



MAKING BETTER DECISIONS

Impact Measurement and Management in
South Africa • 2020

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FOREWARD



Elias Masilela
Impact Investing South Africa
(IISA)
Chairperson

Sometimes society requires a crisis to jolt it into action. Despite having eyes wide open we have been sleep walking into untenable levels of inequality and unemployment over a decade. The blame and thus the solution has always been in someone else's hands. Now is the time of reckoning – had we begun to mindfully and methodically to make inroads into our National Development Plan or UN Sustainable Development Goals we may be in a stronger position. As it stands we have to act decisively and in unity or run the risk of falling over. That means public and private sector working together with clear measurable goals, accountable to the electorate, members, beneficiaries, clients, each other. The trust that we need to facilitate this process is usually earned incrementally over time which we don't have. But there are foundational pieces of market infrastructure that can help to determine intentionality, mitigate risk and account for impact which in turn can accelerate deployment of capital into the necessary developmental areas. Let us use this crisis to provide a gateway to a more stable prosperous society for all our citizens.



Dugan Fraser
WITS CLEAR-AA
Co-Lead working group IISA

The Covid experience has made it clearer than ever that making good decisions requires that we understand the art of weighing one set of results against another. The pandemic really bought home how managing and measuring the effects of any course of action requires that we have appropriately sophisticated conceptual tools that allow us to assess what kinds of results will be achieved and when.

The South African approach is to draw off what is being done and learnt internationally and to apply it thoughtfully and sensitively to the local context, in a way that makes most sense to specific practitioners in all parts of the system. Rather than prescribing a fixed approach to the measurement and management of impact investment we are seeking to provide a carefully curated toolbox that can be drawn upon and applied by providers, users and evaluators of impact investments. Our intention is to grow the impact measurement and management field so that it meets global standards and adds value to the local system, improving decision making and leading to better financial returns and better impacts.

This document has been prepared through a collaborative and inclusive process that has involved wide range of stakeholders. We really appreciate their work and the contributions they have made. We see it as a starting point for a long and fruitful journey. We hope you will join us on it.



Susan de Witt
UCT GSB Bertha Centre
Co-Lead working group IISA

There has been a palpable change, locally and globally, in our perception of the utility of our financial system. For the last 100 years we have been focussed solely on risk and return without giving credence to the impact that we have on people and on the planet. It has caused us to grossly miscalculate the externalities of our behaviour. Covid has given us a snapshot of a future we are not ready for. There are however small powerful steps that can be taken to build accountability and resilience into the system. The tools and frameworks outlined in this report enable investors to integrate impact into investment decision making. And the willingness of local investors across the spectrum to coalesce around existing solutions is moving us towards a tipping point in market behaviour.

Impact Investing South Africa

The IISA Task Force is a voluntary coalition of high level decision makers across private and public sector representing investment, business, academia and policy.

The objective of the initiative is to drive more return-seeking capital into businesses addressing the major development needs of SA. This is achieved through the actions of three working groups, Supply of Capital (increasing supply across investment spectrum), Demand for Capital (increasing pipeline of investable businesses) and Impact Measurement Management (IMM).

The Objectives of the IMM working group, Chaired by Prof Dugan Fraser (WITS CLEAR-AA) and Dr Susan de Witt (UCT GSB Bertha Centre) and comprised of representatives from across the financial sector include:

- Develop market overview with opportunities and challenges
- Identify and support emerging areas of coalescence in the local and international market
- Develop roadmap for relevant stakeholder groups for implementation of impact measurement and management recommendations
- Ensure Impact integrity in market to prevent impact washing

The IISA is the first African affiliate of the Global Steering Group for Impact Investment (GSG). The GSG was established in 2015 as the successor to and incorporating the work of the Social Impact Investment Taskforce established under the UK's presidency of the G8. The GSG currently has more than 30 member countries.

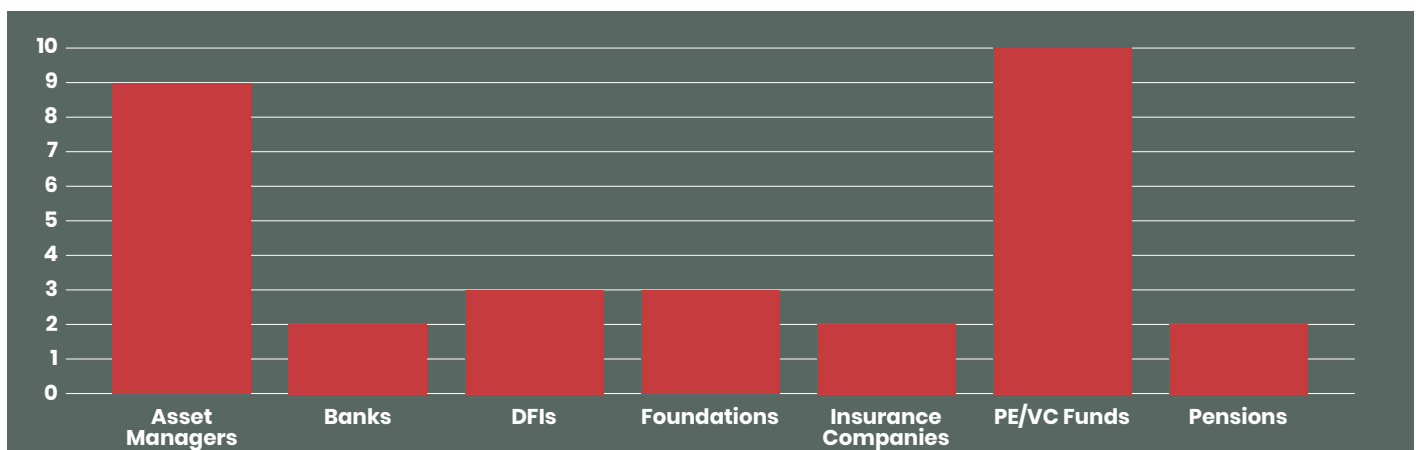
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Methodology



Key findings

Chapter 1

- There is general consensus regarding adoption on globally accepted terminology without the requirement to contextualize the definition of impact investing. The characteristics of impact investment denote a strategic approach rather than asset class and thus can be identified by intent and measurement of social and/or environmental impact.
- There is however still a need to create shared meaning and systems of classification around the definition as currently there is a lack of uniformity in the market. This shared meaning can start to be understood through international adoption of emerging classification systems.

Chapter 2

- The three most important reasons that South African investors adopt Impact Measurement and Management (IMM) practice is to:
 - capture business value,
 - address client and investor demand for this information, and
 - improve impact performance.
- The key challenges to adoption can be captured in four broad areas:
 - lack of common language resulting in poor understanding of the business case. This in turn leads to lack of buy-in from senior management who are not convinced of value add and put off by the apparent complexity,
 - lack of resourcing and capacity because of lack of buy-in from strategic perspective. This leads to IMM being applied at a superficial level if at all, where impact is not robustly integrated into decision making,
 - lack of comparability in market and weak coordination between institutions which reduces peer to peer learning and competition, and
 - lack of confidence and credibility in reporting as non-financial performance is not considered alongside financial reporting; as well as general fatigue to managing reporting requirements for multiple investor mandates

Chapter 3

- Those who are pioneering in this field in South Africa are adopting common best practice along four lines:
 - intentionally goal setting taking into account the size of the local problem as well as the global development agenda,
 - measuring progress against regular intervals although not codifying impact targets into investor, loan or shareholder agreements,
 - factoring impact into decision making throughout investment process often undertaken

by investment teams rather than external specialists, and
o reporting regularly and validating results although watering down public reporting often to case studies or separate impact reports

Chapter 4

- There is a general appetite for more harmonised approach based on the following principles:
 - robust and dynamic considering the market is still relatively immature compared to sustainable investment reporting and certainly financial reporting,
 - contextual and yet global considering the uniqueness of the South African market and existing regulatory framework,
 - aligned to UN Sustainable Development Goals although with full sight of the National Development Plan and local development objectives,
 - driven through voluntary reporting practices initially but with acknowledgement that universal adoption will ultimately need to be enforced through regulation and can follow in the footsteps of existing sustainable investment reporting practice,
 - supported by shared taxonomies and metric sets although equally importantly through adoption of best practice standards, and
 - enabled through significant change management from top down and bottom up efforts in corporate South Africa

Chapter 5

Some notable global trends have been highlighted as well as a list of standard setting frameworks in Annex C. These are continually evolving but this snapshot includes:

- the globally unifying framework of the UN SDGs around which multi-laterals are coalescing
- the structured network convened by Impact Management Project to ensure that leading framework development is aligned in terminology,
- the proliferation of contextual taxonomies and metric sets,
- the move towards assurance models rather than principles to which investors and enterprises may not be accountable,
- the emerging science of comparability of investment value through multiple models ranging from investment impact scores to impact weighted accounts, and
- the example that sustainability reporting has played in local markets including the work of the National Sustainable Finance Initiative

Chapter 6

- The recommendations for driving best practice and harmonisation to be taken forward by Impact Investing South Africa and partner institutions include:
 - raising awareness through central coordination, knowledge development and shared understanding,
 - improving IM practice at all levels of the organisation from senior management to investment team to evaluation specialist,
 - enabling greater harmonisation by adopting leading frameworks as they emerge from leading global standard setters as well as contributing to the development thereof through public forums, and
 - building a culture of transparency and disclosure initially through voluntary means but driving towards assurance and regulatory models

Chapter 7

- We highlight the work of 6 organisations who are putting IMM into practice:
 - Development Bank of Southern Africa (DBSA) strengthening IMM systems to ensure that they produce results in line with strategy
 - Sanlam Investments integrating impact into investment decision from beginning to end of investment process
 - Actis creating an impact score in order to compare investments that do not look similar
 - Phatisa assuring good practice by using third party verification agent to ensure compliance with IFC Operating Principles for Impact Management
 - 27Four using impact goals as key design principle for Black Business Growth Fund and weighting investment objectives to ensure aligned portfolio management
 - Africa Infrastructure Investment Managers (AIIM) developing shared impact pathways between multiple REIPP projects to ensure comparability and drive performance



1. Shared terminology and classification systems



Impact Investment:

Investments made into companies, organizations, and funds with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors' strategic goals. Core characteristics of an impact investor include

- I. Intentionality
- II. Using evidence and Data in Impact Design
- III. Managing Impact Performance
- IV. Contributing to the Growth of the Industry¹

There is general consensus amongst practitioners regarding the adoption of this definition of Impact Investment from the Global Impact Investment Network (GIIN)². This is in line with growing international consensus as GIIN is part of the Impact Management Project structured network³.

- Intentionality is considered key amongst local and international stakeholders even though it can be exclusionary. Post-investment classification is occurring in the market to align with market trends. Some consider this type of branding to be 'impact washing' as there was no intentionality from the start and thus market credibility is undermined.
- The concept of additionality has been flagged by practitioners as a key hallmark of impact investment. This implies there are unmet needs/untapped growth in the market that are addressed through impact investment. According to IMP that additionality can be created either by market signalling, active engagement, investing in underserved markets and/ or providing flexible capital.
- Practitioners mentioned "long term" and "sustainable" amongst key descriptors of impact investment. It is understood that impact investments are a subset of sustainable investments and thus need to address risks posed in the ESG framework. But in addition to this they generate positive outcomes for people and planet.



"This definition would have to be uniformly agreed. It's all very well some stakeholders agreeing that this is our view of impact investing but let's say, for example, that fund managers agreed that this is what we think impact investing should be, then we need to make sure that investors, asset managers, pension funds are in agreement so when I try and sell it in a secondary market, they understand what I'm selling" (Bank)

"One argument put forward is that the market (similar to other emerging markets) may not be mature enough for a hard coded definition of impact investing. The danger being that any definition may not capture the emerging complexity and that investments that are producing impact might be prematurely excluded because they may be neither intentional nor measured at this time. The alternative was to create precedent around articulating impact practice to stakeholders and backing that up with evidence." (Asset Consultant)

"It's about making sure what you have you protect, what you don't have you develop, you maintain it and you grow it. For me it is whatever are the key developmental priorities of a country, what investing do you make that will have an implication not that in either catalyzing, developing, maintaining or growing it. In SA transformation of the economy in terms of putting accessibility of the economy to youth, women and black people is a key target in SA so impact investing must be something that enhances, allows, catalyzes that." (DFI)

¹<https://thegiin.org/characteristics>

²<https://thegiin.org>

³<https://impactmanagementproject.com>

<https://impactmanagementproject.com/impact-management/structured-network/>

In practice terminology is still used interchangeably:

- Responsible and sustainable investing definitions are often used interchangeably and to many mean the same thing. That is a combination of avoiding harm and mitigating risk associated with ESG screening and integration.
- Sustainable and impact investing are often used interchangeably although practitioners would argue that they do not mean the same thing. Impact investment specifically seeks to benefit stakeholders and contribute to development solutions, not just to manage risk.
- The Sustainable Investment definition adopted by the National Treasury includes contribution to UN SDGs thus there could be considered overlap between this and sustainable investment.

Term	Definition
Sustainable Investment (FSCA)	One of the key principles and best practice on sustainable finance and investments is the integration of environmental social governance risk factors into risk management systems, and considering them in both existing and future portfolios
Sustainable Investment (NSFI)	Sustainable finance encompasses financial models, services, products, markets and ethical practices to deliver resilience and long-term value in each of the economic, environmental and social aspects and thereby contributing to the delivery of the sustainable development goals and climate resilience. This is achieved when the financial sector: <ul style="list-style-type: none"> • Evaluates portfolio as well as transaction-level environmental and social risk exposure and opportunities, using science based methodologies and best practice norms; • Links these to products, activities and capital allocations; • Maximises opportunities to mitigate risk and achieve benefits in each of the social and environmental and economic aspects; and • Contributes to the delivery of the sustainable development goals.
Responsible Investment (PRI)	An approach to investing that aims to incorporate E&S factors into investment decisions, to better manage risk and generate sustainable, long-term returns.
Responsible Investment (ASISA)	Responsible Investment is a set of investment and ownership practices that intentionally integrates any factor that may materially affect the sustainable performance of a fund's assets, including factors of an environmental, social and governance character

Despite broadly agreeing on definitions, practitioners admit they do not classify their portfolios in a standardised manner.

- Some investors would classify their entire portfolio as impact because they are measuring ESG whereas others might only classify only sub-commercial investment as impact.
- Some investors automatically consider investing in unlisted asset classes in Africa to be impact investment whereas in South Africa there tends to be more nuance based on investment mandate, choice of thematic areas and alignment with the NDP/SDGs.
- Practitioners have observed persistent myths on the characteristics of impact investing chief among them being that impact investment necessitate a below market return. This is false as returns can be achieved across the spectrum from commercial to sub commercial.
- In this study no standard targeted financial returns were observed across the different investors as they spanned the investment spectrum and funding cycle. Although all expected sustainable returns with some level of risk.



"We manage Private Market's portfolios across South Africa and Africa which have a collective Net Asset Value of ±ZAR 7bn. Of the R7bn approximately ZAR5bn may be considered 'impact' in terms of the above definition" (Asset Manager)

"Five out of seven in the African Agriculture Funds are impact investment. Five out of six in the Pan African Housing Fund are impact investments, because one is upper middle income, which is not our target impact market". (PE Fund)



Sizing the market differs based on definition

Although the characteristics of impact investing are agreed on by standard setting organisations, they have yet to be universally adopted or implemented by investors. Market sizing methodologies have attempted to account for this to capture difference in understanding. In 'Sizing the Impact Investing Market'¹ 1340 investors self-reported USD 502 billion in directly invested AUM based on GIIN's definition of impact investing although there were differing interpretations causing both over and under reporting. In "Growing Impact"² the IFC distinguishes between USD 1,567 billion "Impact Intent Funds" and USD 505 billion "Intent and Measurement Funds" in private markets and with green, social, and sustainability bonds and in shareholder action strategies sufficient to add an additional USD 1.4 trillion. Thus there is a degree of convergence but the market is still settling into a standard.

