ACKNOWLEDGMENTS

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The Bertha Center at the University of Cape Town contributed to this report by providing access to their database of active impact investors operating across sub-Saharan Africa.

We would also like to thank Susan Balloch and Giselle Leung from the GIIN for their guidance throughout the research process and contributions to this report. We would further like to thank the tireless Open Capital Advisors (OCA) research team—Neal Desai, David Loew, Rodney Carew, Holden Bonwit, Katie Bach, Sarah Ndegwa, Elijah Ndarua, Joel Muli, Getrude Okoth, and Charles Njugunah—for their work interviewing impact investors, ecosystem players, and entrepreneurs, conducting rigorous data collection under tight timelines.

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@thegin.org.

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COMMON ACRONYMS

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

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
SOUTH AFRICA
THE REGION’S POWERHOUSE
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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.
Following the end of apartheid more than two decades ago, the South African economy has grown rapidly. The country’s gross domestic product (GDP) has almost tripled to more than USD 700 billion in purchasing power parity (PPP) terms, making it the largest economy in Southern Africa and the second-largest economy on the continent (following Nigeria). With a population of over 50 million, South Africa’s GDP per capita has reached around USD 13 thousand (PPP).1 With this growth, South Africa forms the pillar of impact investing in Southern Africa. As the economic and financial capital of the region (see Figure 1), South Africa boasts the largest number of impact investors and the most impact capital disbursed of any country in the region. Indeed, South Africa tops virtually every metric in this report.

Despite the volume of impact investing activity in South Africa, impact capital represents a small part of the overall South African investment picture. South Africa has a large and comparatively advanced financial system with single-digit interest rates, unusual for the region. This affordable access to traditional capital, combined with well-functioning credit bureaus, dramatically increases transparency in lending, especially relative to the rest of the region.

Nevertheless, impact investing fills an important niche. Banks and traditional funds are risk-averse and unwilling to lend to some growing businesses. Despite a rising middle class, South Africa remains one of the most unequal countries in the world. Impact

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capital is needed to target underserved communities and drive development. High-potential sectors include education, energy, tourism, financial inclusion, and agriculture.

Impact investors should also be aware of the challenges that operations face in South Africa. Although generally open to foreign investment, the country has a complicated regulatory environment. Chief among these complicated rules are the Broad-Based Black Economic Empowerment (BBBEE) regulations, which provide affirmative action codes governing most elements of the business environment, including ownership, hiring policies, and supplier selection. Ongoing and severe nationwide energy shortages provide a second key barrier to operations for companies in South Africa. Since the beginning of 2015, South Africa has been plagued by rolling blackouts, which are forecast to cut GDP growth by an estimated 0.4 percent this year.²

COUNTRY CONTEXT

Apartheid defined the course of South African history in the second half of the twentieth century.¹ The struggles of South Africa’s black and colored populations, and the regime's subsequent violent crackdown on resistance, eventually drew the attention of the international community, prompting the United Nations to establish the Centre Against Apartheid in 1976.⁴ An arms embargo intended to stop the sale and shipment of arms and ammunition to South Africa followed in 1977.⁶ In 1985, South Africa’s main trading partners—the European Community, the US, and Japan—imposed sanctions in a bid to end the apartheid system, sanctions which were labeled globally as the “disinvestment campaign”.⁶

When FW de Klerk became president of the republic in 1989, he immediately began to deconstruct the apartheid regime. Working closely with Nelson Mandela, de Klerk established a new anti-apartheid constitution, removed restrictions on political groups, and suspended executions of anti-apartheid activists.⁷ The apartheid regime officially ended in 1994, and Mandela was elected as de Klerk’s successor in a coalition government with a non-white majority.⁸

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Gross Domestic Product

In the more than two decades since the end of apartheid, South Africa has made great economic strides. The country’s GDP (in PPP terms) has almost tripled—to over USD 700 billion since international sanctions were lifted in 1996, the economy growing nearly 4.8 percent annually in PPP terms between 2005 and 2014 (see Figure 2). However, recent real GDP growth tells a different story, with 2014 growth of only 1.5 percent, the lowest since 2008. This slowdown has been driven by the weakening economies of trading partners (primarily China and Europe), electricity shortages, and extended strikes in the mining sector. Real GDP growth is forecast to increase to two percent through the 2015–2016 fiscal year on the back of a global recovery as well as through growth in exports driven by a depreciating Rand.

![Figure 2. GDP (PPP), 2005–2014](source: IMF World Bank Economic Outlook, April 2015)

Foreign Direct Investment

South Africa is the main destination for FDI in Africa, though the country experienced a 31 percent drop in net FDI inflows (from USD 8.3 billion to USD 5.8 billion) from 2013 to 2014 (see Figure 3) due to a combination of slowing economic growth and outflows driven by increasing appetite for intra-African investment.

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11 Ibid.
South African investments in other African countries increased significantly in 2014. With total FDI outflows of USD 6.9 billion in telecom, mining, and retail, South Africa was by a wide margin the largest outward-investing economy on the continent. Most of the investments were within the immediate geographic region, concentrated in Swaziland, Zimbabwe, and Botswana, taking advantage of strong regional links, regional markets, and existing value chains.\textsuperscript{14}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure3.png}
\caption{Net FDI Flows, 2004–2013}
\end{figure}

\textbf{Source: UNCTAD}

\textbf{Inflation and Exchange Rates}

South Africa’s Central Bank targets inflation of three to six percent, but the country has struggled to maintain this range in recent years.\textsuperscript{15} In 2008, inflation spiked to double digits, driven by global increases in food and oil prices as well as domestic issues, with a falling Rand and electricity constraints.\textsuperscript{16} Inflation spiked again to 6.6 percent in mid-2014 before falling back into the target band in early 2015.\textsuperscript{17}

With the exception of a sudden depreciation in 2009 largely driven by the global financial crisis, the Rand was generally stable until 2011 (see Figure 4) before steadily depreciating due to labor market unrest, increasing global unease with emerging-


market currencies, and the country’s rising current account deficit. Continued depreciation prompted the South African Reserve Bank (SARB) to twice increase the base rate in 2014, the first such increase in six years. Over the past decade, interest rates in South Africa have consistently been lower than in other countries in the region due to a comparatively strong South African economy and banking sector, which provides a friendly environment for bank loans in local currency (see Figure 5).

