

Navigating impact measurement: The case of South African impact investors

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ABSTRACT

Over the past decade impact investing has emerged as an important approach to investments with the intention to achieve positive social and environmental impact alongside financial gains. The lack of global consensus regarding best practice in impact measurement presents an opportunity for academic enquiry into the approaches and techniques employed. Our enquiry adopts the *Logic Model* lens to explore how impact investors approach impact measurement in South Africa. The inductive case-study analyses data gathered through semi-structured interviews with over 20 impact investing organisations, along with secondary text data. It provides empirical insight into endogenous and exogenous factors which influence how South African impact investors select and implement impact measurement approaches. Our findings also highlight the following themes: 1) Herding towards developmental frameworks, 2) Making impact lemonade, 3) Dancing to multiple tunes, and the 4) Governance of impact. These themes are responses to challenges such as limitations in data access and processing, limited conceptualisation and application of investment theories of change as well as difficulties in managing the impact measurement process.

1. INTRODUCTION

The analysis of traditional investments comprises rigorous estimations of financial returns, as well as various risk assessments. The risk-return dichotomy in modern portfolio theory underpins fundamental concepts of measuring investment risk and returns, and informs investment decisions (Fabozzi & Markowitz, 2011; Holthausen, 1981). However, the measurement of environmental and social risks and returns is a concept that is becoming more prominent to investors and investment managers who implement impact investing as their approach to investment (Emerson, 2003; Social Impact Investment Taskforce, 2014). Impact investing is broadly described as an investment approach which intends to generate measurable social and environmental impact alongside financial returns (Giamporcaro & Dhlamini, 2015; Jackson & Harji, 2012; Schiff, Bass, & Cohen, 2016).

Impact investors tend to be individuals, organisations, or institutions in both the public and private sectors, that purposefully invest in funds, projects or businesses that intend to effect positive social and environmental change in addition to financial returns (Mudaliar, Pineiro, Bass, & Dithrich, 2017; The Impact Measurement Working Group, 2014). Emerson's (2003) "Blended Value Proposition" emphasises the need for an integrated approach that encompasses environmental, social and financial value. Impact investing encompasses this blended approach.

In 2014, the Rockefeller Foundation reported investments of nearly \$50 million over seven years in support of building the impact investing market (Rodin, 2014), and more recently in 2017 the Ford Foundation has committed an additional \$1 billion in an effort to advance the market for impact investing, which is to be phased in over ten years (Cinelli, 2017).

As impact investment markets develop globally, questions are emerging among academics and practitioners as to whether the intended impacts are being achieved (Bass, Dithrich, Sunderji, & Nova, 2020; Brest & Born, 2013a; Cash & Plotsky, 2018; Jackson, 2013; Olsen & Galimidi, 2008). The additional intention to generate measurable environmental and social impacts affirms the importance of measuring and tracking intended impacts for impact investors (Jackson, 2013). Failure to adequately measure impact potentially undermines the integrity of the impact investment, if it is unclear whether funds intended to bring about positive social and environmental change are achieving the intended impacts (Brest & Born, 2013a; Cash & Plotsky, 2018; Jackson, 2013; Olsen & Galimidi, 2008).

The Global Impact Investing Network's (GIIN) 2017 Annual Impact Investor Survey found that the global impact investing assets under management amounted to USD 114 billion at the end of 2016 (Mudaliar, Schiff, Bass, & Dithrich, 2017). By the end of 2018, the GIIN estimate grew to \$502 billion (Mudaliar, Bass, Dithrich, & Nova, 2019).

Geographically, 40% of global impact investments were allocated in North America, and 10% were allocated in Sub-Saharan Africa (Mudaliar, Schiff, et al., 2017). South Africa is recognised as the largest Southern African market for impact investing where approximately 76% of the impact capital distributed in the Southern African region is allocated within South Africa (Global Impact Investment Network & Open Capital, 2016). In the context of high inequality and unemployment, South Africa has the need and potential to become a leader in the measurement of societal impact.

Although available academic and practitioner literature on the South African impact investing market provides insight into the allocation of capital to impact investing (Giamporcaro & Dhlamini, 2015; Mudaliar, Schiff, et al., 2017), it provides limited empirical insight into how impact is being measured in practice as well as the methods and frameworks employed in the measurement of impact.

Our enquiry is thus based on the question of how impact investors approach impact measurement, with South Africa as the empirical setting. The objective is to determine how institutional impact investors measure and track their intended impact. In the process, we explore factors influencing investors' approaches to impact measurement in practice

The study of impact measurement within South Africa's impact investing industry can provide the foundational insight into the strengths and weaknesses in current practises. It also contributes empirical data on impact measurement and tracking (Brest & Born, 2013a; Social Impact Investment Taskforce, 2014), especially in emerging markets such as South Africa, where the data is currently limited (The Impact Measurement Working Group, 2014). Consequently our study will enable investors to better assess the blended value of impact investment opportunities (Brest & Born, 2013a; United Nations Development Programme Regional Service Centre for Africa, 2015). Additionally, this insight will potentially unlock the investors' capacity for further improvement, streamlining and standardisation of impact investing and measurement towards greater positive change.

Therefore, this study contributes to knowledge of impact measurement and the types of frameworks applied, particularly of South African institutional investors (Maxwell, 2008; Mudaliar, Pineiro, et al., 2017). The study also uncovers endogenous and exogenous factors influencing the impact measurement practises of South African impact investors by examining the different approaches to impact measurement. The knowledge uncovered will not only contribute to academia in fostering scholarly dialogue, but also contributes a Global South perspective to the emerging dialogue around impact investment management worldwide (Hamann, Luiz, Ramaboa, Khan, & Dhlamini, 2020).

The organisation of the paper:

The rest of this paper begins with a review of existing academic and practitioner literature on the impact investing and measurement research area. This is followed by a discussion of the research methods followed in collecting and analysing the primary and secondary data samples. Our findings are then presented with a discussion of themes emerging from our analysis. The paper concludes with a discussion of implications for practitioners and recommendations for future enquiry.

1. LITERATURE REVIEW

Prior to the concept of impact investing, the initiatives implemented in order to effect positive social and environmental change stemmed predominantly from government policy and spending, civil society, gift-giving and donations. The idea of effecting positive social and environmental development was traditionally separate and often conflicting with the idea of financial returns and wealth creation (Ormiston, Charlton, Donald, & Seymour,

2015). However, over recent decades these concepts have gradually merged to form the field of impact investing and impact measurement (Loveridge, 2016; Ormiston et al., 2015). This literature review highlights how the concepts of impact investing and measurement thereof were conceived, the variations in the definitions that hinder progression of the industry, how it could contribute to achieving the Sustainable Development Goals (SDG's), as well as with the main frameworks used in measurement. These frameworks include the logic model, the five dimensions of impact and other commonly used measurement tools and metrics (Höchstädter & Scheck, 2015; Mudaliar, Pineiro, et al., 2017; Nicholls & Emerson, 2015). It concludes with recent developments within South Africa's impact investing industry.

2.1. Defining impact investing

The term "impact investing" was first conceived by the Rockefeller Foundation in 2007 (Daggers & Nicholls, 2016), defined as investing characterised by the intent not only to achieve financial returns but also positive social and environmental impact (GIIN, 2016; Loveridge, 2016; Olsen & Galimidi, 2008). This concept was born out of a breed of investors identifying with a desire to effect positive social and environmental impact through their investments, viewing their capital as the means to effect the desired change (Jackson & Harji, 2012; Olsen & Galimidi, 2008).

However, the idea of investing for positive social outcomes is not a new concept (Höchstädter & Scheck, 2015); multilateral and bilateral development finance institutions such as, *inter alia*, the International Bank for Reconstruction and Development (IBRD) and the European Investment Bank (EIB), founded in 1944 and 1958 respectively, were initially created in order to rebuild European countries after World War II (Sagasti, Bezanson, & Prada, 2005). These and other DFI's have evolved worldwide to work towards investing in social and infrastructure projects for development, and generate a profit in order to remain self-sustaining (Luna-Martínez, 2017; Sagasti et al., 2005).