Common ways in which investments are classified across a spectrum



Table 2: Spectrum of capital⁶

TYPE OF INVESTOR	TRADITIONAL INVESTING	RESPONSIBLE INVESTING	SUSTAINABLE INVESTING	IMPACT INVESTING		PHILANTHROPY
				MARKET RATE RETURNS	BELOW MARKET RETURNS	
	Deliver competitive financial returns					
	Avoid harm					
	Benefit all stakeholders					
	Create high impact solutions					
Example investors	Pension Funds, Medical Schemes, Insurers, Banks, PE Funds	DFI's, Pension Funds, Medical Schemes, Insurers, Banks, PE Funds	DFI's, Pension Funds, Medical Schemes, Insurers, Banks, PE Funds	DFI's, Pension Funds, Insurers, Banks and other Impact Investors	Foundations, DFI's and other Impact investors	Development agencies, Foundations
Focus	Limited or no regard for ESG practices	Acting to avoid harm	Mitigate risky ESG practices in order to protect value OR Adopt progressive ESG practices in portfolio decisions	Address societal challenges that investors that generate competitive financial returns for investors	Address societal challenges that require a below market financial returns and/or higher risk for investors	Address societal challenges that cannot generate a financial return for investors where grants or subsidies are required

¹Sizing the Impact Investing Market (GIIN, 2019)

²Growing Impact: New insights into the Practice of Impact Investing (IFC, 2020)

⁶<https://www.bridgesfundmanagement.com/publications/bridges-spectrum-capital-define-sustainable-impact-investment-market/>

Table 3: Impact Classes with illustrative products⁷

		IMPACT GOALS		
	RESPONSIBLE	SUSTAINABLE	IMPACT	
	Avoid harm and mitigate ESG risks			
		Benefit all stakeholders		
			Contribute to solutions	
+ INVESTOR'S CONTRIBUTION	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Ethical bond fund	E.g. Positively-screened / best-in-class ESG fund	E.g. Sovereign-backed bonds (secondary market) funding vaccine delivery to understand people or renewable energy projects
	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Shareholder activist fund	E.g. Positively-screened / best-in-class ESG fund using deep shareholder engagement to improve performance	E.g. Public or private equity fund selecting and engaging with businesses that have a significant effect on education and health for underserved people
	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	E.g. Anchor investment in a negatively-screened real estate fund in a emerging market	E.g. Positively-screened infrastructure fund in a emerging market	E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability, access to clean water and sanitation
	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital		E.g. Positively-screened private equity fund making anchor investments in emerging markets	E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and employment for underserved people
	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital			E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on employment for underserved people
	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital			E.g. Patient VC fund providing anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people
		COMPETITIVE RISK-ADJUSTED FINANCIAL RETURNS		
		FINANCIAL GOALS		

⁷<https://impactmanagementproject.com/investor-impact-matrix/>

2. Key Motivations and challenges



2.1 Motivations

Practitioners identified three reasons they regard as most important for engaging in IMM.

To Capture Business Value	To Address Investor and Client Demand for this Information	To Improve our Impact Performance
<ul style="list-style-type: none"> • Social and environmental impact data enhances the understanding of investors of their customers, which enables them to better serve their customers, which in turn should result in a growth in revenue. • Impact data can give an indication of where a business is underperforming thereby enabling investors to provide the most effective type of non-financial support required by portfolio companies, particularly for those investors that are able to influence investee operations. • Impact data can inform important investment decisions by allowing investors to better target, select, and source deals, improving effectiveness • Impact data can be used to create better marketing strategies by better understanding customers but also by creating brand buy-in through employment of sustainable practices • IMM contributes to risk mitigation by providing early warning signs of deals going off track 	<ul style="list-style-type: none"> • Some evidence of increasing demand from investors or asset owners for non-financial performance data from enterprise and fund/asset managers. • Increase in demand is commensurate with increase in awareness of the materiality of ESG risk and value of impact generation on financial returns. The most recent compelling evidence of this can be seen in the figures emerging from the likes of Morningstar and MSCI where ESG funds suffered lower declines in relative terms during the crisis. • Increasing appetite amongst clients to understand the extent to which investors are utilising SDGs to better understand their impact on countries and communities. Again this demand has been nascent but there is a surge in awareness in the retail market brought about by the likes of shareholder activists such as Just Share and increased reporting in local financial publications. • Respondents indicate that this has not reached a tipping point in the local market. 	<ul style="list-style-type: none"> • Growing sense of urgency around the long term sustainability of South Africa • Investors and savers who cannot afford to retire elsewhere are realising that unless they invest for social and environmental results in South Africa they will be retiring into a failed state. • Recognition that post Covid statistics which include majority unemployment, gender based violence, food insecurity and further declining educational outcomes are not socially justice but a triggers for social unrest. • Asset owners are recognising that fiduciary duty extends into the domain of society building and impact generation to protect assets in the long term.

⁹ <https://justshare.org.za>



"So the more risk the stakeholders find us taking, the more information, the more reporting they require." (VC Fund)

"Reporting of impact, alongside financial performance, is minimal. This is inhibiting the understanding of long-term business value that comes from the pursuit of impact alongside profit." (Asset Manager)

"The inclusion of impact into investment decisions, that's going to only happen when we're actually looking at this and saying we've defined what it is, we understand what the metrics are, and now we've got a deal in front of us and we can make an informed decision as to whether we're going to invest in this or not." (PE Fund)

"... if it is not built into the business strategy and operating model it will fall away if people don't understand the value in that strategic approach to M&E. I think people think that when we measure impact it is this separate activity over here and it's not, it's actually your strategy." (Asset Manager)

2.2 Key Challenges

Lack of shared language	Lack of integration into decision making	Lack of comparability	Lack of confidence in reporting
Lack of buy-in from key decision makers	Resource and capacity constraints	Weak public private sector coordination	Lack of reporting alongside financial performance
			Reporting fatigue

Lack of shared language

A commonly identified challenge amongst practitioners is that definitions are inconsistent and terms are used interchangeably which causes a mismatch in understanding. Organisations talking at cross purposes and not only between financial and social organisations but even between fund managers and asset owners.

This has the potential to undermine investor confidence in the performance data being produced. This has further knock on effects causing proliferation of bespoke indicator sets and reduced potential to compare data....



"It affects us because our direct investors who are pension funds, lack a common understanding, which causes confusion and we are not able to then necessarily address certain issues as a result. I don't think we actually have a problem with definition. It's more around our clients' understanding of the definition of impact investing. There's a challenge around language and what impact actually means" (SME Fund)

"A common language for reporting impact is lacking, this results in inefficient and arbitrary selection of the 'best fit' impact reporting framework for the specific context" (Asset Consultant)

There were a few trends that were picked up on including a difference in perception of shared language between early and established market participants confirming the recent GIIN finding that 94% of Impact Investors have seen progress on this issue in the last year; and that large institutions such as DFIs are moving to align language and frameworks internally which is indicative of growing relevance.

Even though there was a preference for shared language there was a cautioning around maintaining flexibility because of the changing nature of the market as well as the contextual nature of impact.



"And I think part of that is the lack of vocabulary or common understanding of something as simple as activities vs output vs outcomes. When it comes to talking about impact, that lacks across the business. I spend a lot of time engaging with different stakeholders in our business to help them with their narrative and understanding what it is they are seeking to achieve." (VC Fund)

"Even on that one indicator, when you've got four DFIs in the room and you've got four different ways and views on how do you measure impact. I think you've got a very interesting and challenging job ahead of you if you want to start standardising. It's something that we would welcome." (DFI)

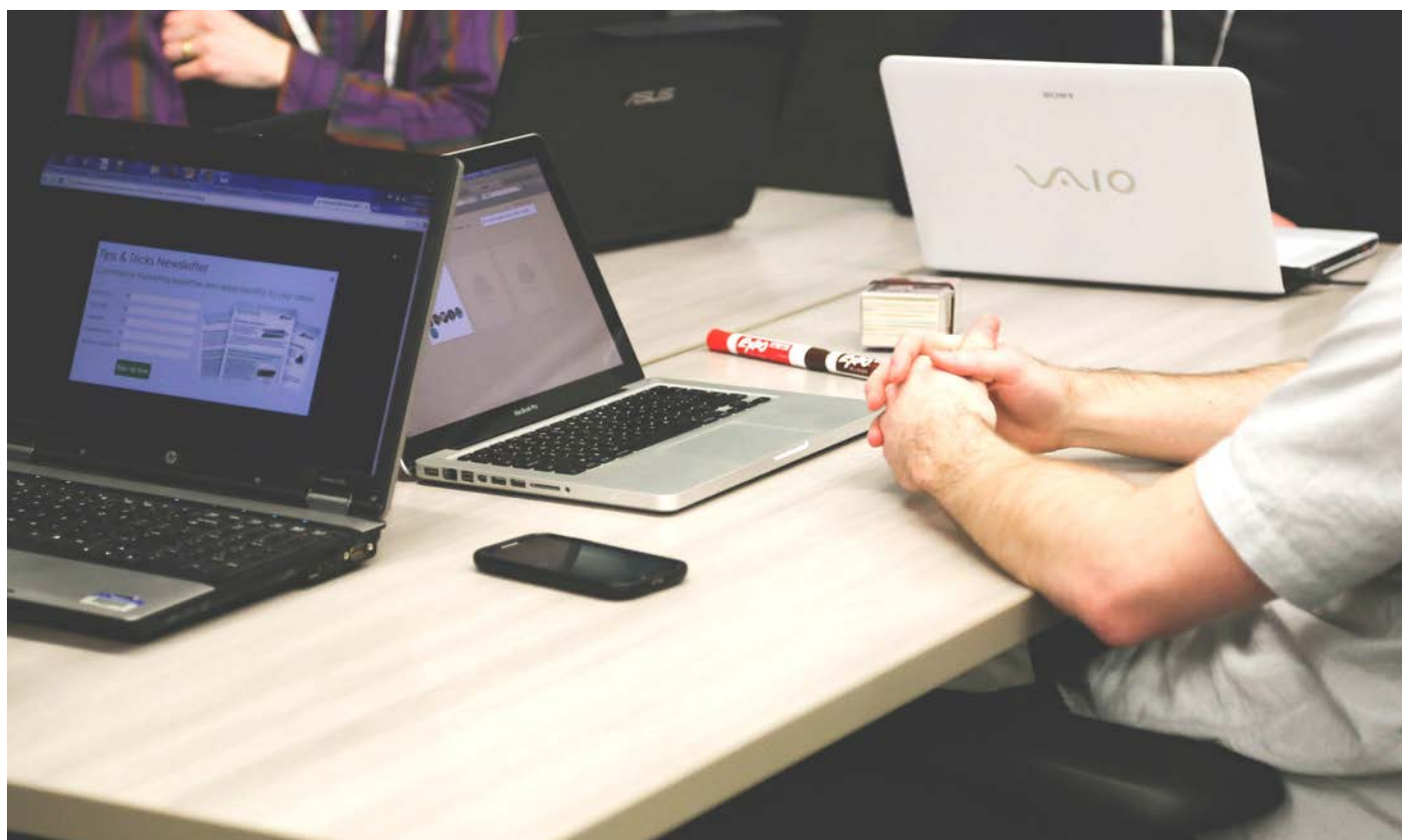
"For example, the Jobs Fund would require a job to exist for more than 12 months and that individual to earn a certain amount of money for their job to count as one job. Whereas at (fund manager), our definition would be that you have been employed at a company for more than six months, working more than four days a week over that six months, and we would take that as a permanent job." (SME Fund)

Lack of buy-in from key decision makers

In many cases it was expressed that impact investment agendas are being driven by individuals or champions within companies or financial institutions rather than being driven by senior management. Where senior management is strategically driving the organisational culture in this direction, the process is happening faster and more effectively.

external investor and client buy-in due to lack of knowledge followed by lack of inclination and resources. It seems that few local LPs are currently asking for impact data outside of job creation. As discussed previously there are early signals that this is changing as climate change, Covid and the millennial generation demand more from the financial sector.

It was argued that the reason for lack of senior buy-in may well be because there also is reportedly lack of





"There was low confidence at senior levels because there was a low understanding of how to measure something that wasn't financial. So we had to be very careful in ensuring that the methodology that we used to measure something social was robust.." (Asset Manager)

"At the moment we haven't had many of our LPs ask for impact reporting numbers and where they have its mostly focused on job creation, employment numbers and salaries. So that it where it is focused" (Asset Manager)

"Think the gaps/limitations with that is that at the time it was driven by a particular area of the business and if it is not built into the business strategy and operating model it will fall away if people don't understand the value in that strategic approach to M&E. I think people think that we measure impact it is this other thing over here and it's not, it's actually your strategy. So if your strategy hasn't given what you want to achieve environmental social or financial or economic perspective you won't know how to measure it." (Bank)

You need a champion internally to make sure that they are actually utilising the toolbox to assess deals according to the impact. (Asset Manager)

"Do the integrated reports really influence the decisions of institutional investors as there does not seem to be a clear link between reports and investment behaviour. There is a lack of depth of impact measures in reporting - they lack texture and are too high level because no one cares - there is no accountability and no consequences of failure" (Foundation)

Lack of integration into decision making

It was observed that there is a spectrum along which investors tend to integrate impact into investment decisions. On the strategic side, seasoned impact investors such as DFIs speak of business as usual as an end to end process where impact is built into every part of the investment process. On the opportunistic side, commercially focussed investors carve out investments likely to create impact out of traditional portfolios and sell them to LPs as impact portfolios. In traditionally commercial financial institutions the deal teams are not familiar with integrative decision making and may provide an obstacle to instituting this process.

Practitioners reported different strategies being used at different parts of the investment process ranging from portfolio construction to due diligence to provisions in shareholder agreements.

Because there are many variables that affect impact, if you don't start out having deeply interrogated your objectives there is a chance that your impact will be reduced. But because IMM activities are often limited to basic M&E, inadequate data is collected to support investment decision making. Due diligence and performance management are often outsourced so fund manager lacks control.

Being able to quantify net impact was considered essential because investment decisions often require a trade-off between something bad and something less bad, thus being able to quantify trade-offs would be very helpful. ESG integration is more advanced and some investment committees have ESG specialists as key members of the decision making team.





"I would say that yes it is a challenge. Because it should be how you integrate impact into investment decisions or portfolio management based on understanding the change objective you have and or what an outcome looks like. So if you don't really know what you are trying to achieve you won't understand how to factor that into portfolio management. One might say, we do affordable housing loans, as an example. But if you are not recognising that you need to look at the postal codes of the loans that go out to actually see if it is achieved what you are trying to achieve, it would be kind of silly. You may have given great preferential rates, but are they benefitting the people those were intended for. And if you do an assessment of your loan outlay you might find that they are not in low-income areas. So you have to know what you are seeking to achieve or what you want to measure." (Asset Manager)

"We have internal drives around the sustainable development goals and we have engaged the deal team and they know that certain types of investments need to be made that meet our impact as well as our financial goals, so we have specific impact goals. So the pipeline is structured when you look at an investment at the go, no-go stage they will look at does this achieve our impact goals or have the potential to achieve our impact as well as financial goals. I as the head of impact am involved in all deal pipeline meetings which take place fortnightly. I have the ability to say I don't think that this company is aligned to our impact agenda and squash that deal, for example. When it comes to portfolio management, once we have invested in a company, we have specific impact programs or projects that need to be implemented as a project and the whole portfolio team have that on their internal performance assessment. So they have to invest in that project and they have to be invested in the outcomes of that project because it determines their performance assessment. That's built-in across the company." (PE Fund)

"With the right metric framework, there shouldn't be an issue of "integration" because all investments would have some measure of impact. The more meaningful distinction would rather be around what proportion goes into public capital markets and what proportion goes into private capital markets if impact is part of the valuation criteria." (Asset Manager)

"We will then, if in some instances, we are not happy with the current status of a potential investment, we then attach what you call condition precedents to say some of the things which will be aligned upfront prior to engaging into that investment. Once they are sorted out, then they will be utilised as part of the information that empowers the decision-makers." (Asset Manager)

Resource and capacity constraints

Data collection is considered time consuming and expensive, especially with regards to obtaining consistent and high-quality data. Added to this it was reported that co-investors often have differing reporting requirements concomitant time/cost implications. Data collection costs fall to different stakeholders depending on prior arrangement but quite often they fall on the investee.

