Compact (UNGC) and the Principles for Responsible Investment (UNPRI) and committed to the Sustainable Development Goals (SDGs).
- applies stringent corporate governance standards to its operations, employees and to the companies in which it invests on behalf of clients.
- all of the PIC's clients are public sector entities and each client has its own portfolio, which is managed in line with a mandate agreed to with the client and approved by the FSCA.
- portfolio of R1.9trillion/£90.5bn comprises:
  - 91% in South Africa, 9% offshore and the rest of Africa;
  - domestic listed investments including listed equities (41.1%), bonds (34.9%), cash and money markets (6.95%) and listed properties (1.38%);
  - unlisted investments in private equity (0.95%), impact Investing (3.0%) and unlisted properties (3.7%).

Other government funders, incentives and support organisations focused on SGBs

South Africa's economic development policy is led by the Department of Trade, Industry and Competition (DTIC), while the Department of Small Business Development (DSDB) focuses on creating a conducive environment for the development and growth of small businesses and cooperatives.

Guided by the National Development Plan that envisions sustainable industrialisation, economic development and transformation and focus on economic transformation and job creation under its 2019–2024 Medium Term Strategic Framework, development initiatives focus on sectoral master plans aimed at improving performance in identified sectors, the DTIC focus areas are industrial finance (aimed at leveraging R45bn/£2.1bn in private sector investment), developing industrial infrastructure, strengthening export capabilities and enhancing competition regulation. Subprogrammes under the industrial finance programme are listed in the table on page 60 as well as distinct initiatives relevant for MSME development.

The DSBD provides direct and indirect support to small businesses through the Small Enterprise Development Agency and support programmes such as the Black Business Supplier Development programme and the National Informal Business Upliftment, and aims to establish a 'one-stop' platform for MSMEs to access financial and non-financial support, **and improve MSME access to finance through an extension of blended finance. It is developing a Small Enterprise Development Masterplan – such a planning period would be a good time to actively engage with the department about blended finance possibilities for an IIWV.**

Programme	Description
Manufacturing subprogrammes focused on labour-intensive sectors *R8.6bn/£410m budget allocation*	
The majority of sectoral incentives have very specific sector or industry objectives that would unlikely be routed through a general wholesale vehicle, but can serve as a database of potential support to ultimate investee businesses	• **Aquaculture Development and Enhancement Programme** for new, upgrading or expansion projects in the industry. Reimbursable cost sharing grant of up to R30m/£1.4m. • **Automotive Investment Scheme** and People-carrier Automotive Investment Scheme focuses on growth and development the sector through investment that will increase plant production volumes, sustain employment and strengthen the value chain (unlikely benefit to MSMEs). • **Black industrialists programme** focused on unlocking the potential of black-owned and managed businesses that operate within industrial sectors and has the potential to become major players in the domestic and/or global markets. • **Clothing and Textiles Competitiveness Programme** managed by the IDC and focused on assisting the industry in upgrading equipment, processes, products and people, and re-positioning South Africa to compete effectively against other low-cost producing countries. • **Manufacturing Competitiveness** programme providing working capital and plant and equipment finance to assist manufacturing companies and black industrialists. • **Agro-processing support scheme** launched in 2017 as a R1bn/£48m cost-sharing grant to fund investments in new and existing agro-processing projects.

Programme	Description
Strengthening export capabilities subprogramme *R751m/£35.8m budget allocation*	
	• **Export Marketing and Investment Assistance Schemes** focused on developing export markets for South African products and services and attracting new foreign direct investment by providing assistance in identifying potential export markets, marketing and patent, quality and product market registrations.
Other DTIC subprogrammes	
	• **Technology and Human Resources for Industry Programme** managed by the National Research Foundation and supporting science, engineering and technology research. • **Film incentive** focused on attracting foreign-based film productions, assist local film producers and support local emerging black filmmakers. • Sector-specific assistance scheme supporting organisations such as (nonprofit) export councils, joint action groups, industry associations and those involved in the development of emerging exporters. • **Support programme for Industrial Innovation** focused on early stage development of technology in industry through financial assistance for the development of innovative products and/or processes. • **Business Process Services incentive** focused on offshoring activities that create employment in South Africa, especially for the youth, and generates export revenue. An additional Global Business Services Incentive focused on offshoring activities is also available.
Department of Small Business Development initiatives DSBD total budget allocation R8.2bn/£390m in 2019/20 • Medium-term allocations to SEDA – ZR2.8bn/£133m; Township Entrepreneurship Fund – R2.8bn/£133m; internally administered incentives – ZR1.5 bn/£71.4m As the oversight authority for small business development, engagement with the Department and its implementing agencies (particularly sefa and Seda) is necessary to determine any potential government support available for an IIWV, its potential financial intermediary investees and their clients.	

Programme	Description
Sub-programmes	• **Black business supplier development programme** offers a cost sharing grant (DTI pays up to 80% of cost) to small black-owned businesses to help them improve their competitiveness and sustainability, become part of the mainstream economy and create employment. Grants up to a maximum of R1m/£48,000. Objectives are to draw in existing MSMEs into the mainstream economy, foster market linkages between black-owned MSMEs and corporate and public-sector enterprises, promote affirmative procurement in public and private sector, and capacity-building of grant recipients. • **Ecosystem Development for Small Enterprise programme** funded by the European Union and allocated R745m/£35.5m to 15 projects aimed at addressing critical constraints holding MSMEs back. Of this allocation, R500m/£24m has been committed to sefa under a Fund of Funds to focus on enterprise supplier development and innovative financing mechanisms. Funding has also been allocated to the DSBD, SEDA and Department of Agriculture, Land Reform and Rural Development for various capacity and market building projects.
SEDA	• The Small Enterprise Development Agency (Seda) is an agency of the DSBD, established in 2004, through the National Small Business Amendment Act, Act 29 of 2004. • Notwithstanding a possible consolidation of the small business government entities (sefa, Seda and NEF), it is anticipated that Seda's mandate to implement government's small business strategy; design and implement a standard and common national delivery network for small enterprise development; and integrate government-funded small enterprise support agencies across all tiers of government will continue under a new entity. • Their focus is to develop, support and promote small enterprises, ensuring their growth and sustainability in co-ordination and partnership with various role players, including global partners, who make international best practices available to local entrepreneurs. • Programmes focus on training and development services to cooperatives, enterprises and technology and innovation incubation and transfer support. • Funding allocation of R2.8 billion/G£133m from the DSBD.