Impact investing has since developed into a global market supported by various organisations. The Global Impact Investing Network (GIIN), launched in 2009, has been an enthusiastic advocate of impact investing. The GIIN supported by, *inter alia*, the Rockefeller Foundation and USAID has been instrumental in building the impact investing market and advancing the concept of impact investing as part of its ongoing market-building initiatives (Mudaliar, Pineiro, et al., 2017). The GIIN defines impact investment as:

"Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. They can be made in both emerging and developed markets and target a range of returns, from

below-market to market-rate, depending on the investor's goals" (Mudaliar, Pineiro, et al., 2017, p. 61).

The main factor that distinguishes impact investing from other forms of investing is argued to be the element of "intentionality", where positive social and environmental impact objectives are set alongside profit-seeking objectives (Bouri, Mudaliar, Schiff, Bass, & Dithrich, 2018). Furthermore, there is a spectrum of approaches to financial return objectives that apply within impact investing, i.e. finance-first impact investing versus impact-first impact investing (Monitor Institute, 2009). Critics question whether financial and impact returns can be achieved simultaneously. Brest and Born (2013b) postulate that an investment can only have true impact when the social and environmental value exceeds what would ordinarily have been achieved. Their perspective challenges impact investors to demonstrate the extent of the additionality of their investment practices to the intended outcomes (Brest & Born, 2013b).

The UN Principles of Responsible Investing (PRI) (2018) adds a further distinction to the impact investing definition, defining it as either traditional impact investing that is "usually associated with the theory of change, the concept of additionality and purpose-driven companies", or mainstream impact investing that "focusses on liquid and mature businesses that deliver products or services to benefit society and the environment" (Morriesen, 2018, p. 8).

Academic scholars and practitioners are in agreement that the definition of impact investing encompasses the intentions of achieving financial returns alongside non-financial returns to society or environment (Höchstädter & Scheck, 2015; Jackson & Harji, 2012). However, there is disagreement on whether the definition of impact investing includes the need for measurement of these social and environmental impacts (Höchstädter & Scheck, 2015). There is also a lack of consensus in what constitutes "impact"; the definition for which can change based on the method of impact measurement employed (Höchstädter & Scheck, 2015). For example, impact investors that use the logic model framework (discussed in section 2.3.) will make clear distinctions of outputs, outcomes and impacts (Epstein & Yuthas, 2014). Whereas those using impact metrics and indicators such as the IRIS or GIIRS metrics may not make these distinctions between outputs, outcomes and long-term impact and instead focus on the output level (So & Staskevicius, 2015). However, Höchstädter & Scheck's (2015) dimensions of impact suggest that impact investors could focus on shorter-term positive change in their quest for long-term impact.

Furthermore, definitions of impact focus on positive effects, i.e. "positive bias" (Reeder & Colantonio, 2013). It is unclear whether this includes potential negative impact and consequences; whether measurement and tracking of negative impacts and externalities

should be incorporated into measurement practises and the extent to which these should be included (Höchstädter & Scheck, 2015; Reeder & Colantonio, 2013). Therefore, more needs to be done to address these inconsistencies in the definitions within impact investing in order for the industry to further develop.

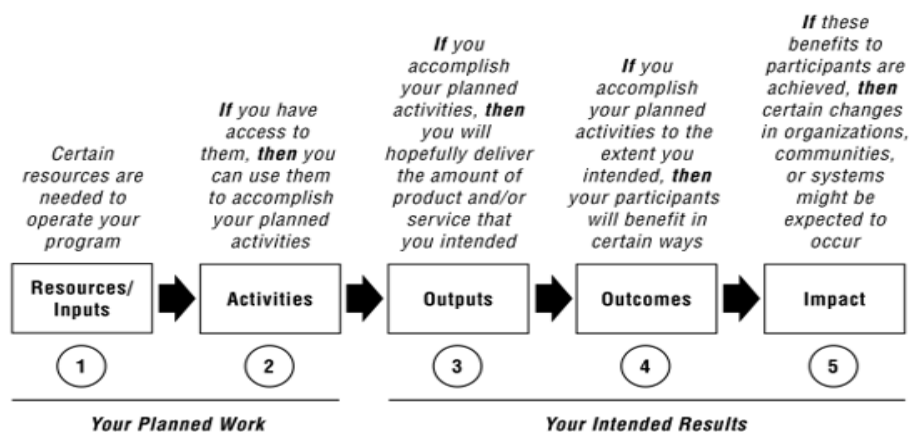
We adopt the GIIN definition of impact investing as it is the most widely recognised definition used by investors that identify as impact investors. It incorporates investors in emerging and developed markets and encompasses the full spectrum of return targets, i.e. it includes investors seeking returns which are below, at or above market-related returns (Mudaliar, Pineiro, et al., 2017).

2.2. Logic model

The logic model is said to form the basis of numerous concepts used in impact investing and was devised by the United States Agency for International Development (USAID) in the 1960's. It was initially intended for use in evaluating social improvement initiatives (W. K. Kellogg Foundation, 2004), and proposed as a methodical and structured depiction of the stages of implementing a project from inception to the final stages of evaluating the outcomes (W. K. Kellogg Foundation, 2004).

Key elements of the logic model demonstrate the flow and the relationships between inputs, activities, outputs, outcomes and impact which are presented in Figure 1 below (W. K. Kellogg Foundation, 2004):

Figure 1: How to read a logic model



Source: W.K. Foundation Logic Model Development Guide

Ebrahim and Rangan (2014) highlight the logic model in measuring the impact of social sector organisations and differentiates between outcomes and impact in stating that outcomes are viewed as a change in the well-being of individuals, whereas impact is viewed as observed change in the wider community over the long term. The proposed use

of the logic model includes measuring the effectiveness of an initiative in achieving its goals, and finding ways to generate greater long term impact (Ebrahim & Rangan, 2014).

However, Ebrahim (2013) postulates that conducting in-depth impact assessments and applying frameworks such as the logic model over extended periods of time is not always practical for impact enterprises in the early stages of the business life cycle. Organisations such as non-profit impact investment fund, Acumen, and US grant-making foundation, Robin Hood, do not measure longer term impacts. Instead they opt to focus on tracking outputs and outcomes (e.g. counting the number of bed-nets disseminated in malaria prone regions or tracking test scores in education) without employing resources to apply the logic framework to their operations for longer term impact measurement. This approach is used for the following reasons (Ebrahim, 2013; Reeder & Colantonio, 2013):

- It is time-consuming and costly to measure long impact;
- the resources allocated to the initiative are often not skilled in in-depth longitudinal studies on impact;
- and there is not always commitment to conduct impact assessments that span over numerous years.

Furthermore, Epstein and Yuthas (2014) also highlight logical frameworks or “logframes” as a more detailed logic model used in impact evaluation. The proposed logframe is said to work backwards; by initially identifying the intended impact and the target population, followed by the statement of outcomes that would be required within that population to achieve the intended impact. This is followed by naming the outputs to be generated by the organisation, the subsequent activities required to create the specified outputs, and lastly, the indicators and metrics to be used in measurement (Epstein & Yuthas, 2014, p. 109).

In light of the utility ascribed to the logic model it's not clear empirically whether it has been adopted by for-profit impact investors from emerging markets such as South Africa. It is also unclear whether the pitfalls cited by Ebrahim (2013) and Reeder (2013) apply to emerging market institutional impact investors who have long-term investment objectives and may have more resources to apply the framework. Questions, thus, emerge regarding the utility of logic framework in an emerging market setting and whether other frameworks are better suited for for-profit impact investors in the emerging market context. One such framework is in the form of five dimensions of impact as proposed by Höchstädter and Scheck (2015).

2.3. The five dimensions of impact

Impact investors advocate for improving the quality of life of marginalised sectors of society through seeking positive social and environmental change through their investments (Schiff et al., 2016). Therefore, setting impact objectives is important as it provides direction and vision for the change they wish to catalyse (Reeder & Colantonio, 2013).

Höchstädter and Scheck (2015) propose the five dimensions of impact which summarise the various strategies employed by impact investors in setting their impact goals. They are summarised as 1) demography and geography, 2) sector, 3) impact objectives, 4) organisational processes, and 5) financial or organisational structure as illustrated in figure 2 (Höchstädter & Scheck, 2015):

Figure 2: Five Dimensions of Impact

Demography & Geography	Relates to the target population or end beneficiaries of the investment and their geographic location.
Sector	High level categorisation of the economic activity, e.g. agriculture, renewable energy, water and sanitation, finance, education, healthcare and housing.
Impact Objectives	Indicates how impact objectives are achieved through generated outputs, e.g. jobs created, number of houses developed, and amount of taxes paid to government by investee companies.
Organisational Processes	Operations and procedures that create value for key stakeholders within investee companies.
Financial or Organisational Structure	Relates to the financial and organisational layout of the investor company, which invests in the creation of social and/or environmental good.