There are certain investees that cannot afford it such as SMEs and municipalities. In addition not all practitioners reported to having the skills in house to be able to collect and analyse data.



"Data collection has been a challenge, we have an Excel spreadsheet which has grown over exponentially over the years as different LPs are asking for different bits of information. Trying to collate 15/16 portfolio companies and trying to corral them to give us information has been difficult. Sometimes the data is not robust or it hasn't been verified, you know what has been put in there is not correct but you don't know how else to get more up to date data. So that has been a challenge for us. What we are attempting to do this year is put our data questions on an online platform like a questionnaire format, which hopefully makes it a bit easier for people to respond to and give that verification... So that we spend more time understanding the data and use insight rather than chasing people for data and reporting it." (SME Fund)

Lack of comparability

It is not just a case of comparing impact between investors. Practitioners report difficulty comparing (i) year on year (ii) actual vs forecast impact (iii) between companies in similar sectors with different data collection practices (iv), let alone between companies within portfolio. (v) timeframe for measurement and (vi) where impact is latent. This has resulted in few high level overarching data points becoming the main point of comparison.

Investors do not tend to share data between themselves even pioneering practitioners. So even if measures are standardised investors may not be willing to share. That said ESG was considered relatively comparable and there was acknowledgement that disclosure protocols and are becoming mainstream, with the caveat that risk measures tend to be easier to compare than impact measures. Bond listings also give an example of how dissimilar investments are graded against the same scorecard.



Problem is not a lack of a framework – not one size fits and not all frameworks will be comprehensive. If you build a framework you may be limiting your range of what impact investments you can invest (Asset Manager)

I don't think it's possible to achieve a comprehensive way to compare, for example, if you look at social return on investments, this is a methodology which tries to monetise impact to make them comparable across a portfolio for example. But the weakness with that approach is that it takes up too much time we don't have sufficient internal capacity to be able to do such an approach and you end up with largely subjective results anyway. (PE Fund)

There's no market data out there I know for the housing fund it was quite difficult. I had to approach the players directly and they were more than willing to help out because there is so much demand out there, that no matter how much product we build we will never get to the point where we are competing with each other aggressively. (Asset Manager)

Societal and environmental factors are often more difficult and that's often just because impact takes a long time. You're dealing with a complex system, an open system. It has a lot of stresses and complexities involved. To run a scientific experimental method on that is almost impossible to be able to control all of the variables and say, "This is the impact of an intervention." (Institutional investor)

The other gaps with the framework we use is that this impact doesn't happen in one year, it is long term. So, unless you commit to a multiyear process of understanding what change you are seeing your indicators will never seem to communicate that. So, I think that is a challenge, we have gaps, not because we aren't doing the right stuff, but because it's too early to communicate or report on certain things. (Bank)

Weak public private sector coordination

Where public institutions could and possibly should take the lead they may not have the resources or skills to do so.

It was observed that the core business of public institutions is socio-economic impact and they may not be sufficiently resourced or skilled to lead coordination efforts.





“Because sometimes the other problem here is that some of the institutions that you expect to be doing this job on paper they are doing the job, but in reality they are not making the impact because they themselves are not well capacitated with skills, with appropriate funding, appropriate resources.” (DFI)

“There is a failure for some of the institutions to deliver, because they themselves lack capacity. There is almost a portion of funding that not only needs to go to the market to be deployed to the final beneficiary but some of that has to go to the intermediaries themselves so that they can be upskilled so that they can do what they are supposed to be doing” (DFI)

Lack of confidence in reporting

The indication is that the issue lies in the division of responsibility in the eco-system. Investors are more familiar with financial performance metrics and may have little capacity or inclination to engage with impact measurement or evaluation. Evaluators who come from the development sector struggle to articulate impact in a manner that is comprehensible to traditional capital owners.

The perception is that impact investments do not form part of the core business or are separate from mainstream investments and thus, are not recorded together with or integrated into financial reports. Impact is often reported in the sustainability or citizenship section of the report, distancing it from the financial performance. This issue not only marginalizes impact investing, but also will most likely not be solved by creating a shared language and ensuring investors understand aspects of impact investing.

Some believe the crux of the matter is that because investors are unable to satisfactorily quantify impact it inhibits their understanding of long term value. Those reporting on impact alongside financial performance have discovered that understanding impact risk leads to a better understanding of overall value. Established practitioners however, purport to easily integrate impact and financial reporting. For example government related institutions such as DFIs and state-linked institutional investors such as the PIC tend to be more rigorous when reporting on impact and it was observed that our European investment counterparts are advancing in this arena.

It was bemoaned that impact reporting tends to focus on the positive impact rather than showing a complete picture that includes negative and unintended consequences.



"For me, we also have a challenge within the business understanding and choosing where that information should be communicated. So oftentimes if they've come up with an impact anecdote around an investment that's relevant and accurate, it may end up being reported in the citizenship section of an integrated report for example or in the fluffy CSI section and not reported alongside financial performance." (Bank)

"... think that it affects the organisation because if they don't understand that it is complementary to the financials then they will always need support or hand-holding when crafting in such an intervention. It means that they fundamentally won't understand that it is related to core business and therefore won't be second nature. It would be more of like a superficial understanding. I could get them to place it in the right place in a financial report potentially, but that doesn't mean they fundamentally get it." (Asset Manager)

Reporting of impact, alongside financial performance, is minimal. This is inhibiting the understanding of long-term business value that comes from the pursuit of impact alongside profit. (Asset Consultant)

The propensity which exists to link perceived financial risk with impact risk, but at the same time not understanding that a fuller understanding of impact factors can lead to a better understanding of financial risk. (Asset Manager)

If you assume that you have a whole list of your impacts positive, negative, intended, unintended you may have gathered all of that. You rarely see, and I love it when I do see it, the negative and the unintended even though they are positive. So complete reporting is about cherry-picking and I am going to guess is you're collecting the positive data you also know what negative data is in some respect. Maybe not so much the case with intended vs unintended sometimes you have to identify them. So I think that challenge is ultimately cherry-picking what you put forward. And I think that is a problem across the board. (Bank)

Lack of reporting alongside financial performance

Confidence of practitioners in impact driven investing is limited as actual returns for society are hard to measure. One of the big challenges of impact measurement is that it requires data from outside the company's walls. There are few if any examples of incentives directly tied to impact apart from impact-first structures such as Social Impact Bonds and Pay for Performance instruments, so there is rarely a requirement for impact to be verified. Investors are reliant on businesses for data and there is a mixed opinion amongst practitioners as to whether that data is accurate nevertheless, there remain investors that are confident that data is sufficiently accurate to make decisions against. Mature impact investors such as DFIs have systems set up in order to audit impact data so are confident of their results.

Certain measures are considered more reliable than others. For example, tools that track livelihood and perception of poverty at a household/beneficiary level are onerous but give a more accurate picture of impact. Measures that track outputs cannot make as strong a claim around impact but can be more easily measured. Because practitioners are so used to reporting and acting on hard financial data there is an attitude change and capacity gap that needs to be closed to recognize the integrity and business- related importance of non-financial data. Businesses are used to tracking customer data of which impact could be considered a subset. Businesses trust that data to make operational decisions and so it should be no different with impact investing.



"Confident in terms of number of people portfolio is reaching but just knowing the number doesn't tell you if their lives have been impacted (e.g. for an insurance company who serves low-income consumers - how do you assess impact if the consumer hasn't made a claim yet) - we refer to this as measuring the extent of impact (depth) - access is clear (number of people reached/beneficiaries), but extent/depth of impact is not. We are now, looking at getting experiences (that highlight depth) from the ground (we working on making it standardised) (PE Fund)

"Why would you not have the data if it is your investment, how does it differ customer data for traditional companies? (Foundation)

"But any business that is serving a customer base needs to be close to that base. It's about extending our reach in order to become familiar with the data, which means we have to be close to the investment - e.g. customer satisfaction - asking the beneficiaries what impact they are seeing" (Foundation)

Reporting fatigue

Both businesses and investors are being saddled with multiple voluntary and involuntary reporting requirements and surveys with little coordination between them.

Time is being spent on generating reports but the data is not necessarily being used to improve the performance or reduce negative effects of the business. It is being used as tick box exercise whereas practitioners would prefer to spend more time analysing useful data than chasing companies for numbers to report on.



"Our Excel spreadsheet has grown over exponentially over the years as different LPs are asking for different bits of information. So trying to collate 15 portfolio companies and trying to corral them to give us information has been difficult" (VC Fund)

"We want to spend more time understanding the data and use insight rather than chasing people for data and reporting it. And the LPs all ask for slightly different data and which is a challenge." (PE Fund)

"We are obligated to report back to LPs (some who are DFIs) on a quarterly basis - can be overwhelming for our investment companies (so we make sure that we only ask them for data that we will use) - reporting and data collection takes time" (PE Fund)



3. Trends in the current approach to IMM



There are 4 core components identified by practitioners and aligned to emerging good practice that make up a robust IMM framework



The trends identified in this chapter has been determined from GIIN survey responses from South African impact investors coupled with local interviews. These responses are an indication of the evolving practice of self-identified impact investors.



Design

1

- Fund managers generally are selecting their own metrics with input from investors rather than investees
- Investors are seeking to set quantifiable impact targets
- Targets tend to be set at an investment level with fewer managers reporting that they set targets at a fund or organizational level
- Targets are set according to investor objectives but take into account the size of the local problem as well as the global development agenda
- Fund managers look to metric sets that are generally recognized but tailor according to impact target and investor requirements
- One of the biggest considerations in selection is that data is actionable and useful, followed by whether it is reliable.
- Metrics tend to measure outputs and short- or medium-term outcomes

Measure

2

- Very few investors are codifying impact targets into investor, loan or shareholder agreements
 - The key stakeholder groups targeted include historically disadvantaged, women, youth and the poor
 - Investing is happening across a range of impact categories with some emphasis on employment, education, energy, climate, water, waste and black economic empowerment
 - IMM strategies can be applied differently across a financial institution depending on the investment type.
- For example, an ESG screen may be applied to all investments whereas intentional high impact strategies may require a different set of practices
- Respondents are reporting that for data collection systems to be of value they need to be simple, specific, consistent, comparable, regular, user friendly and integrated.
 - Those collecting data do so at varying intervals ranging from quarterly to annually. The majority collect and report quarterly internally but annually externally.

Manage

3

- This data is helpful throughout the investment process from identification of opportunity to exit
- Almost all indicated that they use it to improve investees' operational efficiency.
- Most investors do not have dedicated specialist staff to do IMM, but it is done by the investment team.
- Most respondents would be willing to partially align with the rest of market on IMM frameworks depending on utility

Report

4

- All respondents are producing impact reports for investors with a small minority being made public. Public facing reports tend to be watered down.
- Impact investors are reporting ESG and impact alongside the financials in every company, as opposed to aggregating that information and putting it into a separate report. This is as opposed to traditional investors who tend to split reporting.
- There is also a recognition that we need to move away from publishing case studies of impact deals to assessing and reporting on impact on a portfolio basis alongside financial data.
- Only those respondents with LPs that require external validation are having impact results audited
- There was an indication that if ratings systems were available then this would be an attractive option with regards to accountability as it has the added benefit of benchmarking.

4. Harmonisation



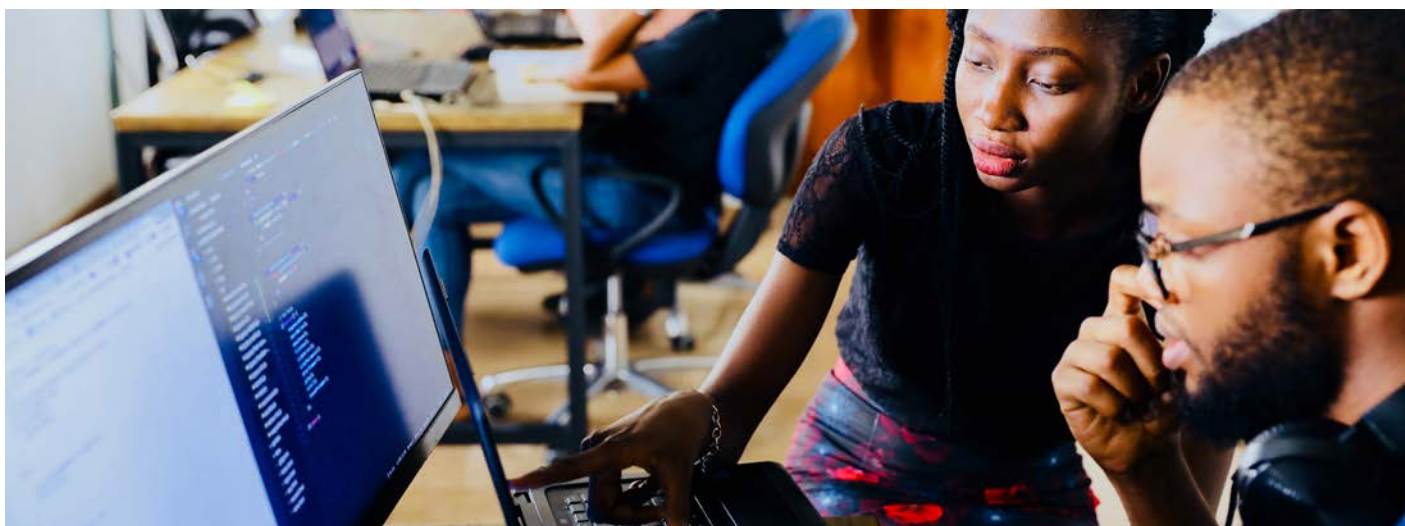
4.1 Purpose of harmonized approach to IMM

The appetite for some degree of harmonization is universal in this study and high in the global market for the following reasons:

- Transparency, standardization and assurance models lead to impact integrity which helps to build market confidence.
- Market confidence leads to greater and faster capital allocation to impact generating businesses and projects.
- If investors have a benchmark against which they can compare themselves, they are more likely to make better decisions about their asset allocation and more likely to raise investment if they are performing favorably compared to their peers.
- If asset owners, members, clients, beneficiaries are aware of the impact their investments are having on people and planet they will be able to make better informed decisions about how they want their money to be put to work
- Practitioners believe that the end goal of harmonisation is the ability of the market to compare and benchmark impact data alongside financial data. There is a strong view that this would be done in order to determine the financial value of that positive or negative impact.

4.2 Principles and practice of harmonised approach to IMM

- **Robust and yet Dynamic**
- **Contextual and yet Global**
- **Aligned to SDGs and NDP**
- **Voluntary vs mandatory reporting**
- **Shared taxonomies and metric sets**
- **Change management**



Robust and yet Dynamic



According to practitioners there is a balance to be struck between a prescriptive and flexible IMM system. Investors come from a background of financial reporting where data is quantitative and highly comparable so there is an expectation that a robust system would need to tend towards that level of comparability. Parts of the system lend themselves to this approach especially in investment areas that are universal and quantitative such as CO2 emission reduction or renewable energy generation. Other parts of the system are more contextual and would be rooted in local conditions such as job creation or socio-economic inclusion. This can be seen in the global discussion between principles and standards described in the next chapter.



"A harmonised approach must be standardised as much as is reasonably possible to allow for consistent, reliable comparisons across multiple regions, asset classes, sectors, etc." (Institutional Investor)

"Clear standards are required that guide how reporting is undertaken, what is reported on and how reporting is verified. We need to ensure that the reporting is not a tick box exercise" (DFI)

"We are not producing any quantifiable rating scale, at the moment each portfolio company is individual in its reporting. So you couldn't compare one portfolio company against the other portfolio company and say this one is behaving better than the other. So that could be perceived as a weakness. But, likewise, a strength in that matter is our portfolio companies are quite wide, diverse and we have made the decision to only report on KPIs that are relevant to each portfolio company" (Asset Manager)

In early stages of market development the majority of practitioners believe that Principles provide enough commonality through a shared process whilst enabling investors to report on different impacts. It was however acknowledged that for that to work transparency is key in ascertaining attainment and the reason why the market is pushing towards standards is that investors are impact washing. Regardless any harmonized methodology would need to be useful for companies and not just an administrative exercise for investors.