**FIGURE 4. INFLATION AND USD/ZAR EXCHANGE RATE, 2005–2014**

**Source: World Bank Indicators**

**FIGURE 5. INTEREST RATES, 2005–2014**

**Source: World Bank Indicators**

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19 Ibid.
Regional Influence

As the largest market in Southern Africa, South Africa has used its clout to drive both regional and continental integration. The country was a key player in establishing the African Union (AU), and it is extremely influential in the South African Development Community (SADC) and the South African Customs Union (SACU). South Africa accounted for approximately 41 percent of SADC trade in 2013, making it the leading economy within the community. Under the SACU, all customs duty and excise revenue collected in the common customs area is shared between member nations. Some of the region’s smaller economies, such as Lesotho and Swaziland, greatly depend on revenues generated largely by trade between South Africa and other SACU countries.

South African corporations also have a strong regional presence. As discussed above, domestic corporations are increasingly seeking new markets, both within the region and the continent more broadly. This is especially true for retail chains and banks. Publicly listed South African companies now earn almost two-thirds of their revenues outside of South Africa.

Broad-Based Black Economic Empowerment

The Broad-Based Black Economic Empowerment (BBBEE) Act is a government initiative aimed at increasing the economic participation of black South Africans. The BBBEE Act applies to all state-owned enterprises (SOEs) and to private businesses with annual revenues over ZAR 10 million (around USD 710 thousand). Enterprises are rated based on a scorecard that allocates points for black empowerment across five metrics (see box).

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22 Ibid. SADC member countries include Angola, Botswana, DRC, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, the United Republic of Tanzania, Zambia, and Zimbabwe.
BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE) SCORING

BBBEE scoring has five elements, and a company can reach a total of 100 points plus 13 bonus points. Details regarding the scoring system and how points are allocated can be found on the Department of Trade and Industry’s website. Below is a high-level summary.

Ownership (25 points): The percentage of economic interest and exercisable voting rights held by Black South Africans.

Management control (14 points + four bonus): The representation of Black South Africans and persons with disabilities on the board, in management, and in other levels of employment.

Enterprise & supplier development (40 points + four bonus): Businesses are required to spend one percent of annual net profit, after tax, on contributions towards enterprise development and two percent on supplier development for majority (more than 51 percent) Black-owned businesses.

Skills development (20 points + five bonus): Expenditures on learning programs that contribute to skills development for Black South Africans.

Socioeconomic development (Five points): Businesses must allocate at least one percent of annual net, after-tax profit to socioeconomic contributions (including grants, guarantees, developmental capital, training and mentoring, and direct assistance provided to beneficiary communities).

Based on their scores, businesses are classified as being either non-compliant or falling in a compliance level between BBBEE Level 1 (the highest) to Level 8 (the lowest). BBBEE scores have significant implications for an organization’s ability to conduct business in South Africa. For example, state entities are required to use BBBEE scores when contracting suppliers, issuing licenses, or granting concessions. Industries that require government licenses to operate (for example, financial services or liquor) typically require higher BBBEE scores. Financial services, construction, and extractives have the highest overall scores, while retail, manufacturing, and transport tend to have the lowest. Critically, banks tend to offer preferential access to financing to enterprises with higher BBBEE scores.


THE BROADER INVESTMENT LANDSCAPE

Impact investing represents only a small part of the overall investment landscape in South Africa, which has a large and comparatively advanced financial system. The International Monetary Fund (IMF) estimates that total financial assets in South Africa are almost three times the size of the country’s GDP (see Figure 6).31

![Figure 6. Impact Capital Relative to Other Financial Assets](chart.png)

**Source:** International Monetary Fund

There are many players in the landscape of South African financial services. Banks and pension funds are the largest asset holders, but the market also includes insurers, fund managers, micro-lenders, and a vibrant stock exchange, among others. The country has four government-regulated credit bureaus that gather data from a variety of sources, including banks, credit card companies, and non-bank financial institutions.32

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32 Ibid.
BANKS

The South African Reserve Bank (SARB) recorded 31 banks in South Africa at the end of 2014. However, five major banks—Standard Bank, FirstRand Bank, Absa Bank, Nedbank, and Investec—control more than 90 percent of total banking assets, dominating the sector. This concentration enables the major banks to control interest rates and to achieve high returns and profitability.

With a prime lending rate of 9.5 percent in mid-2015, access to affordable finance in South Africa is better than in the majority of other markets in the region. However, South African banks typically cater to the needs of large enterprises, as banks remain risk-averse and are usually unwilling to lend to SMEs, which they view as riskier and more costly to serve. Furthermore, usury laws, the presence of which is intended to protect business owners, prevent banks from appropriately pricing the credit risk of lending to small businesses.

PENSION FUNDS

South Africa has a robust pension fund sector, with ZAR 3.8 trillion (around USD 270 billion) in assets under management as of 2013. The publicly owned Public Investment Corporation (PIC) is the largest pension fund of any type in Africa. Changes in 2011 to Regulation 28 of the Pension Fund Act increased to ten percent the proportion of a pension fund’s portfolio that could be invested in alternative asset classes—many of which, including unlisted equity, are favored by impact investors. However, pension funds have limited investment in these asset classes to date given their typically conservative investment mandates. For example, PIC’s Isibaya fund, which invests in private equity, only constitutes 1.1 percent of total PIC assets under management.

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35 Ibid.
FUND MANAGERS

There are an estimated 200 fund managers (around 60 percent private equity [PE] firms and 40 percent other asset managers) in South Africa, managing ZAR 1,700 billion (around USD 120 billion) across more than 1,100 funds (around 15 percent PE funds and 85 percent asset manager funds). Fund managers in South Africa are engaged by a mix of domestic firms and international funds with local operations. Interestingly, many fund managers elect to set up their regional headquarters in South Africa, even if they invest predominantly in other countries (see sidebar).