3.2.6 Corporates

The Broad-based Black Economic Empowerment (BBBEE) Act 53 of 2003[115] was introduced in 2007 to address racial inequality resulting from apartheid. The voluntary regulation aims to accelerate the participation of previously disadvantaged groups in the economy by rewarding businesses for ownership, management and control, skills development, procurement, enterprise and supplier development (ESD) and socioeconomic development.

ESD is a combination of practices defined by the BBBEE policy to advance economic transformation in South Africa. It includes preferential procurement, supplier diversity, supplier development and enterprise development.

Supplier development is focused on a company's current supplier database, whereas enterprise development is targeted at suppliers that are not on a company's database as well as on start-up businesses or new entrants.

A large proportion of Corporate South Africa's support to small business development and financing has been through ESD programmes and funds, which can be internally or externally managed. The investment and regulatory landscape review discusses these ESD initiatives in more detail and the purpose of this section is to look at initiatives other than ESD.

Corporate foundations

The introduction of BBBEE legislation in 2003 led to various schemes and transactions by private sector organisations in South Africa to introduce black shareholders into their companies, such shareholders typically including black-owned companies (typically strategic partners), black staff and broad-based community schemes, but also corporate foundations established by the respective companies for haritable purposes in future.

Charitable or public benefit components of these deals for 25 out of the Top 100 listed companies on the JSE indicated that R32.6bn/£1.6 bn of value had been created by 2018[116] in endowments to foundations. The value of these endowment assets under management has created a significant pool of potential impact capital in South Africa.

Typical characteristics of these foundations are:

- **Legal entities** used are trusts with either a perpetual life span as long as they can generate income from their assets (76%) or limited life span (24%). This affects the spending patterns of foundations, resulting in a more conservative approach by perpetual trusts.

- **Governance** is led by a Board of trustees, but sponsoring companies retain some decision making over investment strategies and have been shown to remain involved to a certain extent.

- **Trust operational models** range across four variants: i) own operations separate from sponsor company (semi-autonomous); ii) trust staff in same location as sponsor company staff, but has a specific focus (nested); iii) outsourced key functions to third party (outsourced) ; and iv) merged where sponsor company staff conduct the trust management operations (nested).

- **Asset management** policies, procedures, nor decision-making structures in the large majority of foundations have not been formalised and investment portfolios consist primarily of the sponsoring company's shares, because there is a lock-in holding period. Foundations are dependent on dividend flows with the benefit that these BBBEE transactions allowed for beneficiaries to receive a portion of dividends even if there is still outstanding debt obligations from the purchase of the sponsoring company shares.

- **Charitable spending of R3.9bn/£185.7m** had been committed by 2018 with **70% thereof by semi-autonomous foundations**, and with a focus on disadvantaged groups in South Africa with priority areas indicated in terms of geography (within the sponsoring company's operating area) or community of interest (such as education for employees or students interested in the company's business). **More than three-quarters of funding was dedicated to education in different forms.**

[115] No 53 of 2003 and including the generic Codes of Good Practice on B-BBEE of which an updated version came into effect on 1 May 2015 Norton Rose Fulbright, 2018.

[116] Intellidex, 2018

The impact of Covid-19 on the South African economy and vulnerable communities has brought to the fore the urgency to step up short-term interventions, but also to think out of the box in terms of innovative financing mechanisms (eg social impact bonds, relief funds, blended finance) in which foundations have an opportunity to be part of reducing inequality meaningfully and leverage partnerships and collaboration. For most of the corporates, Covid-19 response announcements have focused on efforts by the corporates themselves, rather than foundations[117]. This could be due to conservative approaches due to the restrictions on endowments that have not yet fully vested.

Examples of corporation foundations active in South Africa are set out below.

Table 8: Examples of corporation foundations in South Africa

Corporate Foundation	Description
Standard Bank Tutuwa Community Foundation[118] *A strong focus on youth development does not clearly align with the IIWV's broader focus on SGBs, unless specific education strategies can be ring-fenced. Participation in a social impact bond does indicate the foundation's openness to consider innovative ways of achieving impact.*	• Established in 2016 following Standard Bank's[119] successful B-BBEE Tutuwa share scheme that created R10.6bn/£500m in value for Standard Bank's black partners (Shanduka and Safika), black employees and qualifying black MSMEs. It was allocated 10% of shares under the Tutuwa scheme, which was estimated to be valued at R1.8bn/£85.7m in 2018. • Its purpose is to benefit communities in South Africa through the promotion of economic development and the alleviation of poverty. • Semi-autonomous operating model. • Focused on youth development through three thematic areas: early childhood development, schooling and post-schooling and works with nonprofit organisations. • The foundation is part of the **Bonds4Jobs social impact bond** for job creation, which is a pay-for-performance mechanism and public-private partnership whereby private sector investors fund the pilot or start-up phase of a programme to source, train, match and place unemployed youths, and on delivery of the targeted outcomes (600 jobs in Year 1 in this case), the Gauteng Government pays and capital and interest is returned to the investors.

[117] Intellidex, 2020a

[118] Bloomberg, 2021; Standard Bank Tutuwa Community Foundation, n.d.-b; n.d.-a; The South African, 2015

[119] Standard Bank is one of South Africa's largest financial services groups and one of the largest (if not the largest) lenders in Africa with marketing capitalisation of R219bn/£10.4bn

Corporate Foundation	Description
Absa Foundation[120] *The focus on small business development together with the development of its foundation focused on more systemic issues calls for further investigation.*	• Through Absa's[121] corporate social investments, the focus is on three areas: education and skills development to support employability and self employability; enterprise development through financial and business development services to SGBs; and financial inclusion by enabling digital and non-digital access to underserved customers. • Absa is in the process of setting up the Absa Africa oundation to more systemically support its corporate social activities. Understanding the focus and objectives of the foundation apart from existing enterprise development programmes would be needed to determine whether an IIWV could benefit from Absa's focus on SGBs. • Absa does not have an endowment as result of BBBEE in the past. It's Batho Bonke scheme did not make provision for such and was exited by prominent strategic partners in 2012.