"We need principles at this stage to hold on to but also allow for lots of experimentation; providing frameworks to help with learning but not being too rigid; we don't really understand this space well enough yet" (PE Fund)

"Frameworks should be harmonized from principles perspective; but also allow flexibility to tailor to sectors /areas of interest; impact investing is too young an industry to try to standardize it from the outset" (PE Fund)

"If people detect that the information being provided by reporting on Principles is bad then they should start pushing for audits" (Asset Manager)

Recent global conversation has turned towards certification and thus the development of Standards or at least some form of assurance, as a way to limit impact washing. As more investors pile into the market. Standards can range from being detailed and sector-specific with bespoke indicator sets (e.g. SASB) to being sector-agnostic and interoperable standards of practice (e.g. UNDP SDG Impact Standards).

All tend to have indicator sets with either minimum disclosure requirements or minimum thresholds. Some believe this approach is step on from a tick box exercise adding a layer of accountability although the proof will need to be evidenced in the development of credible accreditation processes.



The approach should be specific to each and every asset and capture key quantitative data that demonstrate the impact of the asset to all of its key stakeholders. A consistent, clear quantitatively based methodology that is transferable across asset class, sector and jurisdiction is essential for comparison purposes and to maximise the interpretive power of the statistics captured. Reporting format should be sufficiently granular to allow for attribution of impact per asset but also in aggregate provide a reliable top-down picture of portfolio performance against key sustainable development goals/impact targets. (Institutional Investor)

Contextual and yet Transferable



There is a difference in opinion as to where the emphasis should lie between using international and local reporting frameworks. Some investors consider international frameworks to be more credible and useful to raise foreign investment. Whereas some consider South African context so unique that international frameworks are not specific enough. For example, the Green Taxonomy is an area where international norms can be used as a strong foundation whereas the Broad-based Black Economic Empowerment legislation is unique to South Africa.

This is likely reflective of the fact that global frameworks are often developed in Europe and the USA and so tend not to be strong on emerging market realities. Practitioners want to see as much integration between International and national frameworks as possible and preferably alignment with global reporting norms, as many LPs are international.



"The social challenges in South Africa are not the same as social challenges in the UK, for instance, or social challenges in the US, for instance. If we are talking about people living in squatter camps or talking about people living in the banks of the Vaal River in Alexander where, every time we have floods, shacks are being taken by the river and stuff like that, those are unique challenges to South Africa. For us to think of how we're going to harmonize, we won't win if we are not thinking in the context of a specific country that we are trying to monitor an investment from." (Institutional investor)

The key thing is if it's going to be a harmonized approach, it needs to be relevant to the South African context and South African investees, and the type of challenges that we face. (Asset Manager)

Aligned to SDGs and NDP



It was noted that the SDGs are playing an ever increasing part in the investment discourse. In particular they appear to have provided a rallying point for private markets where much of the SDG-aligned investment is made and mandatory reporting has been largely absent. The private market practitioners indicated that this is a framework that they can coalesce around and they are voluntarily stepping up reporting against those measures in large part because of influential asset owner requirements.

The focus then turns to the public markets where there is no compulsion to report against achievements and yet where the bulk of the achievement is likely to come. One of the big challenges noted in this regard is deciding what qualifies as impact in a large publicly owned company where there may be multiple complex business lines.



“These historical frameworks came from risk management perspective rather than reporting impact and the underlying theme is disclosure, transparency and has negative connotation. Private markets not obligated, therefore unwilling to comply. The advent of the SDGs encouraged private markets to develop a sustainability report – largely reporting all positive impact, but there is no requirement to report anything; hence the traction in reporting.” (Institutional investor)

“What the SDGs are trying to do is basically educate people that things don’t work in isolation, everything is connected. If you want to talk about ending poverty or talk about clean energy or talk about good corporate citizenship, you cannot talk about these things in isolation; you need to bring these things together. So the SDGs will definitely play a huge role in making sure that a tool like this will be a success.” (Institutional investor))

The National Development Plan (NDP) was drafted in August 2012 with the work of the National Planning Commission (NPC) coming to an end this year. Although it is not always clear how the plan set out to 2030 is going to continue to drive the development agenda it is important to note that the NDP is essentially an illustration of the global development agenda at a local level. Much work has been done in trying to integrate the two although shared set of goals and targets have emerged which would enable companies to report against them⁹.

Practitioner perception is that the NDP lends itself to fewer indicators whereas the SDGs were made to be able to track and count. The government is tracking progress against SDGs¹⁰ but practitioners could not point to work being done to aggregate the private sector contribution.

⁹ <https://www.nbi.org.za/focus-areas/integrating-strategic-projects/national-development-plan-implementation/>

¹⁰ <https://sustainabledevelopment.un.org/memberstates/southafrica>



"In the South African context, standardization has to come from the NDP. So, you have this umbrella, you have the SDGs which give you commonality across countries and regions, it's a global action plan we want to do all of these things. In every country context, you have to take it down a level and make them applicable to a national context which is what the NDP does. And you have alignment between the UN Global Compact and the GRI. So, the SDGs are great they are that umbrella at the top, but they are not going to guide implementation unless you can take it down level."

(Bank)

"You need to strike a balance between the economic part, the environmental part, and the social part. So all those three elements, the need to go on hand-in-hand and be given equal attention for them to thrive together".
(Institutional investor)

*"It's not just a case of looking at the pretty icons and saying, 'SDG 1 and 2'. You need to dive into the detail of the target and the indicator, it's quite problematic sometimes for us because as a PE house we are an individual entity and SDGs are on a global government basis, so a lot of that we have no influence over. It's quite difficult in some instances, to see where a PE house and corporate company can contribute to the SDGs. We have had a go in our sustainability reports this year but I know it is quite subjective and other people may have different options of where their portfolio companies are contributing to the SDGs. It needs to be included, but not an easy answer."**(PE Fund)*

*"I think it is achievable now, if it was made it mandatory to report against SDGs it would happen overnight. And if FICA said to its members we encourage everyone to report against the SDGs and LPs had the same specifications and requirements of GPs then I think it would happen relatively easily and quickly. And I don't see why it should be so onerous or difficult to achieve"**(PE Fund)*

It was noted that the SDGs do not provide a universal taxonomy or framework. There are multiple opinions on the reasons for this including (i) national or sub-national context and priorities (ii) the interdependence of the SDGs (iii) the broad nature of the objectives (iv) the constantly changing context (v) the general use of indicators in the market as a guide to short rather than long term goals (vi) the suitability of objectives to shared metrics (vii) the focus on E which may be quantitatively easier to collect than S which is just as relevant in our context. It was suggested that SDGs should be tracked at a local and not just national level as variation between regions/cities/areas within the same country can be significant

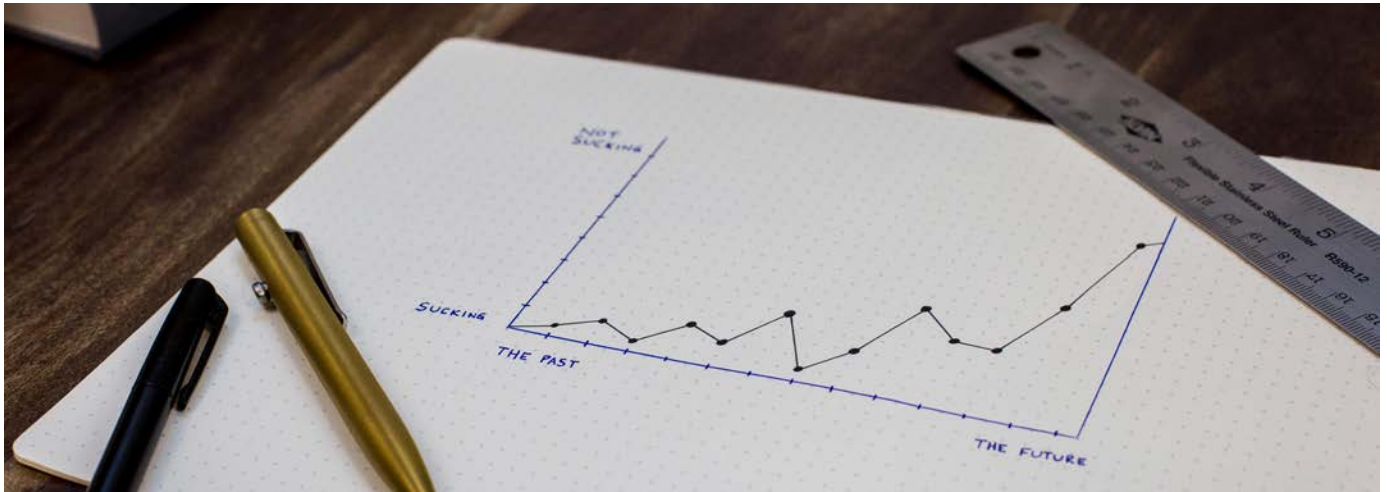


*"The SDGs have been good to bring everyone to the table - created a common language but it is not a reporting approach/framework; we need a sector/industry lens - they are too broad at the moment - need to leverage airtime SDGs are having at the moment (good place to start)"**(PE Fund)*

*"Inequality and developmental failings are typically not evenly distributed evenly throughout a given country or region. As they point out: "There's a need for more research and analysis at the district level to understand why this inequality is taking place and direct resources at those areas that have been excluded." The power of impact investing is that it can target those regions and communities and households that are at the core of achieving an SDG outcome - But that means the SDG metrics cannot just be considered at a national level but need to be considered within the context of that specific issue."**(Institutional investor)*

"Not a big fan of SDGs as they promote arbitrary focus on areas for short term gain. A top down approach is paternalistic, arbitrary and does not reflect people's thoughts/experiences on the ground. In South Africa for example there is 30% unemployment and 50% youth unemployment - it is a no brainer that we need to focus on this; other countries may have other priorities which they need to define and not wait for some list from New York"
(VC Fund)

Voluntary or mandatory reporting



"Voluntary measures don't help if you want to achieve something. The progress that has been achieved in the financial services sector has been the result of regulation" (Institutional investor)

"Different histories of reporting between the public and private markets. There have been ESG reporting frameworks for decades, but no-one in the private markets makes use of them because they are not obligated to. Only listing requirements in a stock exchange" force" compliance. Listed companies are used to the reporting regime, but private markets not." (Asset Manager)

"I don't think it should be mandatory - rather voluntary buy-in with no strong arming. This can be achieved without mandatory measures as can be seen by the adoption of other frameworks in the market such as SMART campaign guidelines IFC are an example - they are not mandatory, but many impact investors use them. Impact investors are excited for this and need guidelines rather than prescriptive/mandatory" (VC Fund)

Comparability is starting internally in many organisations but should extend to shared reporting structures in order to create benchmarks.

Investors are attempting to harmonize data collection between portfolio companies and between fund managers. For example, similar companies tend to be clustered in the same portfolio making comparison easier and at a minimum some organisations compare ex ante to ex post data.

Comparability between investments can be simplified but there are still some challenges.

A number of the more advanced organisations have created general and sector specific measures that are comprehensive and easy to use to advance this practice. It was also noted that impact may not be comparable year on year as indicators change depending on growth stage of business. It is reportedly easier to compare risk measures such as those pertaining to traditional ESG frameworks

Practitioners believe if you are going to adopt the carrot rather than stick approach then incentives applied across the market need to be sufficiently compelling to spark sustained action.

It was pointed out that we do have precedent in the market with regards to the adoption of reporting standards which is pertinent to note. The public markets have been compelled through the stock exchange listing requirements to report against King IV and provide Integrated Reports. The private markets have not adopted ESG reporting apart from those driven by investors such as DFIs which have demonstrated that asset owner and wealth holder hold particular sway in that market.

Thus, it was concluded that the approach required would largely depend on the attitude of the market. If buy-in is high then there will be less need for regulation. The question is under what circumstances will buy-in be high and these could include (i) use of incentives (ii) ease of use (iii) access to data if you opt in (iv) peer pressure (v) client or member pressure. It is generally accepted that the timeframe to adoption will be longer if not mandatory.

If reporting is mandatory then practitioners are undecided as to who should be reporting authority although multiple options where given. The principles of selecting a reporting authority include independence, market legitimacy, universal acceptance, existing systems and relevance to market segment with no incentive to leak data. Suggestions include (i) Multi-lateral organisation e.g. UN/OECD, (ii) Government eg DTI or DFIs (ii) the regulator (iv) Industry bodies (v) JSE (vi) Impact investment network organisation e.g. IISA/GIIN (vii) Nonprofit organisations and (viii) StatsSA.

In South Africa LPs such as DFIs can influence private markets, the regulator can influence asset owners and asset managers, the exchange can influence public markets so it may be an incremental multi-pronged approach is required with some central alignment around priorities.



“SDGs had an active champion in the UN – they drove these and have an extensive network – so an active champion, whose well respected, in South Africa is required. And everybody needs to be involved – if voices are not heard, adoption will be low; having a significant voice like the UN helps and regulators are also critical to this process as they play a very powerful role” (PE Fund)

“Should be the government and its agencies, such as the regulator. Other players can feed into the process, but it should be led by government” (Institutional investor)

It was suggested that if reporting is voluntary then the driving force is likely to come from Asset Owners and LPs, the potential for investment raising. There are examples of this strategy driving behaviours in sustainable investing such as those employed by DFIs and PIC. This could be replicated or expanded to include IMM as well. There does however needs to be alignment across investment value chain for resale purposes.



“In continental Africa, DFI’s insisted on a certain caliber of impact reporting from their asset managers if they wanted to win the asset flows.” (Institutional Investor)

“True harmonisation and ESG integration is only likely to be achieved by fund managers where the quality and integrity of such reporting and integration into investment processes is linked to the certainty and quantum of funding that they may receive from asset owners.” (Asset Manager)

“It’s like the chicken an egg situation, if the pension funds unlock capital for alternative and impact investing you will see a lot more players in the local market aligning themselves from a standardisation perspective to get that capital internally. Less so driven from the other direction. It’s a pull factor and a push factor from the investors.” (Asset Manager)

Independent verification and assurance are not yet common practice in South Africa. The distinction being verification which is used when reviewing impact data and does not require an accredited professional whereas assurance requires potentially more rigorous methodologies must be performed by an accredited processional.





"There aren't a lot of third party verification agencies in the SA ecosystem, even in the worldwide trends verification is done by predominantly audit firms (they are building up practices to be able to do 3rd party verification); however in SA doesn't exist in terms of an experience based and have had to prompt the audit firms to provide a guideline" (Debt Fund)

Shared metric sets



The idea of a shared taxonomy is a popular idea. Many practitioners believe that if they are able to measure against a shared group of indicators that the issue of comparability would be largely addressed. According to this research the most commonly used metric sets in SA include GRI¹¹, IRIS and IRIS+¹² and SDGs. The green bond taxonomies including ICMA, EU Sustainable Finance taxonomy and CBI have provided a list of eligible sub-sectors and projects that constitute green activity.



There's a limitation at the moment that is not restricted to a single bank but is rather an industry issue. There are not consistent metrics and ways to report, so there's no consistent framework. The GRI has their reporting framework, but that's quite dated. What we need now is an impact reporting framework that identifies a shared set of social metrics, like job creation or whatever, that we can report against. At the moment, we just put our report out, and other banks put their reports out it's very hard to compare. (Bank)

Taxonomies are important but practitioners know it is not that simple. Taxonomies and metrics need to be developed with global and local contexts in mind. In other words they need to operate in a geographic and time context to be relevant and align with global norms in order to ensure credibility with international investors. This would ultimately mean some indicators are universal and others may be adapted and bespoke.

Practitioners considered that the most pragmatic approach in developing a local taxonomy would be to either to adopt a globally accepted taxonomy and drive formal recognition across the eco-system, or adapt such a taxonomy so it remains aligned with global good practice yet also addresses local context. It was also noted that there is significant value in collectively commenting on global shared metrics sets and standard setting that go on to inform taxonomies. And finally, that both a top down and bottom up approach was required to ensure buy-in and uptake.