STOCK EXCHANGE

The Johannesburg Stock Exchange (JSE) is the largest in Africa, with almost 400 listed companies and a market capitalization of more than USD one trillion. The exchange hosts the AltX listing for small and medium-sized companies; AltX has raised around ZAR 40 billion (USD three billion) since its launch in 2003. At a ratio of almost three to one, the JSE has the second-highest market capitalization to GDP ratio globally (after Hong Kong), an indication of strong investor interest in public listings within the South African market.

FUND MANAGERS WITH A PRESENCE IN SOUTH AFRICA

Many funds base their regional head offices in South Africa, regardless of whether or not South Africa is one of their target markets. Interviewees reported many reasons for this, as follows.

Airport hub: Johannesburg Airport is a transport hub for most flights in the region, making it easy to travel between portfolio companies.

Quality of life: South Africa has a comparatively high standard of living at a reasonable cost, which makes it easier for funds to attract and retain talent.

Infrastructure and support: South Africa has better telecommunications and business services than most other countries in the region, making it easier to conduct business.

Talent availability: The country has a large pool of university-educated workers with expertise and experience in financial services.

Political stability: The country is often deemed as being relatively more stable, with a less rapidly changing policy environment, than its neighbors.

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MICROFINANCE INSTITUTIONS

The microfinance sector is large and growing in South Africa, with more than three thousand active organizations managing an estimated ZAR 50 billion (around USD 3.6 billion). However, the vast majority (over 95 percent) of microcredit in South Africa is used for personal loans rather than for financing small businesses.

CORPORATE SOCIAL INVESTMENT AND BBBEE SPENDING

In South Africa, corporate social responsibility is typically referred to as corporate social investment (CSI). CSI is a significant source of funding for small and growing businesses in the country. In 2014, CSI was estimated at ZAR 8.2 billion (USD 620 million), largely driven by the BBBEE-mandated expenditure of one percent after-tax net profit on socio-economic development. In addition to CSI, corporations are required to spend two percent and one percent of after-tax net profit on supplier development and enterprise development, respectively. Collectively, large corporations spent nearly an estimated ZAR 60 billion (USD 4.3 billion) in 2014 as part of BBBEE. As a result, there is a significant amount of corporate funding to support black-owned SMEs in the country. Such funding takes many forms: there are a number of intermediaries providing technical assistance and training using BBBEE funds, in addition to direct corporate disbursements in the form of both grants and return-seeking capital.

ANGEL INVESTORS AND HIGH-NET-WORTH INDIVIDUALS

South Africa has very high income inequality. The wealthy elite have begun to invest in start-up businesses, and interviewees cited domestic angel investors as a small but growing source of capital. Many of these individuals are looking for investment opportunities beyond the stock exchange and are seeking better returns in higher-risk ventures. The country has a number of networks of angel investors, including FNB Private Client, Shanduka Black Umbrella, and Angel Hub Ventures.

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51 Ibid.

Supply of Impact Capital

The term “impact investing” is less commonly used or understood in South Africa than elsewhere in the region or elsewhere in Africa. Many investors interviewed did not consider themselves to be impact investors, even when they had stated impact goals, explicitly tracked impact, and compensated their teams based on impact performance.

In some instances, investors cited a lack of familiarity with the term. One investor mentioned that only after attending a conference on impact investing the previous year had she become aware of the concept. Others associated impact investing more closely with East African countries and did not consider it a trend in South Africa. Many interviewees mentioned a general discomfort in South Africa with mixing “charity and business,” expressing that mandated CSI under BBBEE had exhausted corporations’ and high-net-worth individuals’ capacity to support impact initiatives.

Whether or not investors self-identify as impact investors, as defined by this report, South Africa is by far the largest market in Southern Africa for impact investing. The country has had more deals and capital disbursed by both development finance institutions (DFI) and non-DFI actors than all other markets in the region combined. Impact investors play an important role in delivering innovative solutions that target challenging sectors and markets that conventional investors often avoid, providing much-needed capital to businesses that would otherwise struggle to access finance.

Impact Capital Disbursed

South Africa is the single largest market for impact capital in Southern Africa. Nearly three quarters (74 percent) of all impact capital disbursed in the region has been placed in South Africa, amounting to USD 4.9 billion of non-DFI capital and more than USD 24.2 billion of DFI capital. This is close to 15 times the amount deployed in Zambia, which ranks second in the region in terms of impact capital disbursed.

**FIGURE 7. NON-DFI IMPACT INVESTMENTS**

<table>
<thead>
<tr>
<th>USD (MILLIONS)</th>
<th># OF DEALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,864</td>
<td>307</td>
</tr>
</tbody>
</table>

Average deal size (USD millions) 15.8

Source: Open Capital Research

**FIGURE 8. DFI IMPACT INVESTMENTS**

<table>
<thead>
<tr>
<th>USD (MILLIONS)</th>
<th># OF DEALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>24,211</td>
<td>7,051</td>
</tr>
</tbody>
</table>

Average deal size (USD millions) 3.4

Source: Open Capital Research

Note: Includes domestic South African DFI activity.
NON-DFI CAPITAL DISBURSED

A total of USD 4.9 billion in impact capital has been deployed by non-DFI investors across 307 deals by 46 unique investors (see Figure 7). Notably, 48 percent of this amount (USD 2.3 billion) was disbursed in the three largest deals, each significantly larger than the average non-DFI deal size of USD 15.8 million (see Figure 7). Overall, of these 46 investors, 25 are headquartered in South Africa, and an additional eight have local offices in the country. The vast majority of these organizations are fund managers, although a few are foundations or banks.