[120] Absa, n.d.; Absa Group Limited, 2019; Moneyweb, 2021a; Reuters, 2012; Trialogue, 2017

Corporate Foundation	Description
The SAB Foundation[122] *SAB seems to have an established, direct approach to enterprise development. It may be an unlikely supporter for an externally-managed IIWV, but with a focus on enterprise development outside its own value chain, it would be worth further exploration.*	• Set up in 2010 as one element of the B-BBEE transaction concluded by the then South African Breweries Ltd (now a subsidiary of Anheuser Busch InBev SA/NV "ABInbev"), the SAB Foundation is an independent trust focused on developing entrepreneurship in South Africa and operates 'nested' within SAB. • It received tax exemption and is registered as a tax exempt Small Business Funding Entity under section 10(1) of the Income Tax Act. • It holds 8.4 million SAB Ltd shares and applies the dividend and special dividend income received from these shares for the benefit of the wider South African community. The value of the endowment was estimated at **ZR7.7bn in 2018.** • The foundation has **invested R280m/£13m in 478 entrepreneurs and small businesses, and 153 social innovations.** Its priority focus beneficiary demographics have been women (70%), youth (42%) and the disabled (4%) in rural areas (78%). • Through its **Social Innovation Awards and Social Innovation Fund**, it supports innovators with solutions that can improve the quality of life with mentorship and funding. • The **Rural Catalyst Programme** focuses on creating rural logistics channels for social innovation products and small farming businesses in hard to reach areas. • Its **Tholoana Enterprise programme** supports enterprises with good long-term growth and high impact potential as well as operating in: i) sectors with export/import substitution offerings, ii) growth sectors, including water, energy, waste, education, technology and agro-processing; iii) identified growth areas. – Support is through seed funding and a two-year business support programme, including market linkage assistance. – About 60 entrepreneurs fully dedicated to their business (without other employment) are selected on an annual basis with eligibility criteria including black-ownership and management, in operation for between six months and five years, commercially sustainable and viable.

[121] With a market capitalisation of R107bn, Absa is one of the top five banks in South Africa with major operations in the rest of Africa

[122] Moneyweb, 2020; SAB Foundation, n.d.; 2020

Corporate Foundation	Description
Discovery Foundation[123] *Unlikely prospect for an IIWV given its specific focus on healthcare research and training.*	• An independent trust with a focus to strengthen the healthcare system by ensuring more people have access to specialised healthcare services. • Value of endowment estimated at R976m/£46.5m • Invested over ZAR189/GBP9 million in grants to support academic medicine through research, development and the training of medical specialists in South Africa and aims to invest R300m/£14.3 million towards specialised healthcare services over 20 years. • It is committed to South Africa's transformation objectives and allocating at least 75% of its support to black beneficiaries.
Anglo American[124] *Mining companies typically focus on social investment in the areas around their mining operations. However, Anglo's Impact Catalyst programme could be an interesting initiative to explore further for the IIWV.*	• Mining companies have had social investment programmes, particularly focused on the areas around their mines, for decades. Established in 1917, Anglo American (Anglo) is a FTSE100 company that started its corporate philanthropy activities in the 1950s in South Africa. • Since 2020, Anglo's foundation supports **programmes aligned with its Sustainable Mining Plan** focused on health and wellbeing, education, livelihoods, biodiversity and accountability and policy advocacy. • An initiative that points towards an angle where Anglo's work could be relevant for an IIWV, is the Impact Catalyst[125] focused on creating large scale, socioeconomic development initiatives through public-private partnerships across all sectors, but which seems to be targeted at partnering with provincial governments in South Africa. This initiative indicates a willingness to engage with partners to create impact beyond the mining value chain, but prospects for an IIWV will have to be further explored. • In response to Covid, the foundation joined its corporate sponsor in its itscontribution to Anglo American's Global Match Giving Programme and Regional Community Response Plans.

[123] Discovery Foundation, n.d.-a; n.d.-b

[124] Anglo American, n.d.; The Impact Catalyst, n.d.; Tshikululu, 2019

[125] An initiative founded by Anglo American, the CSIR, Exxaro, World Vision South Africa and Zutari

<table>
<tr><th>Corporate Foundation</th><th>Description</th></tr>
<tr><td>FirstRand[126] Foundations

The FirstRand group's social investment activities largely focus on addressing unemployment, inequality and poverty through systemic education investments. The absence of a small business or entrepreneur development focus makes it an unlikely prospect for an IIWV.</td><td>- The FirstRand Group's social investing structures include:
<table>
<tr><th></th><th>FirstRand Foundation</th><th>FirstRand Empowerment Foundation</th><th>FirstRand Staff Assistance Trust</th></tr>
<tr><td>Established</td><td>1998</td><td>2005</td><td>2005</td></tr>
<tr><td>Legal form</td><td>Independent corporate foundation</td><td>Independent BEE ownership trust</td><td>Independent staff assistance trust</td></tr>
<tr><td>Funding</td><td>1% of net profit after tax of FirstRand Limited (estimated at R173m/£8.2bn for 2020)</td><td>Dividends from endowment

Value of endowment[127]: Approximately R4bn/£190.5m</td><td>Dividends from endowment

Value of endowment: Approximately ZAR4bn/£190.5m</td></tr>
<tr><td>Spending and Focus</td><td>Spending of R247m/£11.8m in Group corporate social investment in community development (47%) and education (53%)</td><td>Spending was R110m/£5.2m to reducepoverty, unemployment and inequality through systemic social investments in the education sector (from dividend income).</td><td>Spending was R47m/£2.2m to assist black employees earninga salary package below a certain level and immediate family with education, healthcare and other needs.</td></tr>
</table></td></tr>
</table>

[126] FirstRand Group is one of the Top 5 banking groups in South Africa with a market capitalization of ZAR286 billion/GBP13.6 billion.
[127] Endowment vested in 2014

Corporate foundation	Description
Nedbank – Eyethu Community Trust	• The Eyethu Community Trust is a result of Nedbank's[128] BBBEE transaction concluded in 2005/6 and vested in 2015. • As an independent trust, it operates merged with Nedbank operations and specific information is not readily available from public sources. • The estimated value of its endowment is R405mn/£19.3m.