¹¹ <https://www.globalreporting.org>

¹² <https://iris.thegiin.org>



"One of work streams of the local DFIs is to report on SDGs and find common indicators although it is very difficult because metrics are currently so different. It is likely to take a long time." (DFI)

"If someone can come with a common set of metrics then would be helpful – we are waiting for someone to take the lead" (Asset Manager)

"The biggest challenge has not been which frameworks to use but the issue for us has been standardised metrics that span across different sectors. Finding appropriate KPIs for certain sectors are difficult. For example transport and logistics in South Africa vs last mile distribution in Kenya because the nature of the businesses is different even though they are theoretically in the same industry. Standardising metrics in transport sector is challenging as impact occurs over time and involves interviewing the beneficiaries of the services thus aggregating impact across whole portfolio is a challenge. We understand what impact, shared language, reporting framework; for us it comes down to the individual company which is different for every fund" (VC Fund)

Change management



External change management

In order to improve general IMM practice you would need institutional alignment which is challenging because each investor type is bound by their own regulatory framework. Even within institutional types it is difficult because each have their own mandate. Saying that a number of processes were referred to where organisations industry bodies are taking the lead around standards setting within their memberships bases.

Internal change management

One of the key challenges to implementation identified in this study is lack of buy-in from key decision makers. At each level of decision making along the value chain there needs to be institutional, cultural and strategic change to enable it to happen.

Relying on one or two champions in different parts of the business may provide a trojan horse especially if they are given time to achieve results. But practitioners agree that if rapid, wholesale change is needed senior management needs to build integrative decision making into company strategy and then capacitate and incentivise teams to execute. The time of heroic internal champions is over as the largest investment firms in the world have demonstrated. It is now time to affect large scale change. It was recognised those same internal champions may indeed be the people to lead the operationalisation of integrative decision making as they have first-hand experience of how it works.



I think a key factor for us is we need to show that impact investing will not hinder their returns, because it is still a standard we have right now. So tools to measure that and guidance on how you develop that and apply it would be helpful, because it is not a straight forward approach. Knowledge and capacity building, because we have some very clued up people in our firm, but we also have some very old school traditional guys. And you have to be careful that you are not trying to impact wash for the sake of getting money, but then not delivering on that. (PE Fund)

The same question that may have been asked about ESG screening and reporting 5 years ago is being asked about impact. Is it sufficient to measure impact from those parts of your portfolio that are carved out for impact or should this lens apply across the board.

Practitioners recognised that each investment is making an impact be it positive or negative and recording and quantifying that net impact is important to understand the health across the business. The intensity of measurement may vary depending on portfolio but most believe minimum processes should apply across the board.

Timeframe



Respondents believe that adoption of standardised (mandatory) reporting frameworks could take anywhere from 3 to 15 years with an average of 5 years. This timeframe depends on (i) whether it is legislated or not (ii) global coalescence around specific frameworks (iii) cost of implementation vs cost if not implementing. It was noted that existing examples could be emulated or built upon including King IV, Integrated Reporting, PRI and CRISA.



5. Notable trends in harmonisation



- **UN Sustainable Development Goals (SDGs)**
- **Impact Management Project**
- **Shared taxonomies and metric sets**
- **Assurance**
- **Comparing performance**
- **National Sustainable Finance Initiative**

5.1 UN Sustainable Development Goals



The SDGs provide the most compelling set of goals around which international and local enterprises and investors are coalescing¹³. They are starting to be seen as indicators of ESG resilience which means that those companies developing aligned strategies are signalling that they are ahead of the curve when it comes to transition risk. There is a recognition that current pace of change is not sufficient to meet the SDGs by 2030 and in order to direct or redirect capital at the scale to where it is needed most, engagement must extend beyond the impact investing field to the mainstream market. Part of the infrastructure required to do this lies with standard setters such as those convened by the IMP Structured Network. Most are making notable efforts to reflect this in their strategies and frameworks as are and private pioneering organisations. These are a few examples:

- The Global Reporting Initiative, UNGC and the World Business Council for Sustainable Development have developed an SDG Compass¹⁴ providing guidance for companies on how they can align their strategies as well as measure and manage their contribution to the realization of the SDGs
- The Global Impact Investment Network's IRIS + give enterprises and investors the option of aligning generally accepted core metric sets to the SDGs¹⁵
- The UNEP FI Sustainable Stock Exchange Initiative is working out how the securities regulators can support the SDGs¹⁶
- The UNPRI has developed a report outlining the macro and micro risks and opportunities associated with the SDGs for institutional investors with a view to including SDGs in reporting framework¹⁷
- The UNDP are in consultation on a set of SDG Impact Standards for PE Fund, Bonds and Enterprises¹⁸
- SASB issued an industry guide to the SDGs outlining the interconnection between their standards and the SDGs¹⁹
- Private institutional investors have developed open source tools to track their contribution to SDGs notably PGGM SDI Asset Owner Platform²⁰ and Hermes SDG Taxonomy²¹.
- Social Value International has a framework which sets out ways for organisations to measure and report their contribution to the SDGs²².



¹³ It is notable that approximately 75% of the NDP aligns with the SDGs

¹⁴ <https://www.globalreporting.org/information/SDGs/Pages/SDG-Compass.aspx>

¹⁵ <https://iris.thegiin.org/document/iris-and-the-sdgs/>

¹⁶ <https://sseinitiative.org>

¹⁷ <https://www.unpri.org/sdgs>

¹⁸ <https://sdgimpact.undp.org/practice-standards.html>

¹⁹ <https://sdgimpact.undp.org/practice-standards.html>

²⁰ <https://www.apg.nl/en/article/-/Wereldwijd-%20SDI-Asset%20Owner%20Platform/1110>

²¹ <https://www.hermes-investment.com/ie/sdg-taxonomy/>









²² <https://socialvalueint.org/sustainable-development-goals-reporting-and-the-social-value-international-framework/>

5.2 Structured network of global Standard Setters

The IMP is a grant funded forum for building shared language and consensus on how to measure and manage impact. The IMP has developed a classification system based on 5 dimensions of impact which investors can use to determine the nature and depth of both the investor and investee contribution to impact²³. This is supported by a digital platform IMP+ACT Alliance which can be used across asset classes.²⁴

- Practice: Processes for managing impact include Principles and Standards
- Performance: Frameworks and indicators for measuring and reporting impact including impact accounting, data standards, disclosure and SDG targets
- Benchmarking: Rating and valuation for comparing impact

The IMP group also facilitates a structured network of 13 standard-setting organisations²⁵ whose expertise and audiences are complementary and who, taken all together, have the potential to provide complete and 'generally accepted' guidelines for impact measurement and management. The network is building consensus over a 3 year time period in 3 areas:

PRACTICE	Adopt generally accepted principles of impact management	➤ Use impact management guidelines to implement those principles	➤ Asses and assure standard of implementation	➤ All enterprises and investors have processes too...
				
PERFORMANCE	Use a generally accepted conceptual framework for impact accounting , endorsed by governments globally	➤ Use framework to measure and disclose impacts using universal, thematic and bespoke data standards	➤ Contextualise data in science-based targets and local SDG priorities to determine impact on global goals	➤ Measure their positive and negative impacts that matter most to the people and the planet and... Disclose data on those impacts in a comparable way, whenever possible and appropriate, so that they can
				
BENCHMARKING	Use transparent ratings to score performance in relation to science-based and SDG targets			➤ Compare impacts to understand where they could be better, with the reslt that is key
	Use valuation techniques to estimate relative values of impacts, expressed in quantitative, qualitative or monetary terms.			
	Use impact-weighted financial accounts to integrate monetary value of impacts into financial accounting statements			➤ Improve performance by mitigating/ minimising negative impacts and increasing positive impacts



²³ <https://impactmanagementproject.com/impact-management/impact-management-norms/>

²⁴ <https://www.impactalliance.co.uk>

²⁵ <https://impactmanagementproject.com/impact-management/structured-network/>

5.3 Shared taxonomies and metric sets



A taxonomy is a classification system with scientifically robust definitions and underlying principles of classification which provides a list of eligible assets with metrics and thresholds. These would cascade from specific impact goals, to a list of economic activities, to performance metrics and then to performance thresholds.

Within the ESG suite, green taxonomies are most advanced and established. In South Africa National Treasury is spearheading the development of a local version supported by the IFC and National Business Initiative. That process is reliant on existing taxonomies including EU Sustainable Finance Taxonomy, Climate Bonds Initiative Taxonomy²⁶, ICMA²⁷ and MDB-IDFC. The key decision making points identified include (i) benchmarking against local policy or international best practice, (ii) application at asset level or value chain level (iii) focus on green or transition/social assets and (iv) localising international work or working from bottom up.

There are other notable combined efforts to create shared metric sets across multiple development thematics.

The Harmonized Indicators for Private Sector Operations (HIPSO) were one of the first frameworks developed by a group of 8 multilateral and bilateral development institutions to foster collaboration between IFIs²⁸. IRIS+ which has evolved from IRIS catalogue of metrics and Navigating Impact developed by GIIN, is developing core metric sets and a thematic taxonomy based on generally accepted impact categories and aligned with the SDGs.

There is increasing demand for an SDG taxonomy which is being explored through the IMP structured network and includes the work of the UNDP in terms of the SDG Investor Maps and SDG Impact Standards. The UNDP has hesitated in developing a global taxonomy because of the contextual nature of SDG goals both in terms of geography and time horizons. Taxonomies and metrics must be constantly refined and expanded to accommodate local realities and systemic shocks which requires a strong governance structure to underpin that flexibility advancement.²⁹

²⁶ <https://www.climatebonds.net/standard/taxonomy>

²⁷ <https://www.icmagroup.org/green-social-and-sustainability-bonds/>

²⁸ <https://indicators.ifipartnership.org>

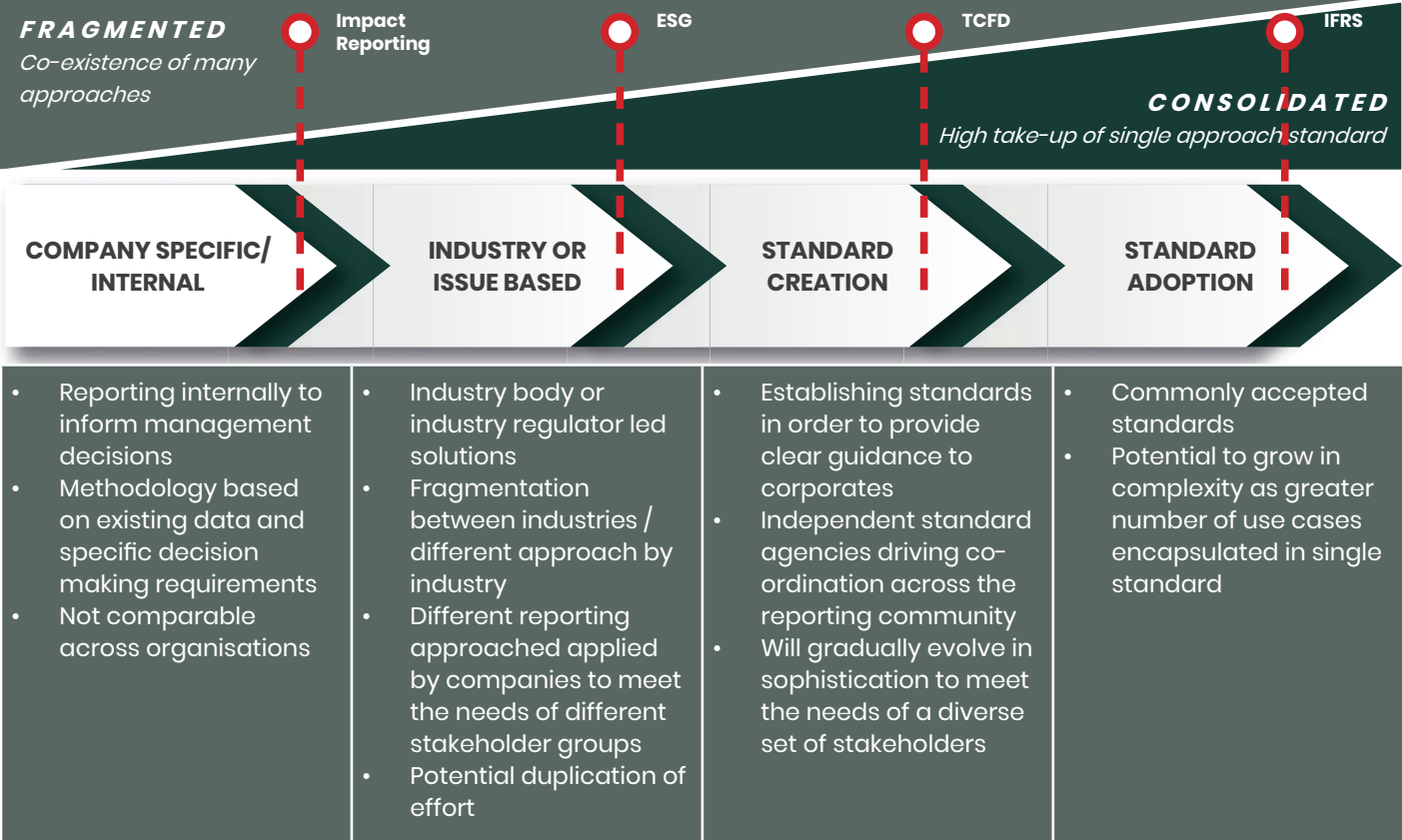
²⁹ <https://iris.thegiin.org>

5.4 Assurance

Interest in sustainability, impact and the SDGs is growing along with the number of organisations claiming to be addressing these issues. As measuring and managing practice improve according to generally accepted broad based principles so too does the demand for verification of claims to ensure discipline, accountability and comparability. This can happen by requiring an audit from a third party or through the development of Standards which by their nature require some type of assurance mechanism. Standards provide clear benchmarks for assessing effectiveness or minimum requirements.

Until recently the most widespread harmonization in the market has happened through the adoption of principles although there are some long standing sustainability frameworks which incorporate both principles and standards in particular the PRI and GRI. More recently there has been a call from the market to the International Accounting Standards Board (IASB) to formalise sustainability reporting in a similar manner to the International Financial Reporting Standard (IFRS).

Figure: Illustrative maturity journey of reporting practice³⁰



Note: IFRS = International Financial Reporting Standards, TCFD = Task Force on Climate-Related Financial Disclosure

Emerging good practice regarding impact measurement and management practice has been codified in a number of frameworks that span the spectrum between principles and standards. The IFC Operating Principles for Impact Management³¹ provides a high level structure for ensuring that impact considerations are purposefully intertwined throughout investment lifecycle but do not provide specific guidance on how organisations should do this. They have been developed predominantly for funds but can be used across asset classes. Principle 9 is a recommendation for independent verification and annual public disclosure although there are no centralised processes to guide this type of audit.

A recent Tideline report³² outlines their verification methodology along with findings from 13 organisations which indicates variable implementation across sample. UNDP SDG Impact Standards for Bond, PE Funds and Enterprises³³, currently out for consultation, have taken these best practice guidelines a step further by building an assurance process alongside the Standards where minimum thresholds need to be met in order to obtain a formal, trusted certification. This does not address the issue of product or thematic standards although theoretically the measurement system has been designed to roll up into higher order metrics that are comparable. Product or sector standards tend to be developing within industries which are most advanced in the green sectors as mentioned previously.