Source: Authors' own adaption of Höchstädter and Scheck's (2015) explanations of the five dimensions of impact

The five dimensions are adapted from the dimensions of impact devised by Nicholls and Emerson (2015); providing various approaches that can be used by impact investors in investing for social and environmental impact. Each dimension is said to portray the perspective of the impact investor. It shows that impact is not limited to long-term sustainable change, but can also be in the form of shorter-term elements in the logic and logframe model, such as "activities" (i.e. organisational processes), "outputs" or "outcomes" (i.e. impact objectives) and "impacts" (i.e. demography and geography) (Epstein & Yuthas, 2014, p. 109; Höchstädter & Scheck, 2015; Nicholls & Emerson, 2015).

The matrix in Figure 3 below combines the five dimensions of impact and the logframes model and shows how the various dimensions of impact relate to the logframe segments.

Some impact dimensions or identifiers are particular to a few logframe segments, such as “impact objectives” that pertain to “outputs” and “outcomes”, while the “sector” dimension pertains to all segments of the logframes model (Epstein & Yuthas, 2014; Höchstädter & Scheck, 2015).

Figure 3: Five Dimensions of Impact vs Logframes Model

		LogFrames →				
		Impact	Outcomes	Outputs	Activities	Indicators/Inputs
5 Dimensions of Impact	Demography & Geography	X	X	X		
	Sector	X	X	X	X	X
	Impact Objectives		X	X		
	Organisational Processes			X	X	X
	Financial or Organisational Structure			X	X	X

Source: Authors’ own adaption of Höchstädter and Scheck’s (2015) five dimensions of impact versus Logframes Model

Figure 3 above also suggests conceptually that the 5 dimensions are most complimentary with the outputs element of the logic framework. Additionally, it suggests that the sector dimension of impact cuts across all the elements of the logic framework. This raises a question of whether the same focus on outputs through specific sectors dominates in influencing the impact investors’ goals and approaches to impact in practice.

2.4. Impact measurement and the Sustainable Development Goals (SDG’s)

It is argued that impact measurement provides the opportunity to contribute to the current body of impact data, as well as review and further improve strategies for future, greater impact (Reisman & Olazabal, 2016). Over time, an established track record of effective impact measurement is proposed to enable future capital allocation decisions of both public and private sources of financing for development, where high impact sectors are allocated. Indeed intended positive social and environmental objectives of impact investments have immense potential to align with the global and local development agendas such as global Sustainable Development Goals (SDGs) and South Africa’s National Development Plan), (National Planning Commission, 2012; United Nations, 2016). These goals include

eradicating poverty, improving the social, economic and environmental welfare of all living beings, and fostering inclusive and environmentally-conscious economic growth and development (National Planning Commission, 2012; United Nations, 2016).

The United Nations Conference on Trade and Development (UNCTAD) estimates that achieving the SDG's by the year 2030 requires investments of between \$5 trillion to \$7 trillion, with a current funding gap of \$2.5 trillion in developing countries (Niculescu, 2017). Impact investing serves as a lucrative mechanism to mobilise private sector capital for sustainable development (Pineiro, Dithrich, & Dhar, 2018).

Critics of the SDG's argued that the list of SDG's lacked focus and are too broad to provide effective solutions to global developmental issues (Kumar, 2017). However, the GIIN (2016) has profiled cases of impact investors that are contributing to achieving developmental impact through alignment of their business strategy to SDG's. They have found that participating impact investors that identify with specific SDG's (which align with their existing impact objectives) are rejuvenated by the renewed focus and perspective that is inspired by SDG's (GIIN, 2016). In addition, alignment to all 17 goals is not necessary to have lasting impact. Selecting and focussing on a sub-set of the goals is proving effective (GIIN, 2016; Kumar, 2017). This has resulted in new ways of articulating impact to various stakeholders, and aids in attracting new private sector capital to sustainable development initiatives (GIIN, 2016; Kumar, 2017).

However, Nieuwenkamp (2017), Chair of the OECD Working Party on Responsible Business Conduct, cautions against "SDG Washing", a recently identified occurrence amongst businesses which choose to align themselves to particular SDG's, highlight the intended positive impact it aims to achieve, while deliberately ignoring negative impacts (Nieuwenkamp, 2017). Therefore, businesses need to pay particular attention to the due diligence of negative social and environmental impacts in striving to contribute to achieving the SDG's; so as not to impede or reverse progress made in realising these development goals (Mudaliar, Pineiro, et al., 2017; Nieuwenkamp, 2017).

2.5. Impact measurement tools and frameworks

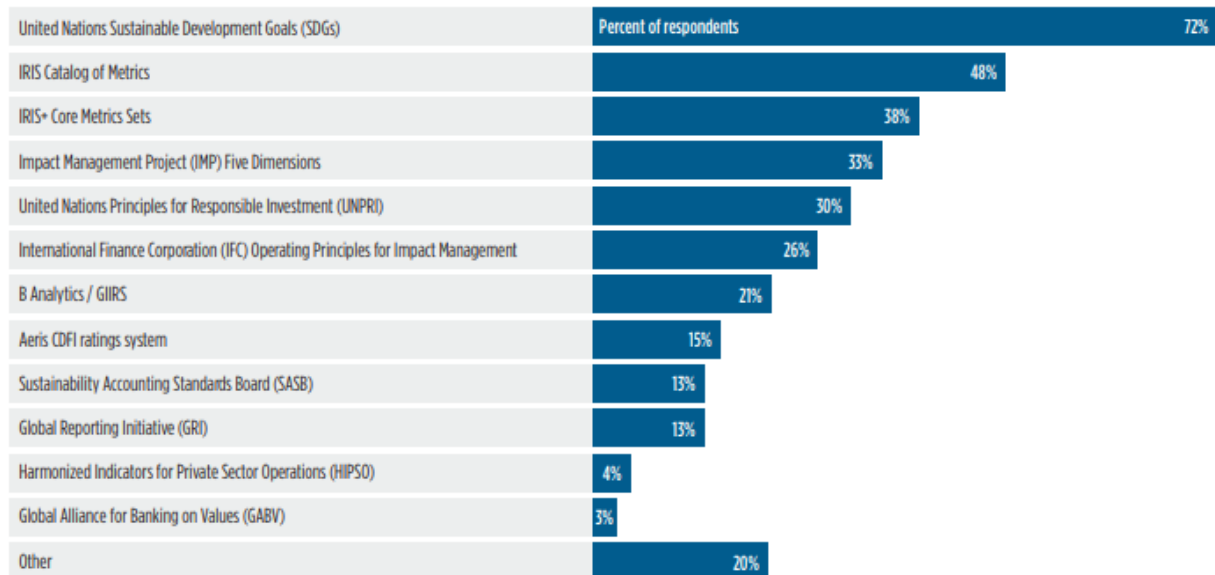
The Global Impact Investing Network's (GIIN) latest State of Impact Measurement and Management Practice survey (2020) provides a summary of the most commonly used measurement tools and frameworks from a survey of 257 impact investors across developed and emerging markets (Bass et al., 2020)

The survey reveals the UN SDG's, IRIS Catalog of Metrics and the IRIS+ Core Metrics Sets to be the most commonly used measurement frameworks amongst the participating impact investors. It further deduces that a third of respondent employ the Impact

Management Project's Five Dimensions of impact; while more than a quarter utilise behavioural principles such as the UN Principles of Responsible Investment (UNPRI) or the International Finance Corporation's (IFC's) Operating Principles for Investment (Bass et al., 2020, p. 37).

Figure 4: Summary of impact measurement tools and frameworks

n = 257; optional question. Respondents could select multiple tools and frameworks.



Note: Others include SPTF/CERISE SPI4, GOGLA, and CDFI certification systems.

Source: GIIN State of Impact Measurement and Management Practice Survey 2020

However, of the 257 survey respondents, 82 percent are headquartered in developed markets and 18 percent in emerging markets, with 7 percent in Sub-Saharan Africa (Bass et al., 2020, p. 16). Therefore, the coverage of Southern African impact investors, which makes up a smaller proportion of the study's emerging market coverage, is significantly limited. Furthermore, the study's methodology includes only those respondents that have "committed at least USD 10 million to impact investments since their inception and/or made at least 5 impact investments" (Bass et al., 2020, p. 9). This further excludes smaller African-based impact investors that have entered the market in recent years, thus limiting the insights regarding Southern African impact investors and their measurement practises.