3.2.7 Other initiatives

Progressive corporate initiatives outside ESD and Foundations:

The CEO Initiative is one such an example of collaboration by a contingent of South African corporate businesses that pulled together to work with government in an attempt to put measures in place that would change South Africa's economic trajectory and avoid credit rating downgrades. Part of the solution was the establishment of the SA SME Fund (discussed in section 3.2.3) to which 50 corporates and the PIC committed capital to the value of R1.4bn/£67m. However, the initiative was of limited life and is not replicable.

Naspers, one of South Africa's corporate success stories[129], started **the Naspers Foundry** in 2018 which is helping to develop technology entrepreneurs who have solutions that improve people's daily lives. It committed R1.4 bn/£67m over three years with a focus on building the South African technology startup ecosystem that will grow local economies and create jobs and opportunities for South Africans, and thereby supporting technology start-ups with a focus on those that are black-owned. It has a longterm approach, proactively engaging with founders to help grow and scale their businesses[130].

Charitable trusts and foundations outside of BBBEE:

DGMT: DGMT is the family trust started by the Murray family (founders of Murray & Stewart, which later merged to become Murray & Roberts, currently one of South Africa's largest construction and engineering companies).

It's "Flying Nation" strategy is centred around people strategies that can support the next growth trajectory and as such its work looks at ways to create an innovative and inclusive society, including driving public innovation, early childhood developments and enabling the youth 'to get their first decent job'.

DGMT allocated R139m/£6.6m in funds to close to 160 larger projects (average grant size: R850,000/£4,000) and 408 small grants across the different priorities.

[128] Nedbank's market capitalization is ZAR67 billion/GBP3.2 billion, one of the Top 5 banks in South Africa

[129] Founded in 1915 as a publisher and printer of newspapers and magazines, it is now a global internet group and a major international technology investor. It has a market capitalization of ZAR1.7trillion/GBP80billion and listed on the JSE Limited,

[130] Moneyweb, 2021b; Naspers, 2018

3.2.8 High net-worth individuals and angel investing

Highnet-worth individuals

The top 10 richest people in South Africa are worth close to $30bn/£21.6bn and with such wealth have been applying their charitable monies through various entities and towards different purposes. Below are the most prominent ultra-high-net-worth families and individuals and how they are channelling their money towards development[131]. However, the majority of these efforts go towards high level advocacy, grassroots community development and support, funding other nonprofits, or specific sector or thematic initiatives, with education a high priority.

Person/family	Foundation	Description
Oppenheimer Family Wealth: $8.0bn/ G£5.6bn	Oppenheimer Memorial Trust[132]	Established in 1957, it focuses on education through scholarships and fellowship awards.
	Brenthurst Foundation[133]	Established in 2004, it drives the debate around policy strategies that can accelerate economic expansion in South Africa. Largely advocacy work.
	South African Future Trust[134]	Set up by Nicky and Jonathan Oppenheimer to provide direct financial relief of R1bn/£47.6m to employees of MSMEs in South Africa against loss of income as a result of the pandemic. **Administered by Absa**, the relief is provided in the form of a repayable, interest-free loan.
Rupert Family Wealth: $6.9bn	Michelangelo Foundation[135]	Johan Rupert is said to give away his entire salary(ZAR40m/ GBP1.2m) to charity each year.
	Sukuma Relief Programme	Focused on creativity and craftmanship and an international nonprofit organisation. Not relevant for an IIWV in South Africa. The Rupert family and Remgro (their investment company) donated R1bn/£47.6m for Covid relief to MSMEs. Thefacility is **managed by Business Partners Limited** (started by the Rupert family) and was fully subscribed within three days of launch.

[131] Briefly SA, 2021; BusinessTech, 2021
[132] The Oppenheimer Memorial Trust, n.d.
[133] The Brenthurst Foundation, n.d.
[134] Absa, 2020
[135] Michelangelo Foundation, n.d.

Person/family	Foundation	Description
Patrice Motsepe Wealth: $6.9bn	Motsepe Foundation[136]	The Motsepe Foundation was founded in 1999 by Patrice Motsepe and Dr Precious Moloi-Motsepe and they joined the Giving Pledge, started by Bill and Melinda Gates and Warren Buffett, and gave away half their family's fortune to the Foundation. The Foundation focuses on community development and education and supports schools and churches, gives bursaries to students from impoverished backgrounds and runs programmes in women empowerment, nature conservation and the health sector. Motsepe in partnership with associated companies[137] also pledged ZR1bn/£47.6m (matching Oppenheimer and Rupert) in the response to Covid-19 tasked with the primary objectives to save lives, curb the spread of the virus, as well as education infrastructure to relieve density in classrooms.
Michiel le Roux Wealth: $1.1bn	The Millennium Trust	A nonprofit organisation with the objective of contributing to the success of South Africa. It funds a broad range of projects on sectors and themes such as education and related services, non-racialism, rural democracy, investigative journalism and media, realization of socioeconomic rights, research, human rights, children's rights, corruption, constitutional rights and democracy, palaeosciences, conservation, sport, public policy, gun violence, land matters, regional and community development. An interesting project listed is around the PIC (Public Investment Corporation) and its role in the South African economy, focusing on determining the systemic implications of pension funds as large as the PIC[138].
Allan Gray (belated) Wealth: $1.8bn	Allan Gray Orbis Foundation	The foundation focuses on high impact, responsible entrepreneurship from perspectives of education, support and market linkages, and helping them to grow. Predominantly focused on youth entrepreneurs to whom it provides scholarship and fellowships. It is funded by a donation of 7% of net profit after tax of Allan Gray Limited and a further endowment trust capitalised with more than R1bn/£47.6m.
Christo Wiese Wealth: $1.1bn	Sponsors the Free Market Foundation	Founded in 1975, the Free Market Foundation is an advocacy group that promotes and fosters an open society, the rule of law, personal liberty and economic and press freedom. It works FNB to give people land tenure.
The above is not a comprehensive list of wealthy individuals who contribue to worthy causes. However, the predominant approach is through contributions to social and grassroots issues and there is very little indication that impact investing has been taken up in the family foundation environment, or such is not reported necessarily.		