<table>
<thead>
<tr>
<th>Investor type</th>
<th>Amount (USD Millions)</th>
<th>Sector</th>
<th>Instrument</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund manager</td>
<td>1,200</td>
<td>Financial services</td>
<td>Equity</td>
<td>2007</td>
</tr>
<tr>
<td>Fund manager</td>
<td>700</td>
<td>Manufacturing</td>
<td>Equity</td>
<td>2008</td>
</tr>
<tr>
<td>Fund manager</td>
<td>434</td>
<td>Logistics</td>
<td>Equity</td>
<td>2011</td>
</tr>
<tr>
<td>Fund manager</td>
<td>107</td>
<td>Infrastructure</td>
<td>Unknown</td>
<td>Unknown</td>
</tr>
<tr>
<td>Fund manager</td>
<td>107</td>
<td>Infrastructure</td>
<td>Unknown</td>
<td>Unknown</td>
</tr>
<tr>
<td>Fund manager</td>
<td>106</td>
<td>Energy</td>
<td>Equity</td>
<td>2005</td>
</tr>
<tr>
<td>Fund manager</td>
<td>100</td>
<td>Financial services</td>
<td>Equity</td>
<td>2014</td>
</tr>
<tr>
<td>Fund manager</td>
<td>97</td>
<td>Real estate</td>
<td>Equity</td>
<td>2012</td>
</tr>
<tr>
<td>Fund manager</td>
<td>95</td>
<td>Financial services</td>
<td>Equity</td>
<td>2013</td>
</tr>
</tbody>
</table>

DFI CAPITAL DISBURSED

As with all other countries in Southern Africa, DFIs play a significant role in impact investing in South Africa. In order to compare to other countries in the region, this chapter separates activity of international DFIs from domestic DFIs, which are particularly active in South Africa (see sidebar). Together, international and domestic DFIs have disbursed more than USD 24.2 billion across more than seven thousand deals in South Africa, representing 83 percent of impact capital disbursed and 96 percent of impact deals in the region (see Figure 8).
DOMESTIC DFIs IN SOUTH AFRICA

There are over a dozen national DFIs in South Africa, each with a unique mandate. The three major domestic DFIs are the following.

**Industrial Development Corporation (IDC):** The IDC provides finance for “high-impact and labor-intensive” projects across the whole of Africa, including mining, manufacturing, and infrastructure.

**Development Bank of South Africa (DBSA):** The DBSA has a pan-SADC mandate to accelerate sustainable economic development, with a focus on social and economic infrastructure.

**National Empowerment Fund (NEF):** The NEF is intended to catalyze Broad-Based Black Economic Empowerment (BBBEE) by supporting and funding black entrepreneurs and black-owned businesses.

International DFIs—such as the African Development Bank (AfDB) and the International Finance Corporation (IFC), among others—have disbursed almost USD 10 billion in South Africa, half of the total investment they have made in the region. Uniquely in the region, South Africa boasts more than a dozen large and active domestic DFIs, with the most activity from the IDC, DBSA, and NEF (see sidebar). Funded by the South African government, these institutions invest in development initiatives both domestically and across the region. These domestic DFIs have invested over USD 14.4 billion in South Africa, while also investing a cumulative total of USD 2.5 billion across all other countries in Southern Africa combined.

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53 "DFIs in South Africa," Public Sector Manager (2011), http://www.gcis.gov.za/sites/default/files/docs/resourcecentre/newsletters/issues.pdf. For the purposes of this report, the Land and Development Bank of Southern Africa (LADBSA) has been excluded from the category of domestic South African DFIs, as LADBSA also operates as a retail, deposit-taking institution and provides loans directly to small farmers, much like an MFI would. Please see the DFI chapter of this report for more information.
Investments Over Time

In analyzing non-DFI impact investments over time, one observes some interesting trends (see Figure 9). On the one hand, there has been steady growth in the number of deals per year, especially between 2008 and 2013. On the other hand, there has been a decline in the volumes of capital committed, from nearly USD 600 million in 2010 to USD 200 million in 2014. However, this latter trend is largely due to a small number of large deals in earlier years that were completed as leveraged buy-outs (see Table 1). The overall growth trend in transaction volume indicates a robust expansion in impact investor activity.

FIGURE 9. NON-DFI IMPACT INVESTMENTS BY YEAR

USD (MILLIONS)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital disbursed (USD millions)</th>
<th>Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-2005</td>
<td>262</td>
<td>13</td>
</tr>
<tr>
<td>2005</td>
<td>106</td>
<td>2</td>
</tr>
<tr>
<td>2006</td>
<td>51</td>
<td>5</td>
</tr>
<tr>
<td>2007</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>2008</td>
<td>9</td>
<td>24</td>
</tr>
<tr>
<td>2009</td>
<td>186</td>
<td>16</td>
</tr>
<tr>
<td>2010</td>
<td>14</td>
<td>165</td>
</tr>
<tr>
<td>2011</td>
<td>16</td>
<td>19</td>
</tr>
<tr>
<td>2012</td>
<td>23</td>
<td>579</td>
</tr>
<tr>
<td>2013</td>
<td>23</td>
<td>405</td>
</tr>
<tr>
<td>2014</td>
<td>227</td>
<td>264</td>
</tr>
<tr>
<td>2015</td>
<td>24</td>
<td>227</td>
</tr>
<tr>
<td>Unknown</td>
<td>8</td>
<td>47</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
Many of the domestic DFIs have been active in South Africa for decades; for example, the IDC was established in 1940. Nevertheless, almost all of these organizations have significantly shifted and expanded their mandate in recent years, and, as a result, over 75 percent of recorded domestic DFI capital has been disbursed since 2005 (see Figure 11). Similarly, international DFIs have increased their investments in recent years: over 70 percent of international DFI capital has been disbursed since 2005. Across all figures, the reported decline in deals for 2015 likely resulted from incomplete reported data at the time of data collection in mid-2015.
Sector

The distribution of investments by sector broadly reflects impact investors’ sectoral preferences. In interviews, many non-DFI impact investors expressed particular interest in agriculture, financial inclusion, and affordable housing; indeed, more than 30 percent of non-DFI impact capital has been disbursed in financial services (see Figure 12). However, this allocation is driven by a few very large investments in the sector, predominantly into banks, with one deal accounting for USD 1.2 billion on its own (see Table 1). As evident from Figure 12, the number of deals in sectors such as energy, agriculture and housing match the numbers in financial services.