This raises questions regarding the tools and frameworks that are influential to impact investors who are excluded by the participation criteria of the GIIN survey. Consequently, it presents opportunity to explore impact measurement and management approaches of a sub-set of the impact investing market in a more inclusive way. A market such as South Africa has impact investors of varying sizes (Giamporcaro & Dhlamini, 2015), some of whom do not meet the criteria of the GIIN Survey with reference to assets under

management (Global Impact Investment Network & Open Capital, 2016). This presents a compelling case for South Africa as an empirical setting for enquiry.

2.8. The case of South Africa

The Global Impact Investment Network and Open Capital (2016) found that approximately 74% of the impact capital distributed in Southern Africa has been allocated in South Africa. In addition, the third edition of the Africa Investing for Impact (AIFI) Barometer – a survey compiled from fund managers' publicly-disclosed public information for South Africa, Kenya and Nigeria, found South Africa to be the leading impact investment market in terms of development and allocation of capital amongst the 3 countries (Giamporcaro & Dhlamini, 2015). Although the AIFI Barometer provides insight into the value of impact capital flowing into the respective countries, it does not provide insight into how the intended impacts are measured or whether the investments are effective. Measurement and continuous monitoring and evaluation of impact provides evidence that the capital flows to these regions are achieving intended developmental impact objectives and are a significant enabler in fostering growth in the South African impact investment industry (Jackson & Harji, 2012; Mudaliar, Pineiro, et al., 2017; Schiff et al., 2016).

In addition, at the time of the Global Impact Investing Network and Open Capital's (2016) study, South Africa had approximately 36 impact investors head-quartered in South Africa, and an additional 26 impact investors with regional offices operating in South Africa (Global Impact Investment Network & Open Capital, 2016). This provides an estimate of the size of the South African impact investment industry.

South Africa's National Development Plan (NDP) aims to decrease poverty and inequality through, *inter alia*, improving access to employment and increasing developmental investments (National Planning Commission, 2012). This includes investments relating to improving infrastructure and access to affordable housing, while being cognisant of the environmental effects of these interventions – striving for more sustainable means of implementation (National Planning Commission, 2012).

South Africa's National Task Force for Impact Investing was formally launched in October 2018, consisting of public and private industry players (made up largely of the financial services sector), and aims to change the mindset of deployers of public and private sector capital by emphasising the importance of social and environmental impacts on society in addition to financial returns (Buthelezi, 2018). The task force highlights the important role that impact investing plays in achieving the NDP and SDG's and will work to provide further clarity in the definitions of impact investing, whether it will align to international definitions or devise its own, as well as how impact should be measured (Buthelezi, 2018).

3. RESEARCH METHODOLOGY

3.1. Research Approach

Our research question is a “how” question which lends itself to an exploratory qualitative approach to research in order to gain understanding and generate insights into impact measurement techniques used in South Africa (Leacock, Warrican, & Rose, 2015). The exploratory qualitative approach is most appropriate for this study in light of our objective of uncovering “how” a particular phenomenon is occurring. Specifically, how impact measurement is occurring with institutional impact investors as our informants of interest. We have adopted the case-study method for the study which is useful in exploring phenomena and uncovering knowledge from various units of analysis (Leacock Coreen J. et al., 2015; Joseph Alex Maxwell, 2013; Yin, 1994).

3.1.1. Case study: South Africa

We focus on the South African impact investing market as a case for enquiry and analysis as the largest market for impact investing on Sub-Saharan Africa. (Giamporcaro & Dhlamini, 2015). A single case study of South Africa is compelling from a methodological perspective because a single case allows for insights to be drawn in exploratory research (Baxter & Jack, 2008). Empirically, South Africa is compelling as a case, given its advanced development relevant to other markets in sub-Saharan Africa and accessibility for the research (Baxter & Jack, 2008; Giamporcaro & Dhlamini, 2015; Jonker & Pennink, 2010). The South African context also adds perspectives from impact investors operating in a hybrid economy with formal and informal markets, that are vastly more unequal and diverse in terms of levels income, employment and standards of living compared to more developed markets (Buthelezi, 2018; Global Impact Investment Network & Open Capital, 2016; Hamann et al., 2020).

3.1.2. Unit of analysis

Institutional South African impact investors served as the unit of analysis (Baxter & Jack, 2008; Maxwell, 2013). The study analyses institutional impact investing organisations operating in South Africa. Organisations, unlike individuals, are assumed to have the resources and impetus to formalise impact measurement processes and manage larger portfolios of impact investments. South African impact investors also possess the insights required in order to address the research questions (Adams, Khan, Raeside, & White, 2007).

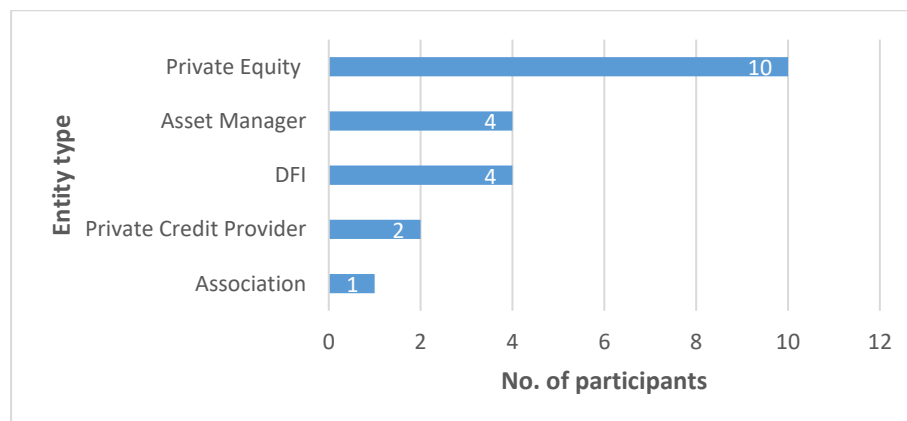
Primary data were generated from semi-structured interviews held over 8 months between March and November in 2018. This allowed for more in-depth and detailed collection of

data relative to conducting surveys that would not allow the same kind of in-depth collection of less-uniform data (Leacock et al., 2015).

A population of 58 impact investors and associations in SA was compiled; from which the research participants was sampled (Giamporcaro & Dhlamini, 2015; Global Impact Investment Network & Open Capital, 2016). A combination of convenience sampling and snowball sampling methods were used to collect the primary data (Adams et al., 2007; Crouse & Lowe, 2018; Phua, 2011). These sampling approaches were chosen as it allowed inclusion of potential participants that were readily accessible, while referrals allowed for access to industry experts within the field of impact investing. Of the total contact list, 29 of the 58 potential participants identified are private equity firms, i.e. 50 percent of the total list.

Figure 5 shows that the majority of participants were private equity firms. The sample also included 4 asset managers and 4 DFI's (2 were private DFI's and 2 state-owned). The 2 private credit providers were financial service providers that provide private credit with social and environmental impact objectives incorporated into their business models. The association provides support to impact investors in setting impact objectives within specified guidelines as well as in impact measurement and tracking procedures. This made up a total of 22 research interviews, of which one entity provided two separate interviews.

Figure 5: Primary data collected

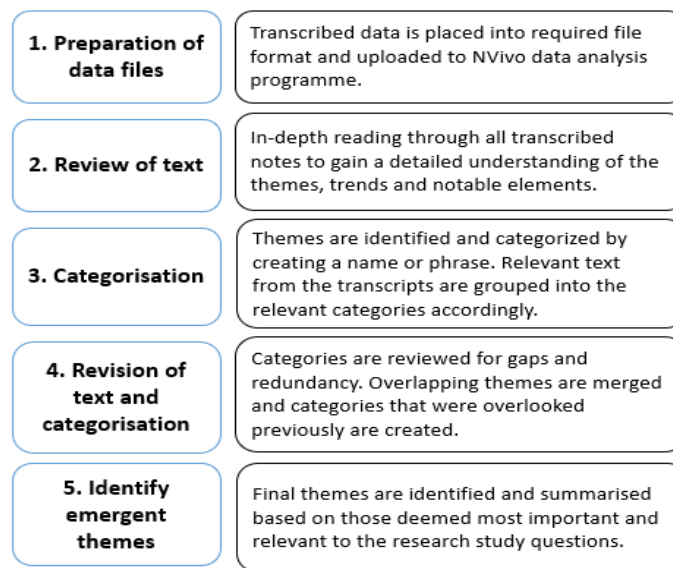


Source: Authors' own

3.3. Data analysis

The data was analysed using a general inductive approach (Thomas, 2006), characterised by a systematic review of transcripts and other forms of text data in order to draw themes and categories in a systematic and succinct manner (Thomas, 2006).