[136] City Press, 2018; Motsepe Foundation, 2020
[137] Sanlam, African Rainbow Capital, African Rainbow Minerals and others
[138] Millenium Trust, n.d.

Investors

South Africa has an active angel investment network that compares favourably with many other emerging countries, but is still young compared to the American, European and Asian markets. Angel investors and high net-worth individuals provide financial support to entrepreneurs or start-ups in exchange for ownership or interest.

Leading associations active in the South African ecosystem include the Investment Network, Jozi Angels and the South African Business Angel Network, while there seems to be collaboration with other organisations such as the African Business Angel Network, SiMODiSA Start-up, Newtown Partners, Global Business Angels Network, the Allan Gray Orbis Foundation, Entrepreneur Traction, Silicon Cape Initiative and VC4A, as well as government's Technology Innovation Agency[139].

According to SAVCA's Venture Capital survey in 2020, angel investing makes up a small proportion of funds under management in the VC industry (5.7% of R2.34bn/£111.4m) and invests on average R2m per deal[140].

Who the actual investor angels behind the networks are is not that easily ascertained, partly because they are typically silent investors. Some lists include a significant number of names that could be further explored. Some of the more well-known names include[141]:

Michael Jordaan through Montegray Capital – ex-CEO of FNB (the retail banking arm of the FirstRand Group), but his fund was fully invested in 2018. It lists 26 partners, presumably investee companies.

Brett Dawson – a former head of Dimension Data (a large technology company in South Africa, he launched his investment company (Campan) in 2018 targeting the company to become a leading incubation hub for businesses in the Fourth Industrial Revolution that make a real difference to society. Deal sizes disclosed ranged between ZR4m/£190,000 and R10m/£476,000.

Abu Cassim, who is the founder of the network Jozi Angels, which represented 18 angel investors and had made 15 investments to the value of R 6m/£285,000 (average R400,000/£19,000)f targeting returns 5%-10% above listed stock exchange performance and transactional performance potential of 20x to 25x.

Llew Claasen of Newtown Partners, who is a blockchain expert and focuses on investing in disruptive technology start-ups. Newtown Partners lists 27 investments in its portfolios[142].

Daniel Guasco of Team Africa Ventures, which has a portfolio of 13 investments (including Lulalend, a fintech intermediary, for which the segment was discussed in the Investment and Regulatory landscape report)[143].

3.2.9 International foundations

Various international foundations are active in South Africa relating to a broad range of issues. Within a very competitive global market for grant or concessional capital from limited resources, these organisations typically issue specific competitions or programmes that align with their respective strategies (to which they stick religiously) and seek out the best concepts to support. They normally follow a 'no unsolicited proposal' approach in the context of their own financial and non-financial resource limitations. In addition to their normal grant-making programmes, some (not many though) international foundations have an impact investing arm

[139] Rateweb, 2021; South African Business Angel Network, n.d.

[140] SAVCA, 2020

[141] Ventureburn, 2018a

[142] Newtown Partners, n.d.

[143] Newtown Partners, n.d.

(in the US, this would be through Mission-related[144] or Programme-related[145] investments) under which they invest in private sector opportunities.

The narrow strategies of individual foundations mean that it is often a challenge to motivate their support for initiatives that only partially fit with their objectives. Accordingly, for purpose of this research, the focus was kept on international foundations that have been known to support private sector investments or have had a presence in South Africa, SGBs, impact investing and considering specific funding windows.

Table 9: International foundations with funding windows potentially relevant for IIWV in South Africa

Foundation/programme	Description
Catalytic Capital Consortium (C3) initiative[146] Current funding windows not directly related to the IIWV.	The MacArthur Foundation in partnership with Rockefeller Foundation and Omidyar committed $150m/£110m to the C3 initiative and has subsequently concluded its first funding round, making investments in nine projects of which seven were impact investing funds with ticket sizes between $5m and $10m. The next rounds are focused on research to strengthen the evidence base for catalytic capital and advancing practice. An open sourcing of ideas will be launched in 2021 focused on solutions that fall outside of other workstreams.
MasterCard Foundation[147] Current strategy not directly related to South Africa, but the country could be covered through regional activities.	Its Young Africa Works programme focuses on solutions for youth employment and poverty on the continent. In South Africa, their activities have mainly been focused on education through scholarships programmes as part of their Youth Employability and Entrepreneurship work. They also launched a Covid-19 Recovery and Resilience programme in 2020 with a focus on certain African countries, excluding South Africa, but it is mentioned that regional activities will cover non-priority countries. The programme focus includes expansion of access to finance for MSMEs, which could be an introduction point for the IIWV. However, a (seemingly) lack of priority focus on South Africa may make it difficult to secure their interest.

[144] Mission-related investments are made in opportunities that have both a social and financial return objective

[145] Programme-related investments have to meet a specific charitable objective and does not have to be a prudent investment

[146] MacArthur Foundation, n.d.; New Venture Fund, n.d.

[147] MasterCard Foundation, n.d.; 2020

Foundation/Programme	Description
Rockefeller Foundation[148] Rockefeller's Zero Gap initiative focused on leveraging private capital, together with a commitment to Africa, makes them an interesting potential partner for the IIWV.	The foundation plans to commit $1bn/£719m to Covid-19 recovery efforts over the next three years, but with the predominant focus on health initiatives, access to reliable energy and combating an escalating food crisis. $35m has been dedicated to 10 countries in Africa focused on these aspects. The Foundation has a specific Innovative Finance division that focuses on leveraging (at scale) the foundation's catalytic capital across a broad range of sectors and geographies through its Zero Gap Fund (in collaboration with MacArthur Foundation), which uses investments and grants. Average investment size is $4m and target private capital leverage is 17x.
Ford Foundation Ford Foundation would be a very interesting prospect to explore for the IIWV. It is, however, uncertain whether it is considering MRIs outside of the US at present.	In South Africa, the Ford Foundation focuses on gender, racial and ethnic justice as well as natural resources and climate change, which is more advocacy-focused work. However, Ford Foundation invests through its Mission-related investments (MRI), thereby dedicating a larger amount of their endowment to impact investing. Combined investment strategies of Diversity (in fund managers), financial inclusion and quality jobs are a strong indication of the IIWV's potential alignment with the foundation. It committed $1bn/£719m of its endowment over the next 10 years and targeting a 7% hurdle rate on MRI investments. An in-house team of six manages MRI and PRI activities.
Open Society Foundation[149] It is unclear whether the foundation or its impact investing arm is investing in South Africa at present or only focused on advocacy work. It would be worth enquiring.	George Soros' philanthropic work towards enabling open societies started in South Africa when he funded scholarships for black university students during apartheid (since 1979). Through its economic equity and justice programme, it had a $32.7m budget for Africa (23.9% of total programme budget) in 2020. The foundation's investment arm is the Soros Economic Development Fund. It is known that the foundation can carve out specific focus areas within a theme, sector or geography that informs a particular strategy cycle, which makes it difficult to fit broader impact ideas and vehicles to their objectives.