FIGURE 12. NON-DFI DIRECT INVESTMENTS BY SECTOR

Despite non-DFI impact investors’ stated interests in education and health, these sectors have seen many fewer deals. Interviewees suggested that investors have seen fewer investable opportunities in these spaces, which are typically dominated by public provision.

International DFIs have disbursed a large majority of their capital in energy, financial services, and agriculture, which together have received 78 percent of total capital disbursed directly by international DFIs. The predominance of these sectors for DFI impact investment has been driven by South Africa’s rising energy needs and by
agricultural investments targeting rural development. Domestic DFIs have invested in a substantial number of deals in the energy, extractives, and manufacturing sectors, indicative of the importance of industrial development in South Africa (see Figure 13 for combined international and domestic DFI activity by sector).

**FIGURE 13. DFI DIRECT INVESTMENTS BY SECTOR**

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>CAPITAL DISBURSED (USD MILLIONS)</th>
<th>NUMBER OF DEALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>6.4</td>
<td>1,410</td>
</tr>
<tr>
<td>Extractive</td>
<td>2.7</td>
<td>89</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.8</td>
<td>370</td>
</tr>
<tr>
<td>Financial Services</td>
<td>27.0</td>
<td>1,340</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>4.2</td>
<td>122</td>
</tr>
<tr>
<td>WASH</td>
<td>10.5</td>
<td>165</td>
</tr>
<tr>
<td>Agriculture</td>
<td>5.4</td>
<td>108</td>
</tr>
<tr>
<td>Health</td>
<td>4.1</td>
<td>108</td>
</tr>
<tr>
<td>ICT</td>
<td>0.9</td>
<td>303</td>
</tr>
<tr>
<td>Housing</td>
<td>2.6</td>
<td>84</td>
</tr>
<tr>
<td>Education</td>
<td>6.1</td>
<td>196</td>
</tr>
<tr>
<td>Tourism</td>
<td>0.3</td>
<td>18</td>
</tr>
<tr>
<td>Other</td>
<td>0.9</td>
<td>508</td>
</tr>
<tr>
<td>Unknown</td>
<td>2.9</td>
<td>1,339</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. Average deal sizes rounded to nearest 100,000. Includes domestic South African DFI activity.

Source: Open Capital Research

**Deal Size**

Over half of non-DFI impact investments have been under USD five million (see Figure 14), with an average deal size around USD 700 thousand. Deals under USD 250 thousand have been the most common, followed by deals over USD 10 million; notably, such deals over USD 10 million in South Africa represent 90 percent of the capital disbursed regionally through non-DFI deals of this larger size (see Table 1).
DFI direct investments are typically significantly larger (see Figure 15). The average deal size for DFIs in South Africa stands at nearly USD 50 million, a large average ticket size that primarily results from large DFI investments in agriculture, extractives, and financial services. Though deals under USD 10 million constitute roughly 37 percent of total direct DFI investments, just 11 percent of direct DFI deals were under USD one million, compared to more than 26 percent of deals made by non-DFI impact investors.
**Instrument**

Unlike in the rest of region, non-DFI impact investors have shown an overwhelming preference for equity in impact deals in South Africa. Equity accounts for almost 90 percent of capital disbursed, though three large deals alone account for 60 percent of equity capital disbursed (see Table 2, Figure 16). It should be noted, however, that the research team was unable to determine the instrument used for around 45 percent of deals, accounting for around USD 477 million in capital disbursed.

![Figure 16. Non-DFI Impact Investments by Deal Size](image)

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 USD 477 million in capital where instrument type is unknown.

Source: Open Capital Research

With a lack of available data at the time of writing, this report is unable to provide a definitive breakdown of investments by instrument for DFIs in South Africa, due largely to a lack of reporting from domestic DFIs, which have deployed the majority of DFI capital in South Africa.

**Local Presence**

As discussed in the section above on the investment landscape, impact investors frequently have staff in South Africa both to serve the South African market and to use the country as a gateway to the region. Thirty-six impact investors have headquarters in South Africa (typically in Johannesburg, Pretoria, or Cape Town) and an additional 26 regional investors have local offices in the country.
Impact Tracking Standards

Impact investors’ dual mandate to realize both financial and social and environmental returns requires a strong focus on measuring impact as part of their core activities. As in the rest of Southern Africa, most impact investors in South Africa create tailored metrics for each portfolio company to accurately capture individual impact and reduce administrative burdens. For more detail on impact measurement in Southern Africa, refer to the Executive Summary.

Demand and Need for Impact Investing Capital

Despite a robust commercial funding landscape, there is considerable need for impact capital in South Africa. As discussed above, domestic DFIs and local corporations have made substantial inroads to providing this capital, but remaining economic disparities create the potential for additional impact.

Development Context

South Africa is ranked 118th out of 187 countries in the United Nations Human Development Indicators (HDI) index.54 While the country’s HDI score is above the regional average, it remains below the global average (see Table 2, in the section ‘Impact Capital Disbursed’).

At 25 percent, unemployment rates in South Africa are high—twice the regional average and four times the global average.55 One potential explanation for the high unemployment rate—despite the country’s significant economic progress—is that a large proportion of jobs in South Africa are in the formal sector, especially when compared to other countries in the region. Whereas an unemployed worker elsewhere might leave the labor force to join the informal economy (and would therefore not be included in unemployment statistics), South Africa’s unemployed workers continue to search for employment in the formal sector and are recorded as unemployed. Notably, 70 percent of the unemployed population is under the age of 34.56

<table>
<thead>
<tr>
<th>DEVELOPMENT INDICATOR</th>
<th>South Africa</th>
<th>Regional Average</th>
<th>Global Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDI SCORE (RANKS 118&lt;sup&gt;th&lt;/sup&gt; OF 187 COUNTRIES)</td>
<td>0.66</td>
<td>0.55</td>
<td>0.69</td>
</tr>
<tr>
<td>GDP PER CAPITA (USD, PPP)</td>
<td>12,867</td>
<td>6,874</td>
<td>17,975</td>
</tr>
<tr>
<td>UNEMPLOYMENT RATE (%)</td>
<td>25</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>POPULATION BELOW USD 1.25 / DAY (%)</td>
<td>14</td>
<td>51</td>
<td>25</td>
</tr>
<tr>
<td>UNDER-FIVE MORTALITY (PER THOUSAND BIRTHS)</td>
<td>45</td>
<td>75</td>
<td>47</td>
</tr>
<tr>
<td>POPULATION WITH SOME SECONDARY EDUCATION (%)</td>
<td>74</td>
<td>41</td>
<td>59</td>
</tr>
</tbody>
</table>

