THE LANDSCAPE FOR IMPACT INVESTING IN SOUTHERN AFRICA
This project was funded with UK aid from the UK Government through the Department for International Development’s Impact Programme. The Impact Programme (www.theimpactprogramme.org.uk) aims to catalyze the market for impact investment in sub-Saharan Africa and South Asia.

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We would especially like to thank our interview participants. Without their key insights this report would not have been possible. We include a full list of interviewees in the Appendix.

For any questions or comments about this report, please email Rachel Bass at rbass@thegiin.org.

GIIN Advisory Team

Abhilash Mudaliar, Research Manager
Kimberly Moynihan, Senior Associate, Communications
Rachel Bass, Associate, Research

Open Capital Advisors

Annie Roberts, Partner
Nicole DeMarsh, Principal
### COMMON ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFD</td>
<td>Agence Française de Développement (French Development Agency)</td>
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<td>AfDB</td>
<td>African Development Bank</td>
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<td>BIO</td>
<td>Belgian Investment Company for Developing Countries</td>
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<td>BoP</td>
<td>Base of the Pyramid</td>
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<tr>
<td>CEPGL</td>
<td>Communauté Économique des Pays des Grand Lacs (Economic Community of the Great Lakes Countries)</td>
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<tr>
<td>COMESA</td>
<td>The Common Market for Eastern and Southern Africa</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>DFI</td>
<td>Development Finance Institution</td>
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<td>DFID</td>
<td>The Department for International Development (United Kingdom)</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<td>ESG</td>
<td>Environmental, Social, and Governance</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>FMCG</td>
<td>Fast-Moving Consumer Goods</td>
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<td>FMO</td>
<td>Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Netherlands Development Finance Company)</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GIIRS</td>
<td>Global Impact Investing Ratings System</td>
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<td>GIZ</td>
<td>Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)</td>
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<td>HDI</td>
<td>Human Development Index</td>
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<td>ICT</td>
<td>Information and Communication Technology</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>LP</td>
<td>Limited Partner</td>
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<td>MDG</td>
<td>Millennium Development Goal</td>
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<td>MFI</td>
<td>Microfinance Institution</td>
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<td>MSME</td>
<td>Micro, Small, and Medium-Sized Enterprises</td>
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<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>OFID</td>
<td>OPEC Fund for International Development</td>
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<td>OPIC</td>
<td>Overseas Private Investment Corporation (United States)</td>
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<td>PE</td>
<td>Private Equity</td>
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<td>PPA</td>
<td>Power Purchasing Agreement</td>
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<td>PPP</td>
<td>Purchasing Power Parity</td>
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<td>PTA</td>
<td>Preferential Trade Area Bank</td>
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<td>RFP</td>
<td>Request for Proposal</td>
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<td>SACCO</td>
<td>Savings and Credit Co-operative</td>
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<td>SGB</td>
<td>Small and Growing Business</td>
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<td>SME</td>
<td>Small and Medium-Sized Enterprises</td>
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<td>SOE</td>
<td>State-Owned Enterprises</td>
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<td>TA</td>
<td>Technical Assistance</td>
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<td>UN DESA</td>
<td>United Nations, Department of Economic and Social Affairs</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations’ Conference on Trade and Development</td>
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<td>USAID</td>
<td>The United States Agency for International Development</td>
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<td>VAT</td>
<td>Value-Added Tax</td>
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<td>VC</td>
<td>Venture Capital</td>
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<td>WASH</td>
<td>Water, Sanitation, and Hygiene</td>
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<td>WHO</td>
<td>World Health Organization</td>
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### COMMON TERMS

- **Early-stage business**: Business that has begun operations but has most likely not begun commercial manufacture and sales.
- **Focus countries**: Countries under study wherein non-DFI impact investors are most active, namely Madagascar, Malawi, Mozambique, South Africa, Zambia, and Zimbabwe.
- **Growth-stage business**: Company has a functioning business model, and its current focus is developing new products / services or expanding into new markets.
- **Mature business**: Profitable company with a developed and recognizable brand.
- **Non-focus countries**: Countries covered by the study but that have limited non-DFI impact investor activity, namely Angola, Botswana, Lesotho, Mauritius, Namibia, and Swaziland.
- **Venture-stage business**: Sales have begun but cannot sustain the company’s operations. The business model is still being aligned with the realities on the ground.
DEVELOPMENT FINANCE INSTITUTIONS (DFIs)
CHANNELING CAPITAL AND SUPPORTING ECOSYSTEMS
# TABLE OF CONTENTS