[148] Rockefeller Foundation, n.d.; The Rockefeller Foundation, n.d.

[149] Open Society Foundations, 2020

3.2.10 Banks

Five percent of South Africa's top five banks' balance sheets can fill the MSME financing gap in South Africa.

The challenges that banks face in effectively serving the MSMEs in South Africa was discussed in the Investment and Regulatory Landscape report. However, with R5.8trillion/£276 billion in savings at its disposal it is still the largest pool of capital in South Africa. In South Africa, around $16bn/£11.5bn of funding is available for MSMEs of which banks provide $11bn/£7.9bn (or 68.9%). A total MSME finance gap of $30bn/£21.6bn persists[150]. The Investment and Regulatory landscape report estimated that an allocation of 5.3% of their total balance sheets (combined value of R7.6trillion/£363bn) by each of the top five South African Banks could fill this gap.

Capital adequacy requirements, even more stringent under Basel III, are detrimental to MSME financing

However, banks are subject to capital adequacy and liquidity regulations that ultimately inform the risk and cost that they can take on in their operations. In particular, following the Global Financial Crisis in 2008, the Basel Committee on Banking Supervision, (BCBS)[151] brought out more stringent regulations in the form of the Third Basel Accord (or Basel III), which meant banks have to hold more capital. Capital adequacy rules assigning a risk weighting to each of a bank's assets proportionate to the credit and market risk of the respective assets. For MSMEs, this risk rating is relatively high compared to other bank assets and as a result, the bank has to hold more capital t often twice as much, to fund MSMEs. Capital efficiency through leverage is paramount for bank performance and therefore they will allocate funding with the lowest capital requirements and consequently the lowest risk, leaving MSMEs last in the queue of priority[152]. The graph below shows the increase in capital adequacy levels of South African banks over the past seven years, presumably as deterioration in the economy elevated risk of banks' assets[153]. Under the effects of Covid-19, one would expect even high levers.

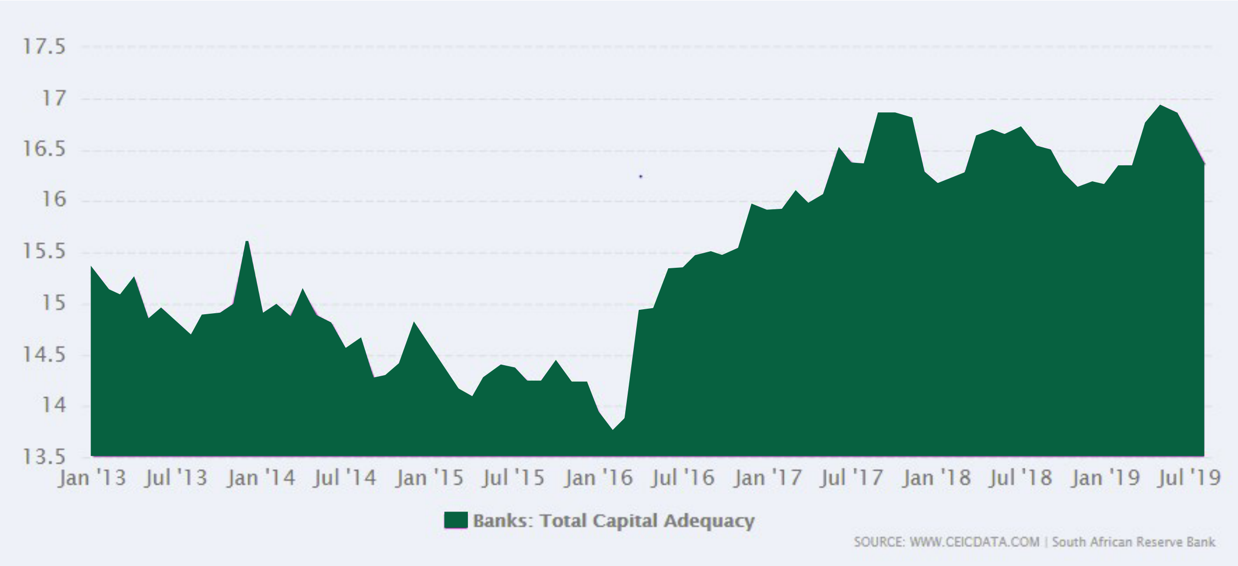
[150] International Finance Corporation, 2018

[151] BCBS is the primary global standard setter for the prudential regulation of banks.

[152] ANDE, 2017

[153] CEIC, 2021

Figure 11: Capital adequacy ratios for South African banks over the past seven years



DFIs have been working with banks to increase MSME finance through dedicated funding lines and guarantees.

Reducing the risk of MSMEs is therefore important to mobilise more bank funding into the segment. International and local DFIs have been working with South African banks to put in place guarantees or blended finance instruments that reduce the risk and cost inherent in the segment, but banks are also of the view that Government should play a greater role in designing guarantee schemes that address the unique context of MSMEs in South Africa[154]. Without external support banks are, however, not incentivised to expand MSME lending on their own.

Examples of schemes to banks focused on MSMEs include:

R200bn/£9.5 billion loan guarantee scheme from the government of South Africa to banks to provide relief in response to Covid-19. However, only 8% of available funds had been approved by October 2020; a disappointingly low deployment level[155].

Sefa offers guarantee schemes to banks through its wholesale lending division, which was launched in 2018. As at the end of 2020, its guarantee facilities have growth to R249m/R11.9m to a range of financial intermediaries, but including schemes with Absa, FNB, Standard Bank, Nedbank and Mercantile Bank[156]. Banks are showing support for the government initiative, but it is still a very low level of banking participation considering the size of their balance sheets.