Figure 6: Procedure for inductive data analysis



Source: Authors' own adaption of David R. Thomas' (2006) procedure for general inductive analysis

The identified themes were categorised by names and phrases and all illustrative quotes from the interview transcripts were grouped into relevant categories (i.e. step 3). Further revision of the transcripts and categorisations allowed for identification and removal of redundant grouping as well as the addition of categories that were not noticed in the initial review stage. At the final stage themes were drawn from the categorised data.

In the analysis process it became apparent that certain themes were unique to certain informants based on the type of impact investment organisation they represented. For instance, one of the themes emerging from the categorisation process is that impact investors (i.e. the unit of analysis) are influenced by their funders. With some organisations having no third-party funders, we re-evaluated the informants and categorised them according to the type of organisations they represented as follows into four types of impact investing organisations namely:

- DFI-funded Fund Managers (FM)
- Non-DFI Funded Fund Managers (FM)
- DFI's
- Other

The composition of each category is depicted in Figure 7.

Figure 7: Categorisation of primary data



Source: Authors' own

DFI-funded fund managers comprise of 6 private equity firms that have development finance institutions as investors. Non-DFI-funded fund managers do not have development finance institutions as investors and comprise of 4 asset managers and 2 private equity firms.

The DFI's include two state-owned and two private institutions. Furthermore, the "other" category comprises of two private credit providers and 2 private equity firms for whom it is undisclosed whether they are funded by a DFI. Therefore, both sub-groups do not fall into any of the other three categories and have been grouped into a separate category.

4. RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

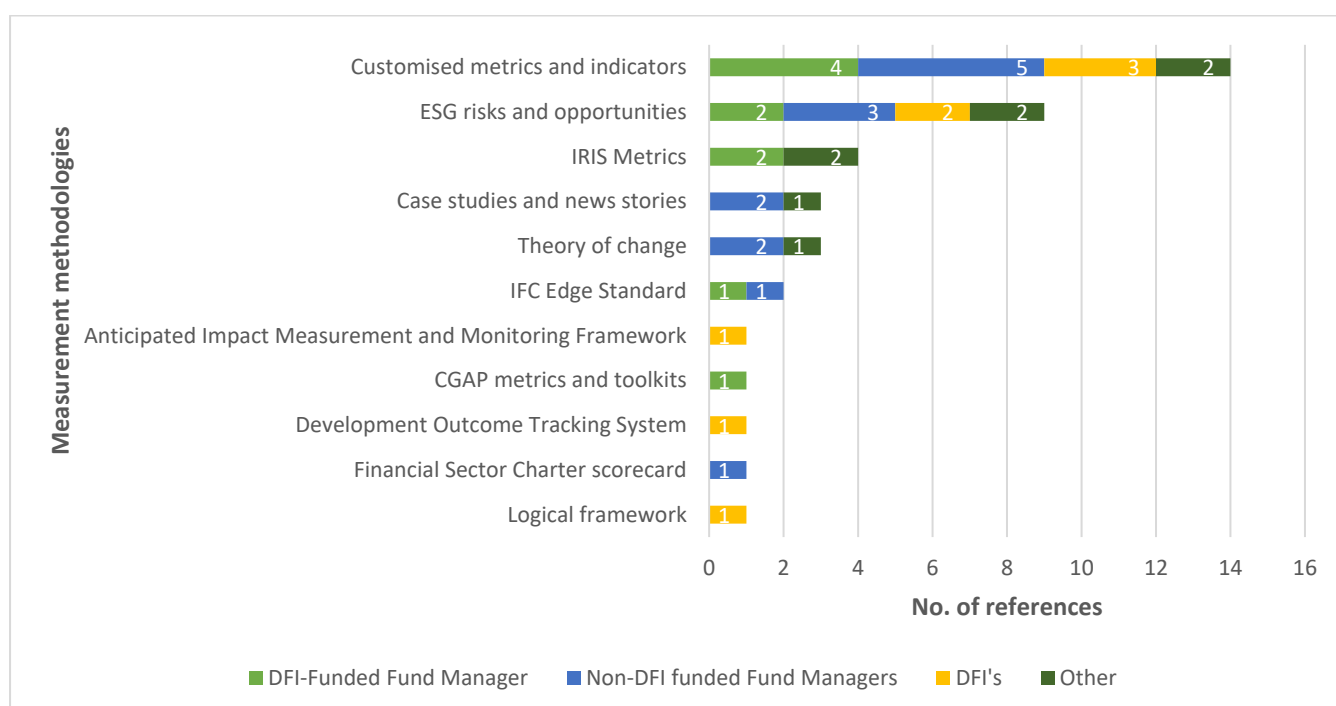
The findings of our research were collated from the analysis of research interviews conducted with informants from 20 impact investors and 1 association operating in the impact investing industry. All the participating organisations operate within the public and private sectors of South Africa.

The semi-structured research interviews sought to solicit information regarding the process of impact measurement including challenges faced in measurement and reporting of impact. The findings presented include illustrative quotes to further demonstrate evidence and the rationale for interpretations from the analysis process.

4.1.1. Approaches used in impact measurement

Impact investors were found to follow various methodologies, tools and frameworks in measuring their impact resources such as IRIS and IFC globally and the Financial Sector Charter locally. However, the use of customised metrics and indicators is by far the most common approach used by participants across the four categories of impact investors. Figure 8 below shows the methodologies and tools used to measure impact.

Figure 8: Measurement methodologies



Source: Authors' own depiction from data gathered

It is evident that customisation is preferred. These customised tools are usually used to compliment the impact investors' approach to the analysis of priority environmental, social and governance (ESG) risks and opportunities. This approach was more popular amongst non-DFI fund managers who appear to adopt more of a risk-based approach to identifying potential social and environmental risks as well as strategies to mitigate risks identified.

In practice, the impact investors have a preference of collecting raw data from investee companies; using impact data which is of interest and aligned to their ESG impact priorities. For instance, a DFI-funded FM (operating in the agriculture sector) stated the following

"We'll send them a spreadsheet each quarter, they'll fill it in and send it back to us. They keep their own systems for job tracking and number of outgrowers, etc, that they use. They just extract it, put it in a spreadsheet and send it back to us... we've got outgrowers, SME's impacted, farms impacted, taxes etc."

The preference for customisation also emerged from an impact investor who uses an industry set of standards; namely the IFC Edge Standards which are aimed at project developers to combat the effects of climate change. It appears the use of the IFC Edge Standard was influenced by the impact investors' involvement in the development of the standards as revealed by the informant stating the following:

"I don't know if you've ever come across the IFC Edge Standard... we worked quite closely with them in developing it... And we actually also measure the impact through

comparing green projects to non-green projects and reporting to our investors. So that's a very big part of what we do."

A particularly interesting finding is the low number of investors making use of explicit theories of change and/or logic frameworks in approaching impact measurement. Only one DFI participant mentioned the logic framework in discussing the approach to impact measurement. Two non-DFI-funded impact investors made mention of the theory of change in their discussion of approaches to impact measurement. The preferences above are potentially influenced by our findings regarding the challenges faced by impact investors and their associated responses to the challenges, which include the difficulties in applying theoretical frameworks such as the theory of change in practise.

4.1.2. Challenges in impact measurement and reporting

In analysing the discussion of challenges by the informants 3 set of challenges emerged. The 3 sets of challenges are broadly related to 1) Data Access and management, 2) Impact measurement process and 3) Application of Logic Framework in practice.

a) Data access and processing the first set of challenges was found to be related to the impact investors' limitations in accessing the desired impact data from the investee companies. Firstly, collecting accurate impact data from investees, in a timely manner is a challenge faced by DFI-funded FM, non-DFI funded FM and DFI impact investors. A common issue cited by interviewees is the difficulty in collecting accurate impact data for reporting by investees. An example is illustrated below:

"I think data collection is quite difficult...data collection and how to tell the story, because you are doing this good and you are investing and there is impact, but you have to tell the story and make sense of it and put it out to market."