³⁰ <https://www.impactinvest.org.uk/report-impact-reporting-landscape/>
³¹ <https://www.impactprinciples.org>
³² <https://tideline.com/making-the-mark-investor-alignment-with-the-operating-principles-for-impact-management/>
³³ <https://sdgimpactundp.org/practice-standards.html>

Table: IFC Operating Principles for Impact Management

Strategic Intent	Origination and Structuring	Portfolio Management	Impact at Exit
1.) Define strategic impact Objective(s) consistent with the investment strategy. 2.) Manage strategic impact and financial returns at portfolio level.	3.) Establish the investor's contribution to the achievement of impact. 4.) Assess the expected impact of each investment, based on a systematic approach. 5.) Assess, address, monitor and manage the potential risks of negative effects of each investment.	6.) Monitor the progress of each investment in achieving impact against expectations and respond appropriately.	7.) Conduct exits, considering the effect of sustained impact. 8.) Review, document, and improve decisions and processes based on the achievement of impact lessons learned.
Independent Verification			
9.) Publicly disclose alignment with the Principles and provide regular independent verification of the extent of alignment			

Table: UNDP SDG Impact Standards

STRATEGY	MANAGEMENT APPROACH	TRANSPARENCY
Embedding sustainable development and the SDGs in purpose, strategy, business model and goals STANDARD 1	Intergrating sustainable development issues, the SDGs and impact management into organisational design operations STANDARD 2	Disclosing how sustainable development issues, the SDGs and impact management are integrated into strategy, management approach and governance, and reporting on performance STANDARD 3
GOVERNANCE		
Reinforcing commitment to sustainable development, the SDGs and impact management through governance practices STANDARD 4		



Comparing performance

Integrating impact and financial management is a new and evolving practice. This moves practitioners beyond investment screening to be able to optimise the financial and non-financial performance of a portfolio over time. It enables investors to compare investments internally and with the rest of the market. We are moving towards being able to integrate impact into investment decisions alongside financial risk and return.

Just as asset and fund managers are calculating the materiality of ESG integration so too is this work happening with impact generating investment. There are a number of methodologies³⁴ including (i) comparing impact indicators often only encompassing one dimension of impact, a recent example being the GIIN Impact Performance Studies³⁵ (ii) impact monetisation which entails translating impact into a consistent, comparable unit of monetary value, a common method of which is Social Return on Investment (SROI)³⁶ and on which the Impact Weighted Accounts Initiative³⁷ is based and (iii) Impact rating which is a numerical index built on weighted sum of multiple impact indicators that

can be used in conjunction with financial rating which can be used to inform decision-making on individual transactions. The Impact Frontiers Collaboration has described a shared methodology and variations based on the work of 13 fund managers³⁸ based on work done initially by Root Capital on the efficient impact frontier.³⁹ Actis has also created the Impact Score to compare investments across geographies and sectors.⁴⁰

The ESG integration has been a precursor to the development of benchmarks following on the heels of ESG integration and sustainability indices including the FTSE Russell Responsible Investment Index, Dow Jones Sustainability Index, SAM Corporate Sustainability Assessment, MSCI South Africa ESG Leaders and Emerging Markets Indices and S&P Emerging LargeMidCap ESG Index. Notable in the impact world in this regard is the work of the World Benchmarking Alliance⁴¹. They have identified 2000 of the largest and most influential companies in 74 countries and are benchmarking performance within that cohort across 7 impact systems.

National Sustainable Finance Initiative



In response to local demand and international agreements of which South Africa has been part⁴², the National Treasury has spearheaded a process with contributing parties including SARB, PA, FSCA, DEA, SAIA, BASA, ASISA, JSE and Batseta. The objectives include (i) defining sustainable finance for all parts of the South African financial sector including banking, retirement funds, insurance, asset management and capital markets (ii) Identifying market barriers implementation of E&S risk management best practices and (iii) addressing gaps in existing regulatory framework.

Whilst multi-lateral organisations have created distinctive, aligned frameworks for institutional types, the IMM frameworks tend to cut across investor types.

³⁴ https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/promise-of-impact-investing

³⁵ <https://thegiin.org/research/publication/evaluating-impact-performance>

³⁶ <https://socialvalueint.org/social-value/standards-and-guidance/>

³⁷ Impact Weighted Accounts Initiative

³⁸ https://ssir.org/articles/entry/how_investors_can_integrate_social_impact_with_financial_performance_to_improve_both

³⁹ https://ssir.org/articles/entry/toward_the_efficient_impact_frontier#

⁴⁰ <https://www.actis/responsible-investing/>

⁴¹ <https://www.worldbenchmarkingalliance.org>

⁴² European Union's (EU) High-level Expert Group on Sustainable Finance, the G20 2018 Action Plan and Leadership Declaration, Task Force on Climate-related Financial Disclosures (TCFD), the World Economic Forum 2020

Table: Voluntary and involuntary reporting frameworks according to investor type

Sector	Capital	Voluntary frameworks	Involuntary frameworks	Regulatory body	Other initiatives
Banks	R958 bn	BASA's Principles for Managing Social and Environmental Risk Equator Principles UN Global Compact Dow Jones Sustainability Index UNEP FI UNEP Positive Impact Manifesto Principles for Responsible Banking	King IV IR	Prudential Authority	NBI SDG Strategy
Retirement Funds	R1224 bn	CRISA UNPRI	Regulation 28 and Sustainable Finance Directive King IV	FSCA	Asset Owners Forum
Collective Investment Schemes	R2175 bn			FSCA	ASISA Responsible Investment Committee
Private Equity		IFC Operating Principles for Impact Management CDC Toolkit			SAVCA Special Interest Working Group
Capital Markets		UNPRI Sustainable Stock Exchange GSD	King IV IR	FSCA	Co-chair UN Global Investors for Sustainable Development Alliance (GISD) FTSE JSE Responsible Investment Series Index Green Bond segment (ICMA)
Insurance	R2816 bn (Life)	UN Principles for Sustainable Insurance ClimateWise		Prudential Authority	Sustainable Insurance Forum



6. Recommendations



1. Raise awareness

- Accelerate adoption of globally accepted terminology
- Support market participants to map investments according to emerging, best in class, classification systems
- Build case for impact measurement and management

Why

There is a growing awareness about impact investment in the local market and yet still confusion due to lack of specificity about the terminology and practice. This ambiguity is being dispelled globally as accepted terms, definitions and characteristics are being propagated in the eco-system. By raising awareness, investors are more likely to share language and classify portfolios in a similar manner. This will lead to increasing public awareness and competitive pressure to allocate resources to net positive enterprises and projects.

2. Improve Impact Measurement Management Practice

- Build trainings to address capacity gaps at (i) senior leadership (ii) practitioners/investors (iii) M&E sector/service providers level
- Assess existing capacity and track improvement

Why

The practice of IMM is often limited to basic M&E because of lack of capacity, lack of resources and lack of buy-in from senior decision makers. By improving capacity practitioners can clearly demonstrate the value of integrating impact all along the investment process and create a business case for sustainability and SDG-aligned growth.

3. Enable greater harmonisation by adopting market-leading frameworks

- Drive the adoption of leading frameworks that address activities across the investment process
- Encourage the participation of local practitioners in global market building efforts to develop frameworks/tools/ taxonomies

Why

There is a lack of comparability in the market because of the multiplicity of frameworks, lack of coordination between public and private sector and lack of coordination between investors. This in turn increases the reporting burden on enterprises. By aligning practice, investors can start to compare non-financial performance in a similar manner to how they compare financial performance which will drive improvement in E&S impact investment portfolios.

4. Build a culture transparency and disclosure

- Support development of social compact around measuring and managing impact (including incentives and consequences)
- Support efforts to strengthen mandatory, specific reporting on sustainable indicators through existing initiatives
- Drive efforts to strengthen voluntary reporting on SDG-aligned impact outcomes
- Promote third party verification of impact

Why

ESG and impact are seldom reported alongside financial performance which reinforces perception that they are not core to the business strategy and performance. By encouraging regular, integrated, internal and external reporting, investors signal to the market that effects on people and planet are key to sustainability and long-term growth. As we have noted with the trend in sustainable investing, simply reporting is insufficient to change behavior. A social compact is required along with incentives and consequences to drive accountability in IMM. Reporting and accountability lead to impact integrity, market confidence and faster capital allocation.

7.1 Case Study: Strengthening IMM systems

The DBSA is a development finance institution wholly-owned by the South African government that operates across Africa in the public and private sectors. The bank began a restructuring of their monitoring and evaluation process in 2012 to ensure stronger alignment to best practice and to their development mandate to create impact.

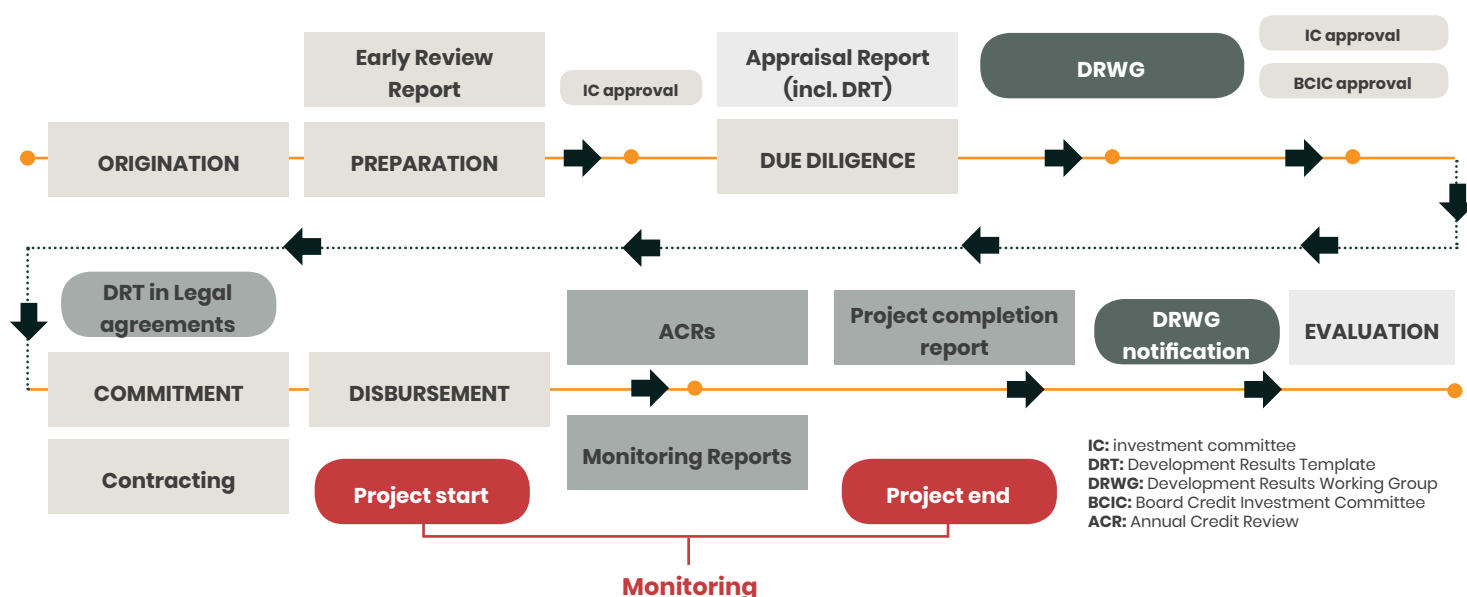
The team began by building the Development Results Reporting Framework (DRRF) which includes a Development Results Template (DRT) in 2014. The DRT was designed to provide investment officers a more standardized set of guidelines and processes to ascertain a project's anticipated impact and forms part of a project appraisal report. The DRT was further refined in 2018 to include mandatory indicators (for example, jobs created) and supplementary sector specific indicators that align with best practice. See Figure x, for a description of the updated investment decision-making process for the DBSA.

An additional stage in the decision-making process was added in August 2019 to strengthen impact alignment to the bank's mandate, which involved the formation of the Development Results Working Group (DRWG). Every project is first reviewed by the DRWG before it is submitted to the DBSA's investment committee (IC). The DRWG reviews projects' DRTs to sense check that the proposed impact and suggested indicators align with the broader development focus of the bank and can be effectively monitored and evaluated.

The DRWG establishes a recommendation for IC approval. This addition to the usual investment process, creates standardisation, consistency, improved governance and a record of decision of the anticipated development results. Once the IC has approved a project, the DRT is also added to the legal agreements to ensure that measurement and reporting is conducted as agreed.

In November 2019, the DBSA began a revision of the DRRF to update the DRT and DRWG procedures and include more recent best practice developed within the impact investment market. They also launched a development index which creates an impact rating to help determine the difference an investment makes from baseline to exit. The index will enable them to set baselines of desired development rating for projects and portfolios and help move towards deepening the impact. Additionally, the rating system can be attached to key performance indicators to ensure that the investment decisions made within the DBSA are creating positive impact.

Once a project ends a project completion report is generated and submitted to the DRWG and lastly, the full project evaluation is conducted. The DBSA has strengthened their monitoring and evaluation approach over the last 8 years by creating an impact measurement process that allows some bespoke adjustments across projects but maintains a level of rigour that facilitates improved evidence gathering and reporting.



7.2 Case Study: Integrating impact into investment decision making



The Investors' Legacy Range is a collection of three separate Funds at Sanlam Investments, each with the intention to invest in companies that will preserve and create a significant number of jobs, considering the local economic contribution, inclusiveness and quality of these jobs, alongside the achievement of competitive financial returns. The impact focus of these Funds was conceived in response to the sharp economic downturn and significant job losses experienced as a result of the Covid-19 pandemic. The Funds in the range can be summarised as follows.

	Debt		Equity
Market segment	Small and Medium Enterprises (SMEs)	Corporates	Mid-market companies
Instruments	Predominantly senior secured debt	Predominantly senior debt	Predominantly private equity and quasi equity
Target size	R1 billion	R3 billion	R3 billion
Sanlam's commitment	R250 million (25%)	R1 billion (33%)	R1 billion (33%)
Target investment return (p.a.)	3-month Jibar plus 6%	3-month Jibar plus 2-3%	25% IRR
Characteristics	Flexible capital Target undersupplied market segments Significant additionality of funding	Supporting large employers Providing growth capital not just liquidity Influence through active engagement	Majority shareholder leading to active management of intended outcomes over long period of time

It is recognised that job creation and economic growth are intrinsically linked to the growth of business which arises as a result of investments that take place. However, the significant emphasis that is placed on these considerations and the weighting that they are given in the investment decision process is what differentiates these funds from others. The objectives of the funds were aligned with broader national and international imperatives around employment and inclusive economic growth, including the Sustainable Development Goals, South Africa's 2030 National Development Plan and the ILO Decent Work Agenda. Sanlam sought the support of IBIS Consulting to work with the different fund teams in articulating their impact aspirations and objectives, and to assist them in embedding these into their respective investment processes and decision making. For each of the funds, practical impact considerations at each stage of the investment lifecycle were identified and agreed upon, after which these were incorporated into tools and documents (referred to as an impact measurement and management (IMM) framework) in order to support the respective deal teams in achieving the intended outcomes and embedding these considerations into their daily analysis, decision making and reporting processes.

This includes a Due Diligence process in which alignment with impact objectives is a key consideration in the transaction decision-making process and has already been successfully implemented by both the Private Equity and SME Debt Funds.

From a measurement and management point of view, indicators have been selected according to (i) materiality at both investment and portfolio level (ii) availability of reliable data in unique operating context of each fund and (iii) alignment with well-known and publicly available indicator libraries such as the GRI and IRIS+. A group of core metrics has been established which are applicable to all of the funds, while each of the funds also tracks a range of more specific indicators (either at an investment or portfolio level).

Another key element of this process entailed the integration of the agreed impact objectives with ESG management systems and processes to ensure that the investments do not impose unacceptable negative impacts on stakeholders and the environment and that key ESG risks and opportunities are being properly identified and managed. To the greatest possible extent, these have been streamlined, and the ESG and Impact management process will be carried out in parallel going forward.

Figure: Core impact objectives



7.3 Case Study: Scoring and benchmarking impact investments



The Actis Impact Score (AIS) was developed to provide a score which helps investors compare and evaluate the impact of their investments at two levels. It applies two performance measures to create a comparable total impact score including an impact score, measuring the positive impact of the business; and an impact multiple, measuring the increase in positive impact during Actis' investment period^{2,3}.

AIS helps investors intentionally create, manage and compare impact across sectors and regions in their portfolios. Members of the responsible investment team and deal team at Actis participate in a 6-step process to reach the total impact score which is calculated at base-line, annually and at exit. The baseline and exit scores are then used to calculate an impact multiple to attribute the increase in positive impact during the investment term.