About this Report ................................................................. 2

Background and Methodology .................................................. 3
  Incentives and Drivers .......................................................... 4
  Political Influences ............................................................. 5
  Capital Allocation and Investment Targets .............................. 5
  Additionality and Private-sector Inclusion ............................. 6

Impact Approach of International DFIs and Influence
on the Broader Impact Sector .................................................. 7

DFI Investment Activity .......................................................... 10
  Investments by Geography ................................................... 11

Domestic DFIs in South Africa ................................................ 12
  Investments Over Time ....................................................... 14
  Deal Size ........................................................................... 15
  Sector ................................................................................. 16
  Instrument ........................................................................... 18
ABOUT THIS REPORT

MOTIVATION

The impact investing industry has grown in prominence over the last decade, and impact investors globally have developed substantial and particular interest in sub-Saharan Africa, given the region’s strong potential for investments to drive positive social and environmental impact. Despite strong interest, relatively little research has examined impact investing markets at the country level within the continent. This type of granular information is essential to investors currently operating in the region or considering investments there in the future.

This study provides detailed information on impact investing activity across 12 countries in Southern Africa. For each country, the report examines impact investing capital disbursed at the time of data collection in mid-2015 (by sector, size, and instrument), analyzes key trends in the industry, and describes the challenges and opportunities available for social enterprises and impact investors. Political and/or economic circumstances may have changed since initial data collection.

SCOPE

As defined by the GIIN, impact investments are “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.” A commitment to measuring social or environmental performance is considered a hallmark of impact investing. Investors who do not meet this definition have not been included in this report's analysis.

Development finance institutions (DFIs) are important actors in the impact investing landscape, providing large amounts of capital both through direct impact investments and through indirect investments through other impact capital vehicles. Because of their large size and unique nature, this report analyzes DFI activity separately from the activity of other types of impact investors.

METHODOLOGY

This report relies heavily on primary research, including more than 60 interviews with local and international impact investors, social enterprises, ecosystem players, and government institutions. The research team also examined publicly available primary information, including analyzing investor documents and reviewing organizational websites and press releases to compile a comprehensive database of impact investing activity across all 12 countries in Southern Africa. Overall, this report includes data regarding the activities of 25 DFIs and 81 non-DFI impact investors, totaling over 8,600 transactions including substantial activity from DFIs based in South Africa.

More detailed information on methodology and scope is provided in the ‘Introduction & Methodology’ chapter. All chapters of this report can be found at www.thegiin.org.
BACKGROUND AND METHODOLOGY

Development finance institutions (DFIs) are government-funded investment corporations that combine the broad development objectives of traditional multilateral aid agencies with the commercial approach taken by private-sector banks and investors. DFIs are mostly funded by governments, though some also raise capital from private investors. As a result, the regions, sectors, businesses, and types of project they target often reflect the political environments in their home countries. In many cases, DFIs are expected to sustain their operations and growth from their investment returns. Expecting future injections of capital to be limited, DFI investment managers—like other impact investors—focus on investments that offer both attractive financial returns and social and/or environmental impact.

Given their long history, DFIs may be considered the first active impact investors, both globally and in Southern Africa (see Figure 1 for some example DFIs active in the region). In addition to direct investments, they provide capital to other impact investors (and especially to fund managers), catalyze the flow of private capital into new markets, and work with national governments to shape their investment policies.

FIGURE 1. SAMPLE DFIs ACTIVE IN SOUTHERN AFRICA

Due in part to the large assets that they manage, DFIs tend to have average deal sizes much larger than those of non-DFI impact investors, which makes it difficult for certain DFIs to invest directly in small- and medium-sized enterprises (SMEs). In response to this challenge, in the late 1990s and early 2000s DFIs increasingly began to invest in funds (both conventional and impact) focused on investing in smaller, earlier-stage businesses. This indirect approach allows DFIs to allocate capital specifically to SMEs and private-sector development while maintaining a large investment ticket size.
A NOTE ON METHODOLOGY

Definitions of the term “DFI” vary substantially. The present analysis considers a DFI to be any predominantly publicly funded or owned investor that makes direct investments in private-sector companies and provides capital through any combination of equity, debt, or guarantees with an explicit goal to achieve social and/or environmental impact alongside a financial return. This definition excludes multilateral aid, direct loans to governments, pure development programs, and loans to individuals. In cases where a DFI both makes private-sector investments and funds governments directly, only their private-sector investments are considered here. Private-sector investments include placements into parastatals and other corporations wholly or partially owned by governments.