This in turn appears to lead to limited clarity regarding the impact generated by the impact investors.

Secondly, the impact investors are challenged by the varying preferences for reporting requested by their funders or investors. DFI and non-DFI-funded FM pointed out that their various funders each have their own reporting requirements, which means that they have to report their impact findings in different formats and apply differing frameworks that are required by each funder. For instance, a DFI-funded manager remarked on this challenge, stating:

"So, there's a degree of frustration that the reporting gets fragmented because of these diverse requirements of the different parties."

Similarly, the Non-DFI funded impact investor expresses a desire for more uniform reporting requirements stating:

“I think that if there was just one sheet of metrics that you could give out, that would be easy.”

Lastly impact investors face challenges in processing impact data once it is collected. This challenge largely has to do with limited skills amongst investment professionals in the impact organisation as well as a general shortage of the required resources to process impact data. An informant from a DFI-funded opined stating;

“I think that your organisation has to be appropriately set up for this”.

An informant from the “other” category of impact investors expressed similar sentiments stating that:

“Time and resources is definitely a big thing!”

On the issue of skills an informant from a Non-DFI funded expressed the following:

“There’s a skills gap in ESG Specialists, and I am still learning, but I think even consultants, advisors, there’s a learning curve”

As can be seen, the challenges relate to accessing quality data, limitations in organisation and human resources to process the data. These are further compounded by diverse reporting requirements from funders and investors.

b.) Impact measurement process

The second set of challenges was found to be related to the impact measurement process. Firstly, selecting appropriate impact metrics, indicators and processes to measure impact is challenging partly due to the lack of standardised resources and approaches similar to measuring financial returns. An informant from a DFI-funded impact investor stated the following:

“So the biggest challenge we think, and this is a global challenge, is developing a set of agreed formalised metrics”

Secondly, measuring and comparing impact data reported by investee companies is challenging. An informant from a non-DFI funded impact investor contrasts data from the formal and informal sectors; stating that:

“...in informal sectors, jobs aren’t defined by employment contracts.”

The informant highlights the implications this has on the ability to measure and compare outcomes for the same indicator of job creation. The informant further indicates the response to the challenge stating that the firm starts:

“...looking at alternative forms of evidence, instead of just looking at the formal employment contract.”

Lastly, impact investors struggle to attribute impact outcomes and demonstrate the additionality of their investments in particular. For instance, two informants comment respectively:

“Then another challenge is the attribution piece.”

“We are aware that we’re not the only funder for these companies...and it’s all of us working together that enabled this company to thrive and to grow and to result in the impacts that are being generated.”

It is evident that the impact measurement process has a number of challenging aspects for the impact investors. These include selecting an appropriate approach in the absence of consensus regarding the appropriate standards, diverse demand for reporting and ability to accurately attribute the impact measured to the investment made.

c.) Application of Logic model in practice

The third set of challenges is associated with the extent to which the impact investors formulate and apply a logic model or framework in practice. Firstly, impact investors struggle with moving beyond the theoretical aspect of their organisational theory of change, if they have one to begin with. For instance, one of the informants stated that:

“...theory of change...is very theoretical. It’s a challenge.”

Secondly, impact investors find it difficult to provide evidence of their impact in a consistent manner as attested by an informant who stated the following:

“We’re proud of what we’ve achieved. But we can’t say with 100% certainty that we’ve achieved our intended impacts.”

Lastly, the application of the logic framework requires co-operation between the impact investors and investee companies. The impact investors are reliant on their investees to achieve and report on the impact indicators linked to the impact investors’ logic model. DFI-funded and “other” participants highlighted that often investee companies are not consistently impact focussed and lose interest in reporting on their impact after they’ve received investment funding, thus augmenting the difficulties in collecting accurate impact data. One of these informants points to inconsistency in quality of reporting by investees, stating:

“They’ve sort of half-done the job. So, if someone has half-done the job it means that it becomes a problem in getting the right number, or any number, it’s pulling a rock uphill.”

Impact measurement appears to be a difficult task on its own. It appears that the challenge of impact measurement for South African impact investors is further complicated by

additional challenges which are endogenous and exogenous influences on the impact investors' approaches to impact measurement. These are as depicted in Table 1 below which highlights that the exogenous influences outnumber the endogenous influences.

Table 1: Challenges faced in impact measurement

Challenges to impact measurement	Endogenous influence	Exogenous influence
1.) Data access and processing		
Collection and accuracy data	✘	✘
Varying preferences for reporting		✘
Resources and skills shortage in staff	✘	
2.) Impact measurement process		
Lack of standardisation in the measurement of impact		✘
Measuring and comparing impact reported		✘
Attribution on impact outcomes		✘
3.) Application of Logic model in practice		
Difficulty in applying ToC in practice	✘	✘
Inability to empirically evidence impact	✘	✘
Lack of impact focus by investees		✘

Source: Authors' own based on data analysis

It's unclear whether the challenges are largely perceived or real challenges. It is, however, clear that the challenges discussed have an influence in how impact investors navigate the process of impact measurement.

4.1.3. Responses to impact measurement challenges

Further analysis of the data revealed behavioural themes to the endogenous and exogenous challenges discussed in the previous section. The themes are summarised in Table 2 below per type of impact investor.

Table 2: Summary of themes drawn from research interviews

Emerging behavioural themes	DFI-funded FM	Non-DFI-funded FM	DFI	Other
a.) Herding towards developmental frameworks				
Impact themes aligned to SDGs	×	×	×	×
Strategy aligned with government developmental impact focus (e.g. alignment to NDP)			×	
b.) Making impact lemonade				
Participants try not to overburden investees with rigorous impact measurement procedures	×	×		
Employing resources to impact measurement is costly and time intensive	×	×	×	
South African investees are better at reporting on impact than non-SA investee entities	×	×		
Private sector investees are better at reporting on impact than public sector investee entities (e.g. municipalities)			×	
c.) Dancing to multiple tunes				
Impact intentions and measurement focus adopted from funders	×			
Investee companies are requested to appoint an ESG or Impact Analyst internally	×			
Third party consultants are used in measuring S and E impacts		×		×
Participants are working to improve and integrate impact measurement methods and reporting as per requirements by different funders	×	×		
d.) Governance of impact				
Pre-determined impact reporting requirements are set in deal mandates	×	×	×	×
Greater focus on post investment analysis and appraisals of a project			×	
Participants are working on improving systems used in capturing impact data	×	×	×	×
Participants incorporate measurement of negative impacts and externalities		×	×	
Strong focus on measuring outputs than longer-term sustainable impact	×	×	×	×
Retaining jobs is important in job creation		×	×	

Source: Authors' own based on data analysis

a.) Herding towards developmental frameworks

In the absence of standard metrics and a very few impact investors with explicit theories of change it appears there is herding towards developmental frameworks to inform impact measurement. Informants in all four categories have referenced alignment to the SDG's in identifying their impact objectives and impact measurement processes.

The SDG's referenced amongst these participants include:

- SDG 3 – Good Health and Well-Being
- SDG 4 – Quality Education
- SDG 5 – Gender Equality
- SDG 8 – Decent Work and Economic Growth
- SDG 11 – Sustainable Cities and Communities

The most common SDG of the aforementioned list is SDG 8, “Decent Work and Economic Growth”. This is illustrated by the follows statement made by a private equity firm with undisclosed funders:

“Our Pan African Impact Fund has seven SDG’s that it focuses on. You’ll always find gender equality, and you’ll almost always find job creation, that’s got energy efficiency in it, it’s got the agricultural into it.”

The two participating state-owned DFI’s, on the other hand, set their developmental impact objectives against South Africa’s government-endorsed national development agenda which is aligned with the SDG’s:

“...because of our developmental mandate, one of the main things that we look for which is part of development, is job creation.”

The impact investors are seemingly aligning to the SDG’s, even though most are unsure how to track and measure their impact. Alignment to the most commonly referenced SDG, i.e. decent work and economic growth, was demonstrated through counting the number of jobs created within a particular investee company. Similar methods are used to demonstrate alignment to the national government’s NDP through job creation.