The country has a Gini coefficient of 0.7, making it one of the most unequal economies in the world. This inequality is largely drawn along racial lines.<sup>57</sup> However, even within the black South African population alone, the coefficient has sharply increased with the emergence of black middle and upper classes.<sup>58</sup> This inequality has led to numerous labor strikes in the past, the most notable being the mining and metalworking strikes of 2014.<sup>59</sup> Labor strikes still occur regularly despite declining union membership and remain a considerable source of concern for investors.<sup>60</sup>

Economic inequality notwithstanding, South Africa’s education rates are among the highest in the region, with 74 percent of the population having received some secondary education. However, the World Economic Forum’s Global Competitiveness Report ranks South Africa’s primary education system 140<sup>th</sup> out of 144 countries, ranking the primary school system last in Math and Science.<sup>61</sup> As a result, the independent education sector has grown 75 percent over the past decade amid quality concerns at state-run schools.<sup>62</sup>

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<sup>58</sup> Ibid.


South Africa has the fourth-highest rate of people living with HIV/AIDS in the world, at 19 percent, and also has the highest absolute infected population—over six million. The number of people under treatment currently stands at 2.5 million, with 500 thousand expected to join the program each year. Treatment initiatives have raised life expectancies and have gone a long way towards changing public perceptions of the disease.

**Entrepreneurs**

Only seven percent of South Africans are engaged in entrepreneurial activity, a quarter of the volume seen in other sub-Saharan African countries. Many interviewees described a fiscally conservative, risk-averse mindset among South Africans, explaining that, if possible, the typical South African would rather find a salaried job with benefits than take the risk of starting a business. Given the comparatively large size of the corporate sector and corresponding opportunities for formal employment, this is a more viable option in South Africa than in other countries in the region.

Entrepreneurs in South Africa face many challenges. A complex regulatory environment makes it difficult to start a business, while strict labor laws make it expensive to employ and fire staff. As in the rest of the region, many entrepreneurs also report lacking access to affordable finance. BBBEE regulations further complicate the South African entrepreneurial landscape. Although the policy offers support and funding for early-stage, black-owned businesses, BBBEE scoring also incentivizes large corporations to hire black employees. As a result, well-educated, highly qualified black employees are greatly desirable and thus well-compensated, which reduces their incentives to start a business. On the other hand, many interviewees noted that white entrepreneurs are a growing group. Often former formal employees made redundant with BBBEE hiring, these workers have turned to entrepreneurship as an alternate form of employment. As a result, white entrepreneurs are over-represented relative to the general population.

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67 Ibid.

68 Ibid.

With youth unemployment at 49 percent, there are certainly opportunities to support young entrepreneurs, and some government initiatives are aimed at accomplishing this (for instance, the National Youth Development Agency). However, young entrepreneurs typically have lower access to capital and less experience, struggles that make their businesses more likely to fail.

**ENABLING IMPACT INVESTING: THE ECOSYSTEM**

South Africa has a generally friendly investment climate, particularly by comparison to other countries in the region. Among the easiest countries in the region in which to do business, it is home to more intermediaries, service providers, and other ecosystem players than any other Southern African country.

**Regulatory Environment**

Overall, South Africa has a relatively welcoming regulatory climate, making few distinctions between foreign and local investors. According to the World Bank’s “Ease of Doing Business” index, it is one of the easiest places to do business in Southern Africa, ranking 43rd of 189 countries globally and second in sub-Saharan Africa, after Mauritius. Foreign investors generally find that rule of law is applied fairly and consistently across the country, and government policies are typically open to foreign investment. Special considerations include:

- **Land ownership:** South African law allows for both freehold and leasehold titles (for up to 99 years) on land, with most land held under freehold title. At present, foreigners are free to own land in South Africa without restriction. However, if the proposed Land Holdings Bill is enacted, foreigners will be restricted from owning freehold agricultural land, though they will still be eligible for leases on agricultural land lasting between 30 and 50 years. In addition, the Bill proposes to limit ownership of agricultural land to a maximum of 12 thousand

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71 Ibid.
hectares per person for both locals and foreigners. Notably, if passed, the law will only apply to future transactions. To purchase land and any other immovable property, foreign individuals are required to register as South African taxpayers in order to track their capital gains liabilities. Foreign companies are required to register as foreign and to appoint as their public officer a natural person who is a resident in South Africa.

- **Government enterprises**: State-Owned Enterprises (SOEs) in South Africa operate in a number of sectors, including transport, financial services, telecommunications, agriculture, manufacturing, mining, energy, and utilities. SOEs in competition with private enterprises have in the past benefited from unfair competitive practices. For example, in the telecommunications sector, other providers have lodged complaints alleging that Telkom SA engages in excessive and discriminatory pricing for value-added network services. Private airlines have challenged repeated government bailouts for South African Airways (SAA), arguing that they create an uneven playing field in air transport; since 1999, SAA has received an estimated ZAR 30 billion (around USD two billion) of financial assistance from the government.

- **Government incentives for foreign investors**: The government offers a variety of incentives to both domestic and foreign investors, across industries including manufacturing, agriculture, tourism, textiles, film and television, and development of infrastructure. Some incentives include:
  - A cash grant equivalent to the lesser of 15 percent of the value of new manufacturing equipment and machinery or the actual cost of transferring existing manufacturing equipment and machinery to South Africa, up to a maximum of ZAR 10 million (about USD 700 thousand).

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77 Ibid.