Due to substantial and unique DFI activity in South Africa, this report distinguishes “domestic South African DFIs” from “international DFIs.” Major domestic South African DFIs include the Industrial Development Corporation (IDC), the Development Bank of Southern Africa (DBSA), and the National Empowerment Fund (NEF), as well as smaller domestic DFIs. These are government-funded development finance organizations based in South Africa and investing across the region. Though the Land and Agricultural Development Bank of Southern Africa (LADBSA or Land Bank) does strongly focus on development, its deposit-taking and retail-banking services mean it does not strictly fit the present definition of a DFI as a government-funded institution investing exclusively in businesses or projects. Its disbursements are therefore not included in the figures here.

International DFIs are national or regional DFIs that are funded primarily by the governments of nations that are not in the Southern Africa region. This analysis excludes national development corporations in Southern African countries besides South Africa due to limited publicly available data and less explicit narratives regarding impact.

Incentives and Drivers

The public genesis of DFIs shapes their strategic incentives and investing behavior. Unlike private funds, which often close at a finite size and have specific objectives, DFIs are often open-ended, in terms of both annual funding and their investment philosophies. Motivated by development, DFIs seek investments in markets where others struggle to invest, but they also seek commercial returns. Several factors influence their ongoing behavior, as described below.
Political Influences

Many DFIs are funded in large part—often entirely—by their respective governments. In many cases, they are directly subordinate to national ministries of finance or to development agencies. As a result, national development agendas strongly influence their investment strategies. Political influence applies equally to multinational DFIs, like the International Finance Corporation (IFC) or the African Development Bank (AfDB), the governing boards of which comprise high-ranking representatives of member governments. At the same time, governments often look to multinational DFIs to define standards and guidance for their national DFIs. This serves to shape DFI strategy in the following ways:

• **Changing investment objectives:** As DFI investment strategies are shaped by government agendas, they can fluctuate over time. Many DFIs revise their overarching investment strategies over cycles, typically between three and 10 years. Unexpected strategic changes can occur when new political leadership is inaugurated, either at the country or group level (for example, World Bank leadership may dictate IFC’s direction).

• **More stringent risk standards:** Public scrutiny over government funds means that DFIs must consider reputational risk. Many DFIs have adopted stringent risk standards and vetting procedures to avoid directly or indirectly channeling funds to politically sensitive recipients or high-risk ventures. This limits DFIs’ ability to work with early-stage businesses or in sectors such as agribusiness that often have high market concentration around a few incumbents with a long tail of smaller and less-established growth-stage businesses. However, as shown later in this chapter, some DFIs are developing new strategies to channel capital towards smaller organizations.

Capital Allocation and Investment Targets

Though their investment philosophies do evolve with the political priorities of their home governments, DFIs often have very specific investment targets by sector, geography, and time frame. These investment quotas 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. In Southern Africa, as in most emerging markets, this appetite for large deals naturally attracts DFIs to capital-intensive industries, such as energy, manufacturing, and infrastructure.

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The open-ended nature of DFI portfolios reinforces this focus. Because of political agendas and budget cycles, governments generally re-capitalize DFIs at neither predictable intervals of time nor amounts. Many DFIs therefore must rely on portfolio returns to cover overhead expenses, even while also investing in sectors that fit with their development mandates and that do not distort local markets. This emphasis on profitable impact lends itself to large investments in infrastructure, where strong government ties and regulatory controls portend relatively stable income streams, and in financial services, where investees are often already well-integrated into local markets.