IFC's SME Push programme (launched in 2017) is targeting to channel up to $5–7bn/(£3.6–5bn) into South Africa over five to seven years to increase lending to MSMEs by partnering with financial institutions[157]. IFC has provided FNB with two facilities - an initial R2.6 bn/R40bn loan and a second R1.2bn/£57m facility through a syndicated loan facility and incentives to reach women-owned businesses[158]. Funding of R740m/£35m had been extended to Mercantile Bank, but no further announcement has followed since 2018[159].

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[154] International Finance Corporation, 2018
[155] Cunha et al., 2020
[156] Small Enterprise Finance Agency, 2020
[157] IFC, 2019a
[158] FNB, 2017; IFC, 2018a
[159] IFC, 2018b

"AFD and Proparco's Choose Africa initiative include a EUR1.5 billion/GBP1.3 billion allocation to financial institutions (including micro-enterprises/microfinanciers) of which EUR600m/GBP520m is in the form of credit lines and EUR900m/GBP782m as guarantees to support access to credit for MSMEs[160]. FirstRand Group has been a long-term banking partner of Proparco in South Africa and have recently been part of a project to set up a USD 50m senior credit line to provide long-term resources to finance growth in the bank's SME portfolio."

FMO has launched the NASIRA guarantee scheme that aims to support young, female and migrant entrepreneurs in Sub-Saharan Africa and neighbouring countries of Europe. South Africa falls within the focus geographies and Sasfin, an SME-focused bank, was the first to benefit with a seven year, $35m/£25m facility. The guarantee scheme will provide up to E500m/£435m cover for up to 95% of local banks' portfolios[161].

Certain questions of sustainability of such efforts have to include: do banks have the will and incentives to incorporate MSMEs in their lending books without external support? Will MSMEs reach the right risk profile for banks to include them on their balance sheet without external support? Is the shift needed in bank operating models possible to adapt to servicing MSMEs? Can development monies be better applied to developing alternative MSME financing models at scale?

3.2.11 Actors that support the supply of capital

Effective industry associations are important players representing the interests of an industry to different stakeholders. It's in-depth knowledge, access to data and networks and, in some instances, research capabilities contribute to the promotion of the interests of the industry as well as linking different stakeholders.

For purposes of an IIWV that itself has a market development mandate, industry associations are important touchpoints to get to know the respective pools of capital and promote impact investing and a mandate for SGBs; a segment underserved by these pools of capital, yet an important developmental challenge in South Africa, which is faced with poverty, unemployment and inequality.

Relevant industry bodies from a private sector supply of capital perspective include the following:

The Association for Savings and Investment South Africa (ASISA) was established in 2008 with a mission to promote a culture of savings and investment in South Africa. It represents the savings, investment and insurance industries and does considerable work around research, education and training, promoting best practices in the industry, collaborating with stakeholders (including government), promoting healthy competition and engaging on policy and regulatory issues[162].

Batseta is a nonprofit organization that focuses on the interests of principal officers, trustees and fund fiduciaries within the retirement industry. Batseta focuses on industry leadership, training and skills development, research, best practices and tools, promoting governance and compliance, facilitating discussion and networking, and promoting active ownership by its members[163].

The Banking Association of South Africa (BASA) represents the interests of the industry with its regulators, legislators and stakeholders, to make banking sustainable, profitable and better able to contribute to social and economic development and transformation in South Africa. It is active in advocacy for the industry on legislation, regulation and social and economic issues, contributes to establishing a stable, conducive policy and business environment, it canvasses its members through committees and work groups, promotes sustainable transformation and helps find sustainable solutions to the challenges of poverty, unemployment and inequality by mobilising the skills and resources of the industry.

[160] AFD Group, n.d.
[161] FMO, n.d.; 2020
[162] Association for Savings and Investment South Africa, n.d.
[163] Batseta,n.d.-b; n.d.-a

The Southern African Venture Capital and Private Equity Association (SAVCA) represents 170 members in Southern Africa, who collectively manage in excess of R185bn in private equity and venture capital assets. SAVCA promotes Southern African private equity and venture capital by engaging with regulators and legislators on a range of matters affecting the industry; providing relevant and insightful thought leadership and research on aspects that impact the industry; offering training and capacity building opportunities to stakeholders in the ecosystem; and by creating meaningful networking opportunities for industry players, investors and capital seekers.

A relevant example of the conversation that an association can drive through its interactions with its members, which is relevant for the discussion around an IIWV in South Africa can be seen in Batseta's Virtual Conference in 2020, where the agenda was filled with topics, including infrastructure as an investable asset, impact investing, ESG/sustainable investing and private equity (an alternative asset with small allocations from the retirement fund industry). The fact that these topics are not only raised, but dominate the agenda of the retirement fund industry's conference, is a positive development for impact investing, an IIWV and the SDGs[164].

[164] BATSETA, 2020

ANNEXURE

Annexure A: Glossary of terms

Blended finance	Blended finance is the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries [165]
Impact investing	Impact investments are investments made with the intention to generate positive, measurable, social and environmental return alongside financial return. Impact investing refers to the growing impact investment market that provides capital to address the world's most pressing challenges across various sectors and themes and are typically aligned to the SDG 2030[166]. They reach over a risk-return-impact spectrum, including responsible and sustainable investing on a more commercial end and initiatives that specifically contribute to sustainable solutions on the impact-driven end[167].
IMM (impact management andmeasurement)	IMM is the process of understanding the intended and unintended effects one's business activities have on people and the planet; devising approaches to lessen negative and maximise positive impacts, and setting in place the goals, strategies, metrics, targets and data management capabilities to effectively manage, measure and report impact performance to stakeholders, while incorporating learnings to improve IMM and impact performance[168.]
Impact wholesalers	An impact investment wholesale vehicle/fund of funds (FoF) is a purpose-built investment vehicle comprising 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. Four characteristics define impact wholesalers: i) it invests indirectly (in funds or other intermediaries), but may also invest directly in social enterprises; ii) it is designed to crowd-in capital from other investors; iii) it measures, manages and reports impact and financial data; iv) it has a market-building mandate to develop impact investing[169].