• An “additional depreciation allowance” of up to a maximum 55 percent for greenfield manufacturing projects, provided the investment is worth at least ZAR 200 million (about USD 14 million);\(^{85}\) and

• A cash grant of 10 to 50 percent of the cost of developing critical infrastructure for agro-processing projects or for projects that reduce dependence on national water and electricity grids, up to a maximum ZAR 50 million (around USD three million).\(^ {86}\)

• **Forex controls:** South Africa imposes no foreign exchange controls, allowing the Rand to float freely against international currencies.\(^ {87}\)

• **Interest rate controls:** Banks in South Africa are free to set interest rates; however, these depend on the repo rate determined by the Monetary Policy Committee of the South African Reserve Bank (SARB).\(^ {88}\) As of this writing (August 2015), the repo rate is six percent.\(^ {89}\) There is a fixed, 3.5 percent spread between the repo rate and the prime rate, which therefore is 9.5 percent.\(^ {90}\)

• **Exit opportunities/restrictions on exits:** Foreign investors may remit capital, profits, dividends, interest, and royalties subject to the approval of the SARB.\(^ {91}\) To obtain approval, an application must be submitted to the Financial Surveillance Department through the head office of an authorized foreign exchange dealer (typically a commercial bank), supported by all necessary documents.\(^ {92}\)

• **Conflict:** Although it is a factor unrelated to regulation, investors should also consider the possibility of political conflict. South Africa has witnessed cases of political violence in the recent past. For example, the period leading up to the May 2014 elections saw outbreaks of violence among opposing parties’ supporters in metropolitan areas.\(^ {93}\) Nor has political violence been confined to the electorate;

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\(^{86}\) “Trade, Export and Investment Financial Assistance (Incentives),” The Republic of South Africa Department of Trade and Industry, https://www.thedti.gov.za/financial_assistance/financial_incentive.jsp?id=3&subthemeid=26. Critical infrastructure is defined as that which either supports investment into a project or facilitates optimal operations for a project.


on estimated average, more than one political assassination has taken place per month in South Africa over the past decade.\textsuperscript{94} Although the number of political assassinations has significantly declined over time, in 2014 there were at least seven.\textsuperscript{95} In addition, there have been two major outbreaks of attacks against foreigners in the last ten years. In May 2008, countrywide attacks on foreigners resulted in 62 deaths (including those of South Africans).\textsuperscript{96} In April 2015, another wave of xenophobic violence erupting in Durban and some parts of Johannesburg killed at least seven people.\textsuperscript{97}

**Ecosystem Players**

As the biggest market in Southern Africa, South Africa also has the largest supporting ecosystem in the region. More than 100 different organizations operate in support of impact investment and social entrepreneurship in South Africa,\textsuperscript{98} covering a broad range that includes a variety of incubators and accelerators (e.g., Awethu Project or Invotech) and business consultants (e.g., Dalberg or Monitor Deloitte). South Africa’s universities are also highly involved in providing research and support to emerging enterprises, with initiatives and programs such as the Bertha Centre for Social Innovation and Entrepreneurship at the University of Cape Town.

Large corporations, often as part of their mandated BBBEE spend, also provide enterprise support. An estimated 75 percent of corporations run in-house BBBEE programs, while the rest outsource this work to third parties.\textsuperscript{99} Examples of corporate-run programs include Eskom’s Enterprise Development program and Sappi’s Project Grow. Additionally, government agencies support entrepreneurs, at both the national (the National Youth Development Agency, for instance) and regional (such as the Gauteng Enterprise Propeller) levels.

Nevertheless, impact investors still believe there are gaps in the available support, the majority of which is offered at the start-up or early stage; less support is offered for businesses in the acceleration or growth phase.\textsuperscript{100}

\begin{itemize}
\item \textsuperscript{98} Aspen Network of Development Entrepreneurs, “South Africa’s Entrepreneurial Ecosystem Map,” http://www.aspeninstitute.org/sites/default/files/content/upload/ANDE%20ENTREPRENEUR%20ECOSYSTEM%20MAP%202015.pdf.
\item \textsuperscript{100} Aspen Network of Development Entrepreneurs, “South Africa’s Entrepreneurial Ecosystem Map,” http://www.aspeninstitute.org/sites/default/files/content/upload/ANDE%20ENTREPRENEUR%20ECOSYSTEM%20MAP%202015.pdf.
\end{itemize}
Other Service Providers

In addition to intermediaries and service providers who specifically target social enterprises and impact investors, South Africa boasts a mature landscape of general service providers, including accountants, lawyers, recruitment firms, and others. Largely because of its sophisticated corporate market, the market for service providers in South Africa is much more developed than in most other countries in the region. Often, international service providers have their regional headquarters in South Africa, using the country as an entry point to sub-Saharan Africa.

CHALLENGES AND OPPORTUNITIES FOR IMPACT INVESTORS

Though the macroeconomic environment in South Africa is particularly well-developed, impact investors face both challenges and opportunities placing capital locally. Some of the main challenges investors face include:

• **Large supply of competing capital**: A significant volume of conventional capital is available to enterprises in South Africa, which may decrease the relative attractiveness of impact capital. Due to mandated CSI expenditures, a large volume of capital and support is available to early-stage businesses. Total CSI spending in 2014 was estimated at ZAR 8.2 billion (approximately USD 620 million).\(^{101}\) As a result, early-stage businesses, particularly those that qualify for BBBEE support, can often find free or affordable technical assistance and grant capital. For later-stage businesses, the relatively affordable cost of financing and the strength of the banking sector mean that traditional bank financing may be the most attractive option.

• **Pipeline building**: The abundance of capital sources means impact investors need to be particularly resourceful to source their investment pipeline. Urban centers tend to be particularly well-capitalized; impact investors should consider sourcing businesses in rural and underserved markets instead. These areas are typically more remote and have fewer entrepreneurs with business educations and experience, but they also tend to receive much less attention from competing sources of capital. Interviewees mentioned youth entrepreneurs as a second underserved market, though they, too, typically have less business experience.