Additionality and Private-sector Inclusion

DFIs’ parent governments and international organizations recognize the potential for DFI activity to distort private markets with their large amounts of public capital. Their response to this concern is to seek “additionality,” the principle that DFIs should only be active in regions, sectors, or segments that are challenging for other, private-sector capital sources to address. At the same time, through their actions, DFIs also seek to galvanize and crowd-in private-sector investors. Examples of such strategies include:

• **Catalyzing underserved markets:** DFIs are typically reluctant to provide capital where private-sector funding is already well-established. This has led many DFIs to intensify their focuses on frontier, fragile, and conflict markets (see, for instance, the IFC’s Conflict Affected States in Africa Initiative, a multilateral DFI effort to support business growth in challenging African markets). As a result, DFIs have disbursed a larger share of their capital to countries besides South Africa than have non-DFI investors, with the exception of the investment landscape in Zimbabwe, Angola, and Swaziland, where political concerns have made it difficult for DFIs to engage (see section below on DFI investment activity).

• **Syndicated loans:** Several DFIs offer syndicated loans that include third-party, private-sector financial institutions as co-lenders in their investments. Under this structure, when a DFI makes a loan, it retains a portion of the loan for its own account (the “direct” loan) and sells the remainder (the syndicated loan) to participating financial institutions, such as banks. This provides syndication participants with lower default risk through the DFI’s status as a strong creditor while enlarging the pool of capital available to borrowers. This structure’s main challenge is how to incentivize local financial players to participate, particularly in markets where commercial rates are significantly higher than rates on the DFI loans, as is often the case in emerging economies.

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• **Asset management products**: In an effort to mobilize more private-sector funding for development finance objectives, several DFIs have launched asset management services in recent years. The IFC launched an asset management arm in 2009 and has since raised six funds, with over USD eight billion under management and funded by pension funds, insurance companies, and other private-sector actors in addition to public and quasi-public institutions. Through these funds, IFC has disbursed close to USD five billion across 68 investments globally, around USD 190 million of which has been in Southern Africa. More than 90 percent of the assets under management are available for investment in the Southern Africa region, although this capital does target emerging markets globally. Following IFC’s pioneering role, the AfDB has planned a USD 10 billion fund to mobilize private capital for infrastructure.

• **Public-private co-financing**: Some DFIs make investment conditional on third-party co-financing. The DFI will commit an anchor investment, typically for a minority stake, and then use its preferred-creditor status and strong reputation to encourage external, often private-sector investors to join deals that would not otherwise fit their risk profiles. Conversely, DFIs will also provide debt project financing once private entrepreneurs have committed sufficient equity.

### IMPACT APPROACH OF INTERNATIONAL DFIs AND INFLUENCE ON THE BROADER IMPACT SECTOR

DFIs have a direct mandate from governments and intergovernmental organizations to promote international development. Evaluating their success in this regard requires a formalized methodology to measure impact. All of the DFIs with direct investment activity in Southern Africa stipulate minimum impact requirements for their investment targets. Broadly, their methods for measuring impact can be grouped into two categories, though individual DFIs may use different terminology:

1. **Environmental, Social, and Governance (ESG) monitoring**: This is the broadest method of measuring impact used by DFIs. Investees are required to meet threshold requirements limiting environmental damage, safeguarding human rights, and promoting fair and transparent governance structures. The specific

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metrics often vary according to the DFI and target company in question. Target companies that do not meet these requirements often receive technical assistance to help build the necessary structures for compliance.

As part of its Sustainability Framework, the IFC formulated a set of eight performance standards that investees are required to meet while they are receiving funding. These standards form the basis by which most DFIs set their ESG standards. The eight standards across which the IFC requires investees to meet minimum requirements are:

- Assessment and management of environmental and social risks and impacts;
- Labor and working conditions;
- Resource efficiency and pollution prevention;
- Community health, safety, and security;
- Land acquisition and involuntary resettlement;
- Biodiversity conservation and sustainable management of living natural resources;
- Protection of indigenous peoples; and
- Safeguarding of cultural heritage.

In addition, many other common standards, such as the European Development Finance Institutions’ (EDFI) Environmental and Social Standards, are derived from this IFC framework.

2. **Specific impact objectives:** The ESG- or IFC-type frameworks above are intended to ensure that financially attractive investments meet minimum social and environmental standards. However, some DFIs have recently begun to allocate funds proactively in order to achieve specific impact objectives using a broad variety of approaches.