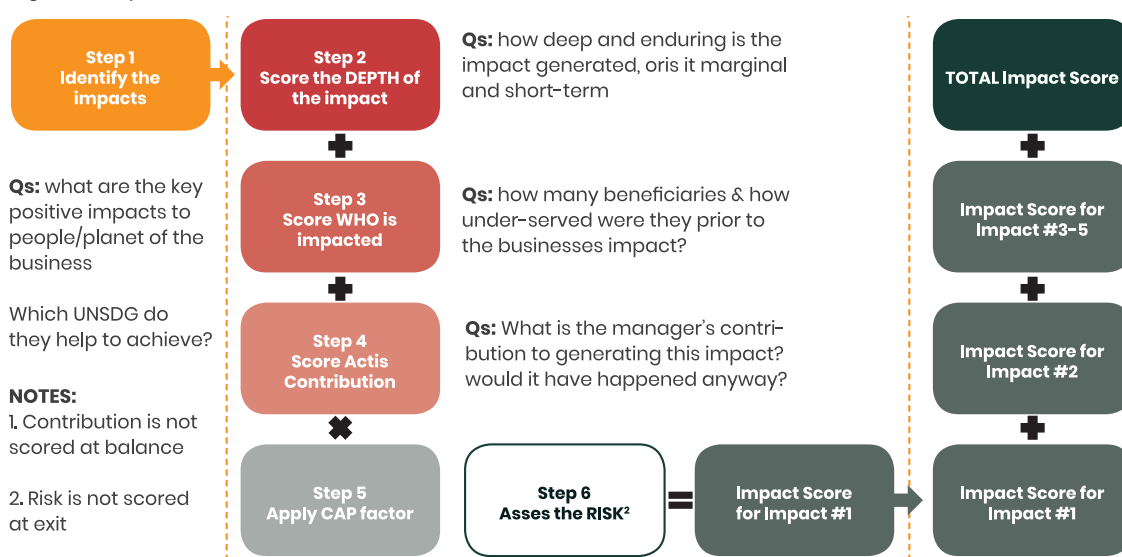
The 6 steps also integrate the Impact Management Project's (IMP) 5 dimensions of impact to align with the consensus that is being built around the norms of understanding impact performance. An additional element to the IMP's 5 dimensions, is the Core, Ancillary or Peripheral (CAP) business activity factor, which was introduced to ensure that businesses who integrate impact into their core activities would receive better ratings than those that have impact generation as an ancillary or peripheral business activity. A scoring system like AIS allows investors to link their strategic intent and generation of positive impact, showcase their impact and assists with decision making.

What	Impact generating activity	Generating clean energy	Ensuring decent labour and working conditions
		Building a pan-Indian renewable energy company with IGW of generating capacity which helps combat climate change.	Seeking to ensure safe and hygienic conditions for construction workers in a country with historically poor conditions.
		CORE	Ancillary
	Cap Factor	5.0	3.0
How Much	Marginal/Deep	5	3
	Score	5.0	3.0
Who	Well-served/ under-served	5	4
	Few/many	4	4
	Score	4.5	4.0
Contribution	Zero/low/ moderate/high	low	moderate
	Score	1.0	2.0
Risk	low/medium/high	low	medium
	Total Impact	52.50	27.00

Actis' impact management approach is built on the 3 pillars of intentionality (explicitly target specific impact outcomes), measurement (robust framework underpinned by objective, transparent assessment) and verification (credible independent audit of the impact management system)^{1,2}.

Actis has made the detailed information about the AIS system available to the public on their website and has received interest from over 30 institutional investors in using the system³. More information about the AIS system and how to implement it, is available here.

Figure: Example of Actis Scorecard



¹Actis. 2019. Impact measurement white paper. Available from: <https://www.actis/media/2761/impactis-report-low-res-cropped-2.pdf>

²UNPRI. 2020. Actis SDG Case Study. Available from: <https://www.unpri.org/sdgs/actis-sdg-case-study/5973.article>

³Magor, J. Interview with Bertha Centre for Social Innovation. August 11, 2020.

7.4 Case Study: Assuring good practice



Phatisa is a sector specific African private equity fund manager located in, and operating across sub-Saharan Africa, with a mission of feeding and housing Africa.

As a fund manager with a clear impact mandate, Phatisa was one of the first 60 signatories to the International Finance Corporation (IFC) Operating Principles for Impact Management (Principles/OPIM). This framework consists of nine Principles to which signatories commit and are required to report on their progress each year. Principle 9 requires not only the public disclosure of alignment with the Principles, but also the regular independent verification of this alignment.

In order to achieve this final principle, Phatisa engaged with IBIS Consulting to carry out the independent verification process. As the Principles become more widely adopted, there is increasing convergence on the approach that should be taken at this stage of the process. Verification is performed of the (i) company's alignment to the principles in their impact performance management system/s and (ii) as stated and revealed through their disclosure statement.

To prepare for the verification process, Phatisa carried out a thorough internal review of its impact measurement and management (IMM) system, providing details on the activities undertaken within the organization to align with the OPIM. This entailed performance against each of the Principles being rated as low, moderate, medium or high.

The assurance process entailed a detailed review of the disclosure statement, interviews with key personnel at Phatisa (particularly the Head of Impact) and a detailed walk-through and review of all documentation relating to the IMM system, including the way it interacts with the investment selection and management process more broadly

A limited assurance engagement was conducted in accordance with the International Standard on Assurance Engagements 3000 (Revised). Principally, the engagement sought to ensure the disclosure statement provided by Phatisa was free from any material misstatement. The Phatisa Disclosure and IBIS Assurance Statements were then made publicly available and can be found on the Phatisa and IFC websites.

Alongside the assurance statement, a thorough management report was developed, scoring Phatisa's performance against each of the nine principles, providing insight on gaps, highlighting areas of strength and outlining recommendations for alignment with global best practice in the IMM. Phatisa aims to address the recommendations and will be repeating the verification exercise on a biennial basis, updating the disclosure statement as required.

- The process for preparing for a verification on the part of a signatory is significant, and should not be underestimated from a time and capacity point of view. It was helpful that Phatisa had undertaken an internal review and prepared its disclosure statement beforehand.
- Although the assurance statement is critical, one of the most valuable outcomes of the process proved to be the insight provided to a signatory by an independent verifier who is likely to have had exposure to a range of IMM systems and to be well-versed in IMM practices.
- Having the benefit of both an assurance specialist and impact practitioner in the assurance team was valuable in that it allowed for a rigorous verification process as well as a more nuanced discussions around how new developments within the IMM space relate to Phatisa specifically.

Verify	Assess	Interview	Tests	Examine
Verified that the policies and procedures in place adequately address each of the Principles.	Assessed the quality and depth of the policies and procedures in relation to the Principles.	Interviews were conducted with relevant functional managers responsible for defining, applying and enforcing the policies and procedures.	Performed walk-through tests to check the correct application of a sample of policies and procedures.	Examined the consistency of the information presented in the disclosure statement in relation to the policies and procedures.

7.5 Case Study: Strategy setting and system alignment

27 Four in partnership with the Jobs Fund has established a fund of funds structure, the Black Business Growth Fund II (BBGF), that aims to create market-rate financial returns, positive impact and stimulate transformation at a fund manager and portfolio level. These objectives provide increased opportunities for first time black fund managers to gain experience, develop a track record and address the SDGs.

Key steps in developing the BBGF's impact measurement and management process included establishing a theory of change, aligning it with specific SDGs, and developing a data collection system that provided consistent data that could be rolled up to the fund of fund level, but was not too burdensome on the underlying funds and their portfolio companies. The BBGF team identified the unlisted financial services industry as an area where the barriers to entry were significant for first time black fund managers. To be successful in the industry, fund managers need significant experience and a proven track record. As such, the team's broad impact thesis, as defined in their theory of change, is to catalyse institutional investment to support emerging black fund managers who are investing in small to medium enterprises for growth. These investments in turn generate job creation opportunities, transformation, market-rate returns amongst other outcomes.

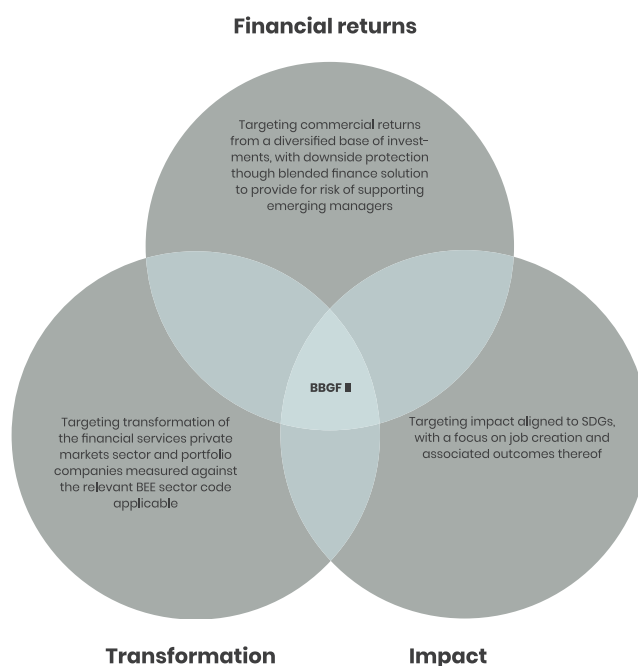
Critical to their intention setting and portfolio construction was the selection of 4 core SDGs to define their impact targets. The fund is focused on contributions towards SDG 1 (No poverty), 2 (Zero hunger), 5 (Gender equality) and 8 (Decent work and economic growth). These goals were carefully selected to provide consistent data capturing through a detailed schedule using information that should be readily available to the portfolio companies. This information includes baseline indicators such as number of employees, demographic information, levels of education, skill levels, and dependents supported.

Once baseline measures of the individual assets are established with the BBGF's fund managers, growth and transformation plans are formulated and the implications for job creation and transformation are outlined in an implementation plan over the investment holding period. This step ensures employment opportunities that are representative of the South African demographic which includes youth and gender diversity. Each asset is then measured against the baseline and transformation plan on a yearly basis to create rolling annualized indicators that can be aggregated to a fund of fund level.

Some of the underlying funds may also target other SDGs, but the BBGF team is not prescriptive with their fund managers of the measurement that takes place outside of the four core SDGs. Key impact measures are custom built into the individual portfolio company reporting requirements, and measured and reported against a baseline. They have found that these are often best represented as qualitative data that provide key insights into the impact generated.

To help with future investment decision-making, the BBGF team are considering implementing a weighting to their three main objectives of financial return, impact and transformation. This weighting system could help the team manage their portfolio towards an efficient impact frontier that considers returns, risk and impact. Currently, the fund manager selection is more weighted towards financial returns with equal consideration given to transformation and impact goals.

Core SDGs targeted by BBGF II:



7.6 Case Study: Creating pockets of standardisation



African Infrastructure Investment Managers (AIIM), which is 100% owned by Old Mutual Alternative Investments, develops and manages private equity infrastructure funds designed to invest long-term institutional unlisted equity in African infrastructure projects.

The Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) was introduced not only to harness the significant potential of renewable energy in South Africa and to increase energy capacity across the country, but also to support meaningful socio-economic development and long-term resilience in the surrounding communities through the injection of private funding. AIIM is currently invested in 26 of these renewable energy projects across South Africa.

In light of the significant investment that has been made into these initiatives, the extent to which these interventions have been effective in achieving their intended outcomes has become increasingly important, alongside the ability to understand the relative performance of different projects. The following evaluation process was undertaken with these objectives in mind.

IBIS Consulting was engaged to carry out a Social Impact Measurement (SIM) process across 13 SED projects for five of AIIM's renewable energy assets in the Northern Cape, Eastern Cape and Western Cape. This entailed:

- Building a Theory of Change for each project based on engagement with project stakeholders
- Selecting indicators to enable progress towards intended outcomes to be measured
- Carrying out primary data gathering amongst project stakeholders and beneficiaries in order to obtain qualitative data
- Publication of impact reports used to engage with stakeholders, improve achievement of socio-economic outcomes and inform future strategy

One of the main challenges of the project, which is common to IMM activities, was meeting the dual imperatives of achieving sufficient consistency and standardisation across the measurement process to allow for comparison of different projects, whilst also accounting for the unique contexts and specific objectives or constraints of each intervention. This challenge was overcome through ensuring that the SIM process was as standardised as possible, even though the nature, sector, cultural and geographical contexts of projects, as well as their size and level of maturity were often different.

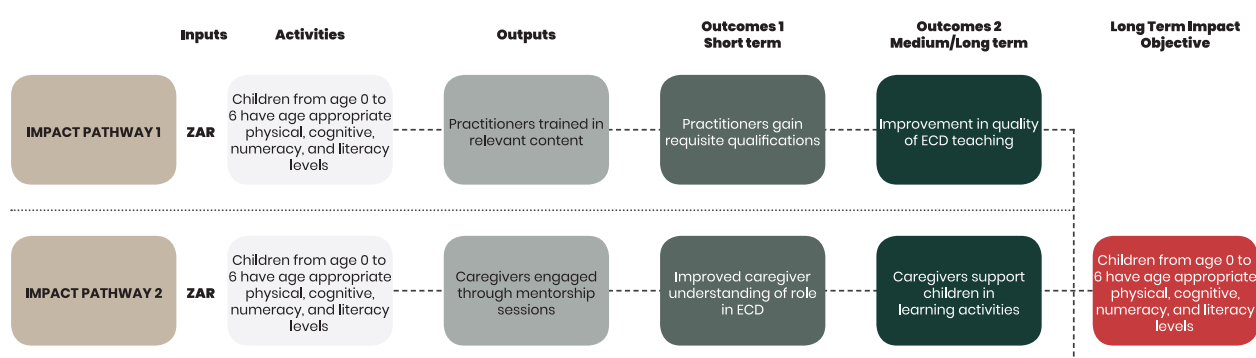
Additional challenges in the first iteration of this process included:

- the absence of baseline data against which to compare performance data over time
- the limited capacity of project teams to collect data amidst their already demanding daily work
- differing levels of understanding amongst stakeholders of the concepts of IMM and, Monitoring and Evaluation

These challenges have been addressed for future iterations of the SIM processes by

- Phasing the process over 2 years instead of 1
- Monitoring key indicators over time to build baseline picture with full evaluation undertaken in year 2. This will ensure that the monitoring data gathered in the first phase of the project is used optimally as a basis for targeted questioning in interviews and focus groups with project beneficiaries and other stakeholders in the second year. It also ensures a greater level of preparedness at project sites and an increased understanding in advance of what the data gathering process entails.
- Building capacity and understanding of IMM in key stakeholder groups to create buy-in which will facilitate data collection

The AIIM SIM process continues to be an evolving process and learning curve as the team continues to incorporate emerging IMM best practice into their approach.