CGAP and the IFC Edge Standard are both divisions of the World Bank, and IRIS is an initiative of the Global Impact Investing Network (GIIN). GIIN is a non-profit organisation to which a diverse array of impact investors are members, including international development finance institutions such as the IFC, CDC Group and ERBD. All three of the aforementioned measurement frameworks are applied by DFI-funded FM. In addition, one non-DFI funded asset manager utilises the IFC Edge Standard in ensuring that the affordable housing units developed are green initiatives. The non-DFI-funded FM are more inclined to use customised metrics and indicators along with ESG analysis. Thus, providing empirical evidence that DFI-funded FM utilise impact measurement frameworks devised by their funders (i.e. DFI’s) and that their measurement processes are influenced by their funders.

The Financial Sector Charter (FSC) scoring system is employed by a non-DFI-funded asset manager. This participant described the Financial Sector Charter as one of South Africa’s first government initiatives (initially implemented in 2004 through the Financial Sector Charter Council, and later rebranded to the Financial Sector Transformation Council) intended to create a more inclusive financial services industry that aims to provide affordable financial services to previously disadvantaged members of society (*Financial Sector Transformation Council, 2018*).

A comparison of the DFI-funded versus non-DFI-funded FM shows that those that are funded by a DFI utilise internationally recognised impact measurement frameworks, all of which have an affiliation to a DFI either through its development in partnership with a DFI (i.e. CGAP and IFC Edge Standard) or having a DFI as a member of the affiliated

association (i.e. IRIS metrics and GIIN). Thus, providing evidence that the impact measurement and tracking implemented by fund managers are influenced by the funders from whom assets are received. In addition, DFI's have shown that they employ internally developed impact measurement frameworks (such as the Anticipated Impact Measurement and Monitoring system and Development Outcome Tracking System) in conjunction with customised metrics and indicators and ESG analysis

b.) Making impact lemonade

In light of the challenges associated with data management & processing and impact measurement process the impact investors are making the most of a difficult set of circumstances. For instance, DFI and non-DFI funded FM articulated that they strive not to over-burden investee companies with rigorous impact measurement procedures in the collection of impact data. This is due to the lack of time and resources required by investees in order to implement in-depth measurement frameworks and processes, e.g. mapping out a detailed theory of change and updating progress on achieving set impact objectives on a regular basis. These participants have also emphasised implementing a collaborative approach where investees are given the space to demonstrate their impact without the additional pressure that comes with potential legal consequences upon potential breaches of mandated requirements. This is illustrated by the following comments made by a DFI-funded private equity firm when discussing the difficulties faced by investees:

“So, they’re focussed on really getting the product out there and working out there, and you don’t want to overburden them with very complicated and hectic procedures around measuring impact. So, we try as much as possible to work with the business and see what is easy for them to collect or provide in terms of indicators. And so, it’s not a matter of coming up with indicators and ‘you have to report them’. It’s more of a collaborative kind of process.”

DFI and non-DFI funded FM find that South African investees are better at reporting on their impact than non-South African counterparts. A lack of resources, skills and expertise were some of the reasons provided by participants. However, DFI's expressed that private sector investees are better at measuring and reporting on their impact than public entities such as state-owned entities and municipalities. Here are two separate comments made by one state-owned and one private DFI, respectively:

“Once you have a project, it’s getting that monitoring information, that’s where the key problem for us currently lies. Because we put together the indicators, we know what we want to measure. At municipal level it’s really difficult to gather the information on monitoring of projects. On private sector projects it’s a lot easier. It’s gathering of the

information consistently at the municipal level in the public sector which is the most problematic for us.”

“...usually when you deal with public sector the capacity isn't as strong. And it might be more difficult to collect the data and get a good baseline data already from the beginning to ensure adequate reporting throughout. Whereas when you have private sector clients, they typically have more enhanced capacity because they might have more financial resources etc. So, you might actually get more, and better data from them.”

This potentially partly explains why the study found managers to prefer customised metrics and indicators better handle the heterogeneous nature of impact data even for one impact objective.

c.) Dancing to multiple tunes

DFI-funded FM disclosed that having impact objectives and measurement thereof is required in order for them to receive funding from DFI's. This was expressed by three DFI-funded FM as one of the reasons for their impact focus and for the method of impact measurement employed. Three DFI-funded private equity firms made the following statements when asked about intended social and environmental impacts that it aims to achieve:

“...we primarily target returns but then we have this impact edge to us, we care about impact because of who our investors are. We have a lot of Scandinavian development finance institutions...these guys care about impact.”

“...we raise most of our money from big multinational DFI's and these guys want a double bottom line as they call it. They want social and environmental impact, and they want a return. So, our business case is based on the impact of providing housing, providing green housing, creating employment, health and safety.”

“So, we have a full list of development funders who are very interested to see impact. And I think at a high level they see private equity as an asset class, just in a general sense, being a strong contributor to impact...And obviously they and we see ICT as very key...impactful in terms of contributing to economic GDP growth, in terms of bringing broadband to the market.”

These participants also highlighted that they had recently appointed an internal ESG specialist to focus solely on tracking ESG risks and opportunities, and track specified and customised impact metrics through close liaising with investee companies. One DFI-funded

private equity firm further mentioned that appointing an internal resource has helped significantly in streamlining the ESG analysis and reporting process:

“I think bringing in our internal ESG Manager has made a fantastic difference. She’s gone to every company all over Africa to see them, to build relationships with them. And I think she’s got a lot of respect from them. And when we put an in-house ESG guy there, whose job is 100% ESG then it’s easy.”

However, Non-DFI funded FM and “other” participants disclosed that instead of appointing an ESG specialist internally, they utilised a third party ESG consultant to assist with ESG analysis and strategy.

DFI-funded and non-DFI-funded FM are striving to integrate and improve their impact measurement processes and align to the requirements set out by their funders. Furthermore, participants in all four categories mentioned that they were working on improving their data collection process (e.g. through developing online portals to which investees will enter their impact data) and adopting better processes to align with their funders reporting requirements. Here are comments made by one DFI-funded and one non-DFI-funded FM:

“We have a full list of development funders who are very interested to see impact... We have these (measurement) conversations with our investors on a regular basis. In fact, we’re meeting with the impact team of one of our investors here in the next couple of weeks. So, what we’ve said is let’s try and work together to deepen the way in which we measure these things.”

“So, the next step is to scale on the excel-based system, and it is difficult... We’re actually in a program right now of putting in an ESG data capturing management system. Which is an online system, where our assets will be able to put their data in themselves directly online. So that’s kind of our next step. And then it’s the reporting of that. And there’s various ways that you can analyse and package the data.”

This demonstrates that South African impact investors are making a concerted effort to abide by the requirements of their impact-focussed funders, i.e. dancing to the tune of their development funders. Some going as far as appointing internal or third-party ESG specialists to assist in measuring and tracking of their impact in order to abide by impact reporting requirements.

d.) Governance of impact

Participants across all four categories set impact objectives in the deal mandates issued to their investee companies. Therefore, the intended impact themes and objectives articulated by investees are written into the legalities of deal documentation drawn up by their investors

(i.e. participants to this study). This is done in order to hold investees accountable to their impact objectives and provide clarity on their impact reporting requirements. This statement was made by a DFI-funded private equity firm:

“...job creation metrics are built into loan and credit agreements as legal covenants, terms and conditions and as a condition of receiving financial support. Thereafter, SMMEs are required to submit their payroll records to the fund that tracks the number of permanent employees within the organization.”

In addition, DFI participants highlighted that they have moved towards a greater focus on post investment analysis and appraisals of the projects they invest in. Historically, there has been more focus on pre-investment analysis on the estimated impact that a particular project is expected to generate, with less focus on the actual outcomes at post-investment stage. Three of the four DFI's interviewed expressed a need for resources allocated to assessing impact at post-investment stage.

“But we also have a unit...called the Post-Investment Monitoring department. That unit's role is exactly that, post-investment. So, they are managing both in terms of investing the money, getting the money back, but also monitoring all the conditions that need to be met. So, they visit the client, I know that the minimum standard is for them to visit the client at least once a year. And just make sure that everything is going according to plan, conditions are being met.”

In addition, one non-DFI-funded FM and one DFI emphasised the measurement and tracking of negative impacts and externalities of their investments. None of the other participants interviewed referenced tracking of negative impacts and focussed on positive outcomes. The following statement was made by a DFI:

“The other element that we are trying to add that to our framework is, before the framework was trying to capture direct impacts of our project. But now what we are trying to do increasingly is to try to estimate or measure the indirect impact.”