[165] Organisation for Economic Co-operation and Development, n.d.
[166] GIIN, n.d.
[167] United Nations Development Programme, 2020a 168 Global Steering Group for Impact Investing, 2018
[169] Global Impact Investing Network, n.d.-a; Global Steering Group, 2018

Investors	For purposes of this report, investors refer to public and private owners or aggregators of capital representing a broad spectrum of potential suppliers of impact capital. The investor universe is purposefully not limited to investors specifically seeking impact investments or providing philanthropic funding, but extends to organisations that have adopted responsible or sustainable investment practices. Such investors seek to make direct or indirect investments and have varying financial return and impact or development objectives, typically illustrated along a risk-return-impact continuum or spectrum [170]. Investors may, inter alia, include development agencies, foundations, multi- and bilateral development banks and financial institutions, institutional investors (including asset managers), highnet-worth individuals and corporates.
Responsible investing	Investors who seek competitive risk-adjusted financial returns while adoptingpolicies and principles to avoid harm by attempting to avert or decrease major negative effects on people and the planet [171].
SDG 2030	The 2030 Agenda for Sustainable Development, adopted by all United Nations Members States in 2015 (United Nations Department of Economic and Social Affairs, n.d.).
Sustainable investing	Investors who seek competitive risk-adjusted financial returns while adopting policies and principles to not only avoid harmful effects, but generate positive outcomes from its activities that will benefit people and the planet[172].
SGBs (Small and growing businesses)	ANDE defines small and growing businesses as commercially viable businesses with five to 250 employees that have significant potential and ambition for growth, and seek growth capital between $20,000 and $2m, which translates to approximately R300,000 to R30mn at current dollar/rand exchange rates. ANDE further clarifies distinguishing characteristics of these businesses being a growth objective and lack of access to financial and knowledge resources required for growth[173]. Typically, SGBs are not defined in each country and would fall within the SME segment. SME segment definitions differ in global and local as well as public and private contexts. For purposes of this report, the ANDE definition of SGBs will represent the target segment of the project, while SME data will be reflected as defined in different research reports. At a high level, the researcher overlaps the ANDE definition with that of the IFC definition of SMEs, being 10 to 300 employees, turnover and assets between $100,000 and $15mn, and loan proxy sizes from <$100,000 to $2mn [174], which aligns with the ANDE definition. SGBs are also often associated with the "missing middle", i.e. those businesses that are too small for private equity, lack collateral and track record for traditional bank finance, but too large for micro-finance.

[170] United Nations Development Programme, 2020b
[171] Impact Management Project, 2018; United Nations Development Programme, 2020a
[172] Impact Management Project, 2018; United Nations Development Programme, 2020a
[173] Aspen Network of Development Entrepreneurs, n.d.
[174] International Evaluation Group, 2019

Annexure B: Methodology

Hypothesis

This report forms part of a broader project looking at the feasibility of an impact investing wholesale vehicle (IIWV) that aggregates different pools of capital with varying risk/return expectations working together under a collective investment mandate to bring about impact in an intentional, measurable manner in South Africa, the impact focus being small and growing businesses (SGB) as underserved drivers of economic growth and job creation.

The hypothesis of the research is centred around the global call for private capital to contribute to the SDG agenda and a growing trend of awareness by private capital markets indicating that more funding can be unlocked if the (primarily risk) constraints of investors are addressed.

Purpose

This research aims to an initial assessment of the supply-side factors of capital in South Africa to inform whether an IIWV could be an attractive investment proposition for such investors, and focuses on:

- identifying potential suppliers of capital to an IIWV;
- quantifying the potential pools of capital;
- determining factors that restrict the allocation of capital to an SGB investment strategy;
- extracting examples of progressive initiatives that evidence that such capital pools have the potential to be routed towards an IIWV;
- informing further actions needed to engage such potential investors in determining the feasibility of an IIWV.

Research method approach

This research is based on a comprehensive, in-depth literature review from publicly available sources. Data collected from these sources are qualitative and quantitative data, all from secondary sources. The data was interpreted and contextualised, but not statistically analysed or independently verified.

Data sources in the form of reports, studies, working papers, news articles and web pages were reviewed.

Segmentation approach

The research focused on various investment segments, international and domestic, public as well as private, and across the capital spectrum from concessionary to market return-seeking. An adaptation of the risk-return-impact continuum was used to categorise and estimate the market size for the respective pools of capital. The framework below was used to identify key topics for exploration on each segment. The level of detail could not be ascertained for each segment in which case, alternative data, examples and descriptions were used to explain the size, opportunities and constraints for each segment.

Size of assets	How large is the segment and how does it relate to the MSME segment?
Asset allocation	Where do these investors place their capital and what do investees look like?
Regulatory landscape	How does regulation shape the segment?[175]
Investment processand decisionmaking	How are investment decisions made and what guides such decisions? What is the role of asset consultants in investment decisionmaking?
Financial objectives	What are the risk-return expectations? What are typical criteria for risk profiling? Howdoes this affect asset allocation?
Impact objectives	What are their ESG, impact and transformation objectives? What tools and methodologies help frame and assess impact?
Challenges, opportunities, trends (incl Covid)	What is the outlook for the segment?

The investor segments reviewed included:

Retirement funds as one of the largest managers of savings and investments in South Africa;

Insurance companies, both life and non-life, that receive insurance premiums;

Banks as the largest holders of savings/deposits;

Government DFIs and other government funders that have specific SGB development mandates and potential complementary or even catalytic investors to large private capital providers;

Corporate initiatives and foundations, including BBBEE trusts that have received endowments in the form of shares in their sponsoring companies, which are managed with specific social objectives;

Highnet-worth individual initiatives and angel investing taking progressive steps in support of SGB and entrepreneurship development in South Africa;

International DFIs leading the SDG development agenda in developing countries and promoting the mobilisation of commercial capital through innovative financing structures (blended finance);

International foundations that often drive high impact, catalytic mandates; and

Actors that support the supply of capital within different investor segments, particularly private capital markets.

[175] Part of the IIWV Project is intended to assess the impact of regulation and in particular, in South Africa, the role of voluntary disclosure of Unclaimed Assets

Annexure C: References

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