For example, FMO, the Dutch government DFI, has a twin focus on both job creation and reducing greenhouse gas emissions. As another example, the Department for International Development (DFID) recently launched its Impact Fund, a CDC-managed fund-of-funds that aims to invest up to GBP 75 million in impact funds across sub-Saharan Africa and South Asia. Another DFI, the US-based Overseas Private Investment Corporation (OPIC), recently conducted a thorough segmentation of its investment portfolio in order to better understand its impact. While OPIC concluded that all of its investments have “positive development impact,” it found that its investments in “high-impact sectors”—those that have been identified as particularly environmentally and socially beneficial—accounted for more than two-thirds of its investments in 2013.

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A critical component of DFIs’ philosophies of development and impact is to nurture the private sector by fostering SME growth. In South Africa, many SMEs are able to access funding through local banks and domestic DFIs, but there remains a wide SME financing gap across the rest of the region (described in more detail in individual country chapters) that international DFIs have attempted to fill. However, accompanying the financing of smaller businesses are relatively higher diligence costs, a lack of the security and assurances typical of public-sector projects, and a need for more flexibility than DFIs are typically able to accept. Addressing these constraints, DFIs have responded by funding impact fund managers (Figure 2), particularly those focused on SME investments.

**FIGURE 2. DISCLOSED DFI FUNDING OF IMPACT FUNDS ACTIVE IN SOUTHERN AFRICA**

![Graph showing disclosed DFI funding of impact funds in Southern Africa]

Note: Incomplete reporting at the time of writing meant that the research team was unable to find capital disbursed data for DFI funding of impact funds in 2015.

Source: Open Capital research, organization websites.

The prevalence of DFI funding in Southern Africa’s impact investing ecosystem has important implications (both positive and negative) for managers of impact funds:

- **DFI importance:** DFIs are a major driver of impact capital committed to Southern Africa via impact funds (see Figure 2). Not only have they provided capital directly to impact funds, but they also often provide anchor investments that allow fund managers to raise the balance of their funds from other sources, such as commercial or philanthropic private investors. Correspondingly, this makes the landscape of impact funds somewhat vulnerable to changing DFI priorities. Few of the actors interviewed for this report believe that this reliance on DFIs will change until impact funds are able to demonstrate the kinds of commercial returns that would make the sector attractive to larger institutional investors, such as pension funds.

- **Fund manager homogeneity:** While many DFIs have funded impact funds in Southern Africa, the majority of capital has come from a small group of particularly active players. Two international DFIs account for over 75 percent of disclosed capital disbursed specifically to impact fund managers active in Southern Africa. This concentration of capital and the resulting influence exerted by this small group led several fund managers in the region, in interviews, to observe that
impact funds become homogenized as they—dependent on DFI anchor capital—look to align themselves with DFI expectations. The resulting similarities between funds exacerbate the perceived shortage of investment targets, as multiple investors pursue and indeed are constructed to pursue similar deals.

DFI INVESTMENT ACTIVITY

Uniquely in the region, South Africa has several large, highly active domestic DFIs that, in some cases, have been investing in businesses since the beginning of the last century (see the sidebar for brief descriptions of these DFIs). In fact, the three major return-seeking DFIs based in South Africa have together disbursed more capital in the region than all international DFIs combined. Of almost USD 34 billion disbursed in the region by DFIs, over USD 17 billion (or 51 percent) has come from DFIs owned or funded by the South African government (see Figure 3).

Including both domestic and international DFIs, 26 DFIs have publicized investments in Southern Africa, but the industry is remarkably concentrated. Two South African DFIs and three international DFIs combine to account for almost 90 percent of DFI capital disbursed in the region (see Figure 4).

Incomplete reporting at the time of writing meant that the research team was unable to find capital disbursed data for DFI funding of impact funds in 2015.