• **Disincentives to reduce black ownership stakes**: Black ownership is an important component of a firm’s BBBEE score, and higher scores lead to greater access to financial and business-support incentives. Although small businesses are exempt from scoring, it is prudent for entrepreneurs to consider the appropriate long-term

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ownership in order to position for BBBEE scoring once they grow. As a result, entrepreneurs, wary of harming future scores, may be reluctant to accept equity investments from impact investors if this would mean diluting black ownership. As BBBEE laws are intended to support domestic affirmative action, investment by any foreign investor, regardless of race, does not qualify under BBBEE regulations. Investors must be careful when designing quasi-equity or hybrid structures that resemble equity, as there are serious repercussions if a government assessment determines that an investment structure is substantially equity. In particular, in the most recent BBBEE amendment, the government criminalized the practice of fronting, which the Department of Trade and Industry defines as "a deliberate circumvention or attempted circumvention of the BBBEE Act and the Codes." The consequences for fronting include fines or jail time.

- **Electricity shortages**: Eskom, South Africa’s power utility, generates almost all of the nation’s power and nearly half of the electricity in Africa. However, it has been unable to keep up with demand, and South Africa is in an ongoing energy crisis, with load shedding commencing at the beginning of 2015. Medupi Power Station, the nation's first new power station in decades, has suffered from construction delays, and its completion is not expected until 2018 or 2019. In the interim, shortages have impacted businesses, particularly in energy-intensive sectors, like extractives and manufacturing, and also in consumer-focused sectors, such as retail and hospitality. The power crisis has reduced growth by an estimated 0.4 percent in 2015 and will likely continue to keep the economy below its potential in the coming years.

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Opportunities

Despite these challenges, impact investors have many opportunities to operate in South Africa and to leverage return-seeking investments in order to drive job creation, economic development, and opportunities for disadvantaged populations. Specific opportunities include:

• **Support corporate supply chains:** With South Africa’s comparatively well-developed corporate sector, small businesses can tap into existing supply chains to ensure stable and guaranteed offtake. Examples of offtake markets include retail chains and mines. Many small businesses in South Africa can benefit from preferential Enterprise and Supplier Development (ESD) support, namely financial or other support to grow SMEs, to secure these contracts.

• **Leverage large domestic and regional markets:** With an expanding middle class, estimated at over eight million adults as of 2012, South Africa presents a large and growing domestic market for goods and services. Additionally, South African businesses are the primary suppliers of consumer goods and machinery to neighboring countries. An increasing number of South African retailers are expanding across sub-Saharan Africa, offering the chance for their suppliers (including SMEs) to increase their own exports.

• **Greater exit opportunities:** The private-equity sector in South Africa is still relatively nascent, but many interviewees were optimistic about its growth in the coming years, particularly relative to other markets in the region. In the near term, interviewees cite corporate acquisition as the most probable and easiest exit opportunity, one which is much more feasible in South Africa than in any other country in the region.

• **Strong infrastructure:** South Africa’s world-class ports handle the largest shipping volume of any country in sub-Saharan Africa—almost five times the volume of Nigeria, the next-biggest shipping market. South Africa also has an extensive and generally high-quality national road network, making transport of goods both within and out of the country easy, fast, and affordable.

• **Partnering with BBBEE intermediaries:** Although BBBEE funding competes in many ways with impact capital, it also provides an opportunity for impact investors to ally or partner with intermediaries offering BBBEE-sponsored support. For example, incubators or accelerators can provide a pipeline of previously supported, investment-ready businesses.

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High-potential Sectors

Impact investors and other actors in the industry report opportunities in the following sectors:

- **Education**: According to the World Economic Forum’s national education rankings, South Africa ranks 144th out of 144 included countries in math and science and 140th in overall quality of education.\(^\text{110}\) Quality of education in South Africa is as disparate as the distribution of wealth. The wealthier classes have access to better, typically private, educations, while the poor and rural populations contend with lower-quality public schools. There are immense opportunities for impact investors to invest in projects aimed at improving the quality of education for poorer segments of South African society.

- **Agriculture and agro-processing**: Rural populations in South Africa are comparatively poor, and interventions in agriculture could have catalytic effects in these communities. Under the post-apartheid land reallocation system, many communities that were not historically agrarian have been given large tracts of land, creating opportunities for impact investors to provide capital to develop these tracts, source offtake markets, and provide agricultural training to local populations. Investing in agro-processing could also provide offtake markets and add value for smallholder farmers.

- **Mining sector supply chains**: The extractives sector is a large component of South Africa’s economy, but mining communities typically tend to have high inequality, with large portions of the community living in poverty. Simultaneously, mines have large procurement requirements for everything from technical mining equipment to uniforms and food. Impact investors could drive significant improvements in livelihoods by developing suppliers for the mining industry. These businesses could benefit from mining corporations’ CSI and Enterprise and Supplier Development (ESD) spending, which would decrease the risk for impact investors. Further, this economic diversification could cushion the economic shock felt when a mine closes, as investing in supply chain development builds new industries and skills in mining towns. With an increasing number of South African communities suffering as their local mines close, the government (along with support from the mines) has set up a ZAR nine billion (around USD 670 million) fund to support and revitalize distressed mining communities.\(^\text{111}\)

- **Financial inclusion**: Although South Africa has comparatively good access to credit versus the rest of the region, this access is concentrated among salaried workers, the white population, and urban dwellers. The unbanked South African population remains larger than 10 million, approximately 20 percent of the total population,\(^\text{112}\) creating opportunities for impact investors in inclusive finance organizations, including MFIs and mobile money platforms.

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• **Sustainable tourism:** A vital component of the South African economy, in 2014 tourism contributed over ZAR 320 billion (USD 24 billion) to GDP and employed 1.4 million people. The Department of Tourism has made responsible and sustainable tourism a top priority. Impact investors have an opportunity to further develop eco-friendly tourist attractions. Investments in sustainable tourism could provide financial returns while also improving community livelihoods and supporting environmental protection.

• **Large energy projects:** An estimated 85 percent of the South African population has access to electricity, a figure second only to Mauritius in the region. Unlike other countries in the region, there is less opportunity in South Africa for off-grid solutions. However, with the extreme energy shortages, a growing population, and ongoing importance of mining and other energy-intensive sectors to the country, investment in large, on-grid energy projects could unlock South Africa’s economic growth and potential.


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.

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