Furthermore, one non-DFI funded FM and one DFI emphasised the importance of sustainability in jobs created. In tracking the number of jobs created through a particular investment, the duration of the employment contract is important to them, and they work actively to keep track of how long the jobs created last as well as the long-term effects of the quality of life of the employees employed. The non-DFI funded FM mentioned that the level of sustainability is tracked through surveying and interviewing a sample of employees:

“We look at permanent jobs...so the job needs to last. We don't just want to create a job that's going to be there for three months and then the person is out on the street again. Sustainability is important...We try and pick a handful of those beneficiaries to

interview. So, we try and gather what their personal journeys are, where they're from, how they ended up landing a job with the investee company, how that job has managed to change their life.”

Participants across all four categories focus on the output level of impact they generate, i.e. the number of outputs created through their investment. Most participants utilise customised impact metrics and indicators to measure their impact by counting (e.g. the number of jobs created, the number of affordable homes constructed, or the number of female staff employed in management roles). Overall, there is limited focus on the longer-term impact and sustainability of their positive social and environmental impact.

4.2. Discussion of findings

This section summarises the impact measurement methods used, and compares concepts and frameworks highlighted in the literature review to the findings of the research study. This is intended to show whether South Africa's impact measurement practises differentiate from those applied in developed markets. It also highlights noteworthy themes drawn from the data analysis, including how impact investors' selection of impact measurement processes are influenced by exogenous variables.

4.2.1. Common methods of measurement

Customised metrics and indicators as well as identification of ESG risks and opportunities are the dominant methods of impact measurement used by South African impact investors. Ten out of 20 participants in the primary data sample operate as signatories of the PRI when applying ESG analysis in their impact measurement processes. The ESG principles are applied alongside the use of customised metrics and indicators that relate to the targeted impact themes. IRIS metrics are used by 4 participants in the data sample (2 DFI-funded FM and 2 private credit providers within the “other” category of participants).

A comparison of these findings with the Global Impact Investing Network's (GIIN) State of Impact Measurement and Management Practice survey (2020) shows that South African impact investors are less inclined to use internationally recognised impact measurement tools, particularly the IRIS metrics, which is the most commonly used impact measurement tool cited in the findings of the GIIN's State of Impact Measurement and Management Practice 2019 survey. Additionally, South African impact investors are aligning to the SDG's and use it as a guideline in the targeted impacts that they intend to contribute towards through their impact investments.

4.2.2. Strong focus on tracking outputs as opposed to long-term impacts

The logic model and theory of change was referenced by few participants in the data sample, i.e. 4 references, showing that not many participants utilise in depth analysis of inputs, activities, outputs, outcomes and impacts as a means of measuring impact. There is more of an emphasis on measuring and tracking outputs through identifying relevant customised impact metrics and collecting the metrics data from investees, along with tracking ESG risks and opportunities. This is in line with the Ebrahim's (2013) school of thought in the literature reviewed in chapter 2, which postulates that implementation of the logic model is often time-consuming, expensive and impractical - where counting outputs is a more viable means of tracking impact.

Furthermore, the data shows that 2 participants (one non-DFI-funded FM and one DFI) made reference to sustainability in the jobs created through their investments. So and Staskevicius (2015) posit that impact metrics such as IRIS and GIIRS focus more on the output level of the logic model, thus encouraging more focus on shorter-term impact goals. This takes away from impact investors focus on striving to achieving longer-term sustainable impact. Although measuring impact by tracking outputs is notable progress, more needs to be done in order to foster sustainable impact. This can be done through standardised regulation on impact measurement, that requires provision of short and long-term evidence to demonstrate the impact an investment has had on society and the environment.

4.2.3. Funders influence on impact investors

The findings of the primary data analysis provide empirical evidence that DFI-funded FM employ the impact measurement tools, frameworks and methodologies devised by their DFI funders. Therefore, it can be inferred that the impact measurement processes implemented by DFI-funded FM are influenced by their funders. Three out of 4 DFI-funded FM referenced use of an impact measurement tool or methodology devised by a DFI and highlighted that use of these methodologies are required by their DFI-funders. These funders set specific impact measurement and tracking objectives within deal mandates and require periodic reporting on the impact of their investments.

4.2.4. Positive bias in impact measurement

Reeder and Colantonio (2013) discuss the prevalence of positive bias in impact measurement, where negative impacts and externalities are not incorporated into measurement processes and frameworks applied in practice. The primary data analysis brought to light that 2 participants (one non-DFI-funded FM and one DFI) referenced tracking negative impacts and externalities in addition to positive impacts, showing a

potential positive bias within the primary data sample, where a large proportion of the sample did not consider this as an important element of their impact measurement process. Nieuwenkamp's (2017) concept of "SDG washing" emphasises the need to be cognisant of potential unintended negative impacts of investments. Alignment to SDG's by participants was a common theme that came through in both the data sample of this study. Therefore, South African impact investors need to evidence that the negative impacts of their investments are well considered and minimised as far as possible.

4.2.5. Application of the Logframes Model vs Five dimension of impact

As stated previously, the predominant method of measuring impact is the use of customised metrics and indicators. The indicators are used to count the outputs of impact investments, which include counting the number of female staff, the number of jobs created, or the number of people accessing healthcare or education. This provides empirical evidence that South African impact investors are highly focused on tracking outputs and shorter-term outcomes of their investments, as opposed to considering the longer-term impacts in the impact measurement practises.

Figure 9: Application of the Five Dimensions of Impact vs Logframes matrix

		LogFrames →				
		Impact	Outcomes	Outputs	Activities	Indicators/Inputs
5 Dimensions of Impact	Demography & Geography	×	×	×		
	Sector	×	×	×	×	×
	Impact Objectives		×	×		
	Organisational Processes			×	×	×
	Financial or Organisational Structure			×	×	×

Source: Authors' own

Figure 9 above portrays the predominant dimension of impact versus the predominant segment of the logframes model applicable to South African impact investors based on the findings of the primary data collected (highlighted by the yellow data points). Thus, showing that tracking outputs and outcomes are the most common unit of measurement and impact objectives are the most applicable dimension of impact (amongst the five dimensions of

impact) highlighted by Höchstädter and Scheck (2015) as explained in section 2.3. of the literature review.

5. CONCLUSIONS AND RECOMMENDATIONS

The academic and practitioner literature reviewed covered predominantly developed markets, with limited academic or practitioner research available on the impact measurement techniques applied within emerging markets such as South Africa. The rationale for these limitations in available research include the difficulty in collecting the necessary data (The Impact Measurement Working Group, 2014); as well as the time- and resource-intensive nature of collecting and collating data for research purposes, which are significant obstacles in developing markets where the resources themselves are limited (United Nations Development Programme Regional Service Centre for Africa, 2015).

Therefore, this study aimed to provide empirical evidence of the impact measurement practises employed by impact investors operating in South Africa, by collecting primary data as described in chapters 3 and 4 above. The findings of the research reveal that South African impact investors apply customised metrics and indicators in their impact measurement procedures, along with identification of ESG risks and opportunities through use of the PRI; and strive to implement strategies to mitigate the recognised risks.

Internationally recognised impact measurements frameworks such as IRIS metrics, GIIRS ratings systems, CGAP, IFC EDGE Standard and the logic model and theory of change are less readily used by South African impact investors. The data analysis revealed that participants were more inclined to focus on tracking outputs and shorter-term outcomes of their impact investments, as opposed to applying in-depth measurement frameworks and detailed analysis of their impact objectives.

In terms of intentionality, South African impact investors demonstrate their commitment to striving toward contributing to national and global social and environmental development objectives by aligning their investment strategies with the NDP and SDG's. However, their efficacy in proving their intended impacts on end beneficiaries and the communities in which they operate over the long-term is not well demonstrated. There is an admitted shortage of resources and skills required for devising and implementing more efficient impact measurement processes.

Future research on the use of blockchain technology in tracking impact is a worthwhile area for further research in years to come, as blockchain technologies become more readily utilised. The ixo Foundation is a South African software development foundation that aims to, *inter alia*, optimise the way that impact data is collected and verified (Franz, 2017). It is making significant strides in developing technology that assists in collating reliable impact

data that supports achievement of the SDG's for long-term development impact (Franz, 2017).

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