Source: Open Capital Research

Investments by Geography

Although many interviewees commented that the high availability of capital in South Africa from domestic DFIs, the banking sector, and Broad-Based Black Economic Empowerment (BBBEE) initiatives has crowded out international DFI funding, South Africa still accounts for a large majority of international DFI capital disbursed in the region. Specifically, of the USD 16.7 billion that international DFIs have disbursed in the region, almost USD 10 billion (roughly 60 percent) has been placed in South Africa. Reflecting the large disparities in market size and maturity between South Africa and the region, this amount of placed capital is almost six times higher than that placed in Zambia, the country with the next-most disbursed capital from international DFIs (see Figure 5). South Africa has also seen the largest number of international DFI deals (187 out of 654 total deals), even though, at 30 percent, its relative share of the total number of deals is lower than its share of capital disbursed. Furthermore, many international DFIs cover South Africa as an entirely separate mandate from the rest of the region, with separate investment teams, targets, and objectives, suggesting that there are still enough investment opportunities for international DFIs in the country to warrant such segmentation.
DOMESTIC DFIs IN SOUTH AFRICA

THERE ARE FOUR MAJOR DOMESTIC DFIS IN SOUTH AFRICA.

Industrial Development Corporation (IDC): The IDC provides financing for “high-impact and labor-intensive” projects across the whole of Africa, including mining, manufacturing, and infrastructure. Impact is measured on the basis of development scorecards that track metrics such as youth ownership, female ownership, black ownership, rural impact, and environmental impact. Since much of its portfolio is in extractives, the IDC has made it a priority to ensure ongoing private-sector development in mining communities beyond the useful life of their mines. It has also launched special initiatives to integrate SMEs into the supply chains of larger corporations.

Development Bank of South Africa (DBSA): The DBSA has a pan-SADC (Southern Africa Development Community) mandate to accelerate sustainable economic development, with a focus on social and economic infrastructure. As such, it has funded or co-funded a number of major projects in energy, healthcare, water, and education. The DBSA is increasingly broadening its reach across Southern Africa and has already supported several infrastructure initiatives in Namibia, Lesotho, Zambia, and Mozambique, among others.

National Empowerment Fund (NEF): The NEF is intended to catalyze Black Economic Empowerment by supporting and funding black entrepreneurs and black-owned businesses. The NEF funds a variety of businesses, from early-stage start-ups or franchises to USD multi-million projects. Unlike many traditional DFIs, the NEF maintains a “drop-in” store front where entrepreneurs can make in-person applications for financing. Since the NEF engages more with early-stage entrepreneurs than do most DFIs, it also runs various in-house incubation and technical assistance programs. Only black South Africans or South African businesses that are majority black-owned are eligible for NEF funding. Within this mandate, the NEF has put into place special initiatives to fund female entrepreneurs.

Land and Agricultural Development Bank of South Africa (LADBSA or Land Bank): The Land Bank provides access to financing for South African agri-businesses and farmers. Founded in 1912, it is one of the oldest financial institutions in Africa. The Land Bank supports agricultural and rural development in several forms, from large commercial-farming projects to projects facilitating access to agriculture for new entrants from disadvantaged backgrounds. Though the Land Bank strongly focuses on development, its deposit-taking and retail-banking services mean that it does not strictly fit the present definition of a DFI as a government-funded institution investing exclusively in businesses or projects. Its disbursements are therefore not included in the figures presented in this chapter. Nonetheless, it is one of the largest development financiers in the region, having disbursed close to USD 13 billion in loans over the last five years.
Though some domestic South African DFIs have a broader regional mandate (e.g., the DBSA or the IDC), the vast majority of South African DFI capital has been disbursed in South Africa. Of the USD 17 billion disbursed by South African DFIs, only slightly more than USD 2.5 billion (16 percent) has been placed in other Southern African countries (see Figure 6). This reflects both investable opportunities in South Africa as well as some domestic DFIs’ deliberate focus on South Africa as part of their overall investment strategies.
Investments Over Time

International DFI disbursements in Southern Africa have steadily increased over the past decade (see Figure 7). Capital disbursed rose from around USD 350 million in 2005 to around USD 1.5 billion in 2013 and 2014. Capital disbursed spiked notably in 2010 due primarily to one, USD multi-billion investment in South Africa’s power industry—the number of deals in 2010 is actually lower than in most other years—before returning closer to previous levels in the following years. Interestingly, average deal size has increased over time; that is, the number of deals has grown more slowly than capital disbursed, suggesting a growing number of opportunities for larger deals. The drop in deals and capital disbursed in 2015 is likely due to incomplete data reporting at the time of this writing, rather than due to any decline in investor interest.

By contrast to the more variable annual activity for international DFIs, South Africa-based DFI investments have demonstrated steady growth (see Figure 8). South African DFIs tend to invest, on average, much smaller amounts, directly supporting small and growing businesses through their investment activity. In 2014, for instance, South Africa-based DFIs completed over 70 times as many deals as did international DFIs.

Notes: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Excludes domestic South African based DFIs.

Source: Open Capital Research
FIGURE 8: SOUTH AFRICA-BASED DFI INVESTMENTS OVER TIME

Notes: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.
Source: Open Capital Research

Deal Size

Across the region, over 60 percent of capital disbursed by international DFIs has been in deals worth over USD 50 million (see Figure 9). Driving this trend is primarily investments into large energy projects that can easily exceed USD 100 million, many of which have gone to fund major hydroelectric power projects aimed at addressing the region’s acute energy shortage. Despite these large deals, most DFI investments are in the range of USD one to 10 million, often made to local banks that have an established presence and are generally perceived as lower risk investments than newer ventures. Due to limited data provided by domestic DFIs in South Africa, it is not possible to graph their deals by size, limiting the analysis presented here to the above discussion of average deal sizes by international DFIs.
While energy has received the most international DFI capital of any sector, the financial services sector has attracted by far the largest number of deals, representing nearly 30 percent of all deals made (see Figure 10). Despite their potential for impact, education, healthcare, and housing together only account for around two percent of capital disbursed and less than three percent of deals. Interviewees noted that significant government presence often makes it difficult for investors to act effectively in these sectors. Due to limited data provided by South Africa-based DFIs, it is not possible to graph their deals by sector.
International DFIs have increasingly funded impact funds across global emerging markets (see The Landscape for Impact Investing in East Africa and The Landscape for Impact Investing in South Asia reports for a thorough discussion of DFI activity in East Africa and South Asia, respectively), a pattern which also holds in Southern Africa. International DFIs have provided almost USD one billion in capital to private impact funds that include Southern Africa in their mandates. Importantly, however, many of these funds also target countries outside of Southern Africa, so it is unlikely that all of this capital will ultimately reach Southern African businesses. As discussed above, in many cases South Africa-based DFIs place similar types of capital with non-DFI impact investors outside of South Africa, guiding impact investment activity through their own direct investments.
Instrument

The research team was unable to ascertain the instrument used for almost half of international DFI capital disbursed and for almost half of all deals. To the extent that the available data are representative, however, close to 85 percent of international DFI capital disbursed in Southern Africa has been invested as debt (see Figure 11), reflecting a general, global trend in DFI investing. In many cases, the use of debt matches the nature of the project: project finance for infrastructure, for instance, typically requires an upfront equity investment by an independent entrepreneur supplemented by DFI debt. In addition, many DFIs lack the organizational structure necessary to provide the heavy-touch oversight that successful equity investments into local businesses might require.

FIGURE 11. INTERNATIONAL DFI IMPACT INVESTMENTS BY INSTRUMENT TYPE

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Capital disbursed (USD millions)</th>
<th># of Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>1,181</td>
<td>94</td>
</tr>
<tr>
<td>Debt</td>
<td>8,075</td>
<td>243</td>
</tr>
<tr>
<td>Other</td>
<td>2,64</td>
<td>48</td>
</tr>
<tr>
<td>Unknown</td>
<td>7,211</td>
<td>269</td>
</tr>
</tbody>
</table>

Notes: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Open Capital Research

Nonetheless, some DFIs have successfully carved out a niche for themselves by taking minority stakes in businesses—typically medium-sized—and by providing expertise, market knowledge, and technical assistance in addition to capital. DFIs have also allocated around USD 125 million in guarantees to Southern African banks, which are intended to catalyze activity from local financial institutions as part ofDFIs’ “additionality” objective. Here, DFI investors have reported mixed results so far.\(^\text{14}\) While guarantees have increased local bank engagement with SMEs, implementation is time-intensive and structuring often requires extensive use of intermediaries.\(^\text{15}\) Limited data prevent further analysis of South Africa-based DFI activity by instrument.

\(^\text{14}\) Open Capital interviews.

\(^\text{15}\) Open Capital interviews.
ABOUT THE GLOBAL IMPACT INVESTING NETWORK

The Global Impact Investing Network (GIIN®) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see www.thegiin.org.

30 Broad Street, 38th Floor, New York, NY 10004 USA
+1.646.837.7430 | info@thegiin.org | www.thegiin.org