Annexes

Annex A Asset Owner Guidelines

Operations	Topic	Recommendation	Guidelines and tools
Signal	Strategy	Embed Impact into strategy, operations and culture of organisation	Update investment strategy
	Policy	Include impact objectives in Investment Policy Statement	Responsible Investment and Ownership Guide (in process of being updated)
	Map	Map existing positive and negative impact across portfolio Map portfolio to SDGs	Impact Management Project Mapping (IMP) tool <ul style="list-style-type: none"> Link to video Case study: PGGM IMP+ACT Alliance – digital platform for IMP
	Incentives	Align financial and impact incentives	Link executive remuneration to impact and sustainability Link Asset/Fund Management fees to impact and sustainability
Skills	Capabilities	Establish Impact capabilities within Board, ESG committee and Investment Function	Identify and support training opportunities <ul style="list-style-type: none"> ASISA Academy Impact Investing in Africa (UCT GSB Bertha Centre)
	Knowledge development	Keep up to date with market developments	Subscribe to leading publications and newsletters: <ul style="list-style-type: none"> Impact Management Project Global Impact Investing Network Global Reporting Initiative PRI Pensions for Purpose Responsible Investor
Intermediaries	Investment advisors or consultants	Select aligned advisors/consultants and hold them to account for industry best practice	Ensure advisors/consultants are implementing emerging best practice
	Asset/Fund Managers	Select aligned managers and hold them to account for industry best practice	Include impact objectives in Investment Management Agreement (IMA) Ensure managers are implementing emerging best practice UNPRI Asset Manager Selection Guide – utilise principles
Design	Theory of Change (ToC)	Intentionally target investment that addresses impact objectives	ToC owned by strategy function of Asset Owner Use NDP/SDG objectives as key guiding framework <ul style="list-style-type: none"> Case study: APN and PGGM Social Development Taxonomy Case study: Hermes SDG Taxonomy

Operations	Topic	Recommendation	Guidelines and tools
	Goal setting	Include impact objectives in Strategic Asset Allocation	<p>Identify opportunities across asset classes</p> <ul style="list-style-type: none"> • Private equity: ±17% global impact investment allocation • Private debt: ±20% global impact investment allocation • Bonds (Green, Social and Sustainability Bonds): ±20% global impact investment allocation <ul style="list-style-type: none"> ◦ JSE Green Bond Segment ◦ Social/Sustainability Bonds: ICMA Principles ◦ Climate Bond Initiative ◦ EU Green Bond Standard • Public equities: ±20% global impact investment allocation <ul style="list-style-type: none"> ◦ Case study: Neuberger Berman ◦ Sustainability Indices (Including small percentage Impact) • Real assets: ±17% global impact investment allocation
	Measurement approach	Use technology to support allocation, data collection and reporting	<p>Identify emerging technology solutions</p> <p>Case study: Sustainable Development Investments Asset Owner Platform</p> <p>IMP+ACT Alliance – digital platform for IMP</p>
Measure	Evidence and indicators	<p>Use emerging shared indicator sets where appropriate</p> <p>Advise managers to use shared indicator sets where appropriate</p>	<ul style="list-style-type: none"> • IRIS + • Global Reporting Initiative (GRI) • Harmonized Indicators for Private Sector Operations (HIPSO) • Green Taxonomy (National Sustainable Finance Initiative) • SASB
Manage	Data analysis Make informed decisions	<p>Ensure impact integrated across investment process</p> <p>Ensure managers are integrating impact across investment process</p>	<p>Use globally accepted frameworks (principles or standards) that provide guidance on emerging best practice on impact measurement and management</p> <ul style="list-style-type: none"> • Impact Investing <ul style="list-style-type: none"> ◦ IFC Operating Principles for Impact Management (released 2019) ◦ UNDP SDG Impact Standards (to be released Q4 2020) ◦ GIIN Core characteristics of impact investing • Sustainable investing Principles and Toolkits <ul style="list-style-type: none"> ◦ PRI ◦ CRISA ◦ BASA Principles for Managing Social and Environmental Risk ◦ Equator Principles ◦ UN Global Compact ◦ UNEP FI Positive Impact Manifesto ◦ UNEP FI Principles for Responsible Banking ◦ Sustainable Stock Exchange ◦ UNEP FI Principles for Sustainable Insurance ◦ ClimateWise ◦ OECD Guidelines for Multi-National Principles ◦ CDC ESG Toolkit ◦ IFC Sustainability Framework

Operations	Topic	Recommendation	Guidelines and tools
	Stakeholder engagement	Embed stakeholder consultation across operations	Engage members, beneficiaries, customers to determine preferences and educate on sustainability and impact <ul style="list-style-type: none"> • Report: Investing in a better world (DFID. 2019) • Campaign: Make my Money Matter Engage managers and advisors to ensure alignment Engage internal stakeholders across organisation to ensure strategic and operational alignment
Report	Reporting	Efficient, comprehensive reporting on sustainability indicators according to global best practice and local regulatory requirements	Reporting commitments stated in IPS and IMA <ul style="list-style-type: none"> • Local <ul style="list-style-type: none"> o Directive Sustainability reporting and disclosure requirements (FSCA) – Pension Funds o Integrated reporting o King Code IV o National Sustainable Finance Initiative emerging recommendations • International <ul style="list-style-type: none"> o GRI o PRI o SASB o TCFD
		Targeted, regular reporting on impact indicators relevant to ToC	<ul style="list-style-type: none"> • Reporting commitments stated in IPS and IMA • Report at least annually • Report on link between financial and E&S performance • Report alongside financial performance
		Use shared language to communicate with internal and external stakeholders	IMP Structured network: Alignment of language across standard setting organisations
	Validation and assurance	Seek external verification of results from reputable third party service providers	<ul style="list-style-type: none"> • Select products with mandatory verification/certification processes • Green/social/sustainability Bond Standards • UNDP SDG Impact Standards for PE Funds, Bonds and Enterprises (to be released Q4 2020) • Support voluntary verification/audit processes
Ecosystem	Market building	Signal alignment with IMM frameworks by becoming signatories, seeking accreditation and/or including in annual reports	Signatory <ul style="list-style-type: none"> • IFC Operating Principles for Impact Management Certification <ul style="list-style-type: none"> • UNDP SDG Impact Standards (to be released Q4 2020)
		Engage with market building initiatives to drive consistency in IMM and reporting	Local <ul style="list-style-type: none"> • National Sustainable Finance Initiative • Green Taxonomy Process International <ul style="list-style-type: none"> • GIIN Annual Investor Survey – increase South African and African cohort to support benchmarking efforts • IRIS + call for input into ongoing development of Standards • Impact Management Project Practitioner Community

Annex B Investment Manager Guidelines

Operations	Topic	Recommendation	Guidelines and tools
Signal	Strategy	Embed Impact into strategy, operations and culture of organisation	Update investment strategy
	Map	Map existing positive and negative impact across portfolio Map portfolio to SDGs	Impact Management Project Mapping tool <ul style="list-style-type: none"> • Link to video • IMP+ACT Alliance – digital platform for IMP • Case study: Building an impact management process for a multi-asset class portfolio • Case study: In Pursuit of Deep Impact and Market-Rate Returns: KL Felicitas Foundations Journey
	Incentives	Align financial and impact incentives	Link executive remuneration to impact and sustainability Link investment manager remuneration to impact at fund level <ul style="list-style-type: none"> • Impact based incentives structures (GIIN) Link finance terms to impact at deal level
Skills	Capabilities	Establish IMM capabilities within senior leadership and investment teams	Identify and support training opportunities <ul style="list-style-type: none"> • Impact Investing in Africa (UCT GSB Bertha Centre) • Evaluating Impact Investing • Oxford Impact Management Programme
		Ensure sufficient funding of IMM function	Expect to allocate ±6% of budget split between Planning, Data collection, Data analysis, Impact Management and Reporting (GIIN, 2020) Expect ±1/3 staff to be directly involved predominantly investment teams but also IMM specific staff and senior leadership (GIIN, 2020)
	Knowledge development	Keep up to date with market developments	Subscribe to leading publications and newsletters: <ul style="list-style-type: none"> • Impact Management Project • Global Impact Investing Network • Global Reporting Initiative • PRI
Design	Theory of Change (ToC)	Intentionally target investment that addresses impact objectives	ToC owned by strategy function of Investment Manager <ul style="list-style-type: none"> • IRIS+ Use NDP/SDG objectives as key guiding framework <ul style="list-style-type: none"> • SDG Impact Theme Framework (Toniic) • SDG Compass (GRI) • SDG Investment case (PRI) • Industry guide to SDGs (SASB)
	Goal setting	Consider impact objectives and targets in portfolio construction	

Operations	Topic	Recommendation	Guidelines and tools
	Measurement approach	Use technology to support allocation, data collection and reporting	Identify emerging technology solutions <ul style="list-style-type: none"> Technology enabled reporting practice across the value chain (UK Social Impact Investing Taskforce) Social value tools IMP+ACT Alliance – digital platform for IMP
Measure	Evidence and indicators	Use emerging shared indicator sets where appropriate	<ul style="list-style-type: none"> IRIS + Global Reporting Initiative (GRI) Harmonized Indicators for Private Sector Operations (HIPSO) SASB Green Taxonomy (National Sustainable Finance Initiative)
	Data collection		
	Data validation		
Manage	Data analysis	Assess outcomes and impact not just outputs	Assess multiple dimensions of impact to understand nature and depth <ul style="list-style-type: none"> 5 Dimensions of impact (IMP)
	Make informed decisions	Integrate impact across investment process	Use globally accepted frameworks (principles or standards) that provide guidance on emerging best practice on impact measurement and management <ul style="list-style-type: none"> Impact Investing <ul style="list-style-type: none"> IFC Operating Principles for Impact Management (released 2019) UNDP SDG Impact Standards (to be released Q4 2020) GIIN Core characteristics of impact investing Sustainable investing Principles and Toolkits <ul style="list-style-type: none"> PRI CRISA BASA Principles for Managing Social and Environmental Risk Equator Principles UN Global Compact UNEP FI Positive Impact Manifesto UNEP FI Principles for Responsible Banking Sustainable Stock Exchange UNEP FI Principles for Sustainable Insurance ClimateWise OECD Guidelines for Multi-National Principles CDC ESG Toolkit IFC Sustainability Framework <p>Useful tools</p> <ul style="list-style-type: none"> The Impact Due Diligence Guide (Pacific Community Ventures, IMP, GIIN) Investor Handbook on Impact-Financial integration

Operations	Topic	Recommendation	Guidelines and tools
	Stakeholder engagement	Embed stakeholder consultation across operations	<p>Engage investees and customers by collecting self-reported and non self-reported data</p> <ul style="list-style-type: none"> • Designing a survey (IMP, 60 Decibels, Keystone Accountability) • Lean Data (60 Decibels) <p>Engage internal stakeholders across organisation to ensure strategic and operational alignment</p> <p>Engage members, beneficiaries, customers to determine preferences and educate on sustainability and impact</p> <ul style="list-style-type: none"> • Report: Investing in a better world (DFID. 2019) • Campaign: Make my Money Matter
Report	Reporting	Efficient, comprehensive reporting on sustainability indicators according to global best practice and local regulatory requirements	<p>Report according to local regulation and international best practice</p> <ul style="list-style-type: none"> • Local <ul style="list-style-type: none"> o Integrated reporting o King Code IV o National Sustainable Finance Initiative emerging recommendations • International <ul style="list-style-type: none"> o GRI o PRI o SASB o TCFD
		Targeted, regular reporting on impact indicators relevant to ToC	<p>Report at least annually</p> <p>Report according to international emerging best practice</p> <p>Report on link between financial and E&S performance</p> <p>Report alongside financial performance</p>
		Use shared language to communicate with internal and external stakeholders	IMP Structured network: Alignment of language across standard setting organisations
	Validation and assurance	Seek external verification of results from reputable third party service providers	<p>Consider Standards-based frameworks to ensure credibility</p> <ul style="list-style-type: none"> • Green/social/sustainability Bond Standards • UNDP SDG Impact Standards for PE Funds, Bonds and Enterprises (to be released Q4 2020) <p>Support voluntary verification/audit processes</p>
Ecosystem	Market Building	Signal alignment with IMM frameworks by becoming signatories, seeking accreditation and/or including in annual reports	<p>Signatory</p> <ul style="list-style-type: none"> • IFC Operating Principles for Impact Management Certification • UNDP SDG Impact Standards (to be released Q4 2020)
		Engage with market building initiatives to drive consistency in IMM and reporting	<ul style="list-style-type: none"> • Local • National Sustainable Finance Initiative • Green Taxonomy Process <p>International</p> <ul style="list-style-type: none"> • GIIN Annual Investor Survey – increase South African and African cohort to support benchmarking efforts • IRIS + call for input into ongoing development of Standards • Impact Management Project Practitioner Community

Annex C Leading Frameworks & Tools

Lead	Name	Description	Primary User	Geography	Type of Framework	Classification
Principles Principles have a broad scope and are not specific about operational requirements or KPIs with regards to risks and impact. They are voluntary and do not include disclosure instructions although most mandate that reporting should be subject to external audit.						
Banking Association of South Africa (BASA)	Principles for Environmental and Social Risk Management		Financial Institutions	South Africa	Sustainability	Principles
			Banks			
IFC	IFC Operating Principles for Impact Management	9 Principles representing emerging best IMM practice	Investors	Global	Impact	Principles
			Fund managers			
International Capital Markets Association (ICMA)	Green, Sustainability and Social Bond Principles	Framework of issuance of bonds – high level principles	Issuers	Global	Sustainability	Principles
			Investors		Impact	
			Assurers			
OECD	OECD Guidelines for Multinational Companies	Non-binding principles and standards to multinational enterprises operating in or from adhering countries for responsible business conduct	Multinational Enterprises	Global	Sustainability	Principles
OECD	Responsible Business Conduct for Institutional Investors	Application of the OECD Guidelines for Multinational Enterprises in the context of institutional investors	Institutional investors	Global	Sustainability	Principles
OECD	OECD DAC Blended Finance Principles	Blended finance to be anchored to a development rationale ensuring development additionality	Investors	Global	Sustainability	Principles
OECD	OECD Guidelines for Multinational Enterprises	Recommendations addressed by governments to multinational enterprises providing non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards.	Multi-national Enterprises	Global	Sustainability	Principles
			Governments			

Principles for Responsible Investment (PRI)	United Nations-supported Principles for Responsible Investment	Evolved out of UNEP FI and UNGC	Institutional investors	Global	Sustainability	Principles
		6 Voluntary aspirational investment principles that offer menu of actions for incorporating ESG into investment practice				
		guidelines for the governance structures and operation of companies in South Africa				
		TCFD-based reporting to become mandatory for PRI signatories in 2020				
The Equator Principles Association	Equator Principles risk management framework	Voluntary set of principles adopted by financial institutions, for determining, assessing and managing environmental and social risk for projects financed through 1) Project Finance Advisory Services 2) Project Finance 3) Project-Related Corporate Loans and 4) Bridge Loans	Financial Institutions	Global	Sustainability	Principles
The Institute of Directors in Southern Africa	The Code for Responsible Investing in South Africa (CRISA)		Investors	South Africa	Sustainability	Principles
UN Global Compact	The 10 Principles of the UN Global Compact	A call to companies to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals.	Companies	Global	Sustainability	Principles
UNEP FI	Principles for Positive Impact Finance	4 Principles to guide financiers and investors in their efforts to increase their positive impact on the economy, society and the environment, constitutes a central component of the Positive Impact Roadmap outlined in the Manifesto.	Financial Institutions	Global	Impact	Principles
			Insurers			
			Investors			
UNEP FI	Principles for Responsible Banking (PRB)	Framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement.	Banks	Global	Sustainability	Principles
		11 working groups in 6 priority areas				
UNEP FI	Principles for Sustainable Insurance (PSI)	Global framework for the insurance industry to address environmental, social and governance risks and opportunities	Insurance companies	Global	Sustainability	Principles
Social Value International	Social Value Principles	Social accounting principles and are important for accountability and maximising social value	Enterprises	Global	Impact	Principles
			Investors			

Global Impact Investing Network (GIIN)	Core characteristics of impact investor	Defines the baseline expectations of what it means to practice impact investing	Impact Investors	Global	Impact	Principles
			Companies			
Institute of Directors in Southern Africa (IoDSA)/the King Committee on Corporate Governance	The King Code of Corporate Governance (King IV)	Guidelines for the governance structures and operation of companies in South Africa	Listed and unlisted companies	South Africa	Governance	Principles
International Chamber of Commerce (ICC)	ICC Business Charter on Sustainable Development		Companies	Global	Sustainability	Principles
			SMMEs			
Standards						
Standards are based on best practice often articulated by principles and further developed through an internationally recognized process. They are usually subject to third party verification.						
GRESB	GRESB	ESG benchmark for real estate and infrastructure investments	Investors	Global	Sustainability	Standard
		ESG data covers USD 4.5 trillion in real estate and infrastructure value and is used by more than 100 institutional and financial investors				
		Close links to TCFD (GRESB Resilience Model)				
IFC	EDGE Buildings	Green building certification framework. Can be used by ICMA, CBI and GRESB.	Developers	Global	Environment	Standard
			Banks			
			Governments			
International Organization for Standardization (ISO)	ISO Social Responsibility Standards, incl. ISO 26000, ISO 20400	>21k International voluntary Standards	Corporations	Global	Sustainability	Standard
National Treasury	Regulation 28 of the Pension Funds Act	Directive for Sustainable Investing	Investors	South Africa	Sustainability	Standard
World Benchmarking Alliance	Benchmarks	Set of benchmarks comparing performance of 2000 keystone companies across different impact categories	Companies	Global	Impact	Standard

		Use to measure its impact of company on its workers, community, environment, and customers and required to achieve B Corps certification				
B Lab	B Impact Assessment		Companies	Global	Impact	Standards
Sustainability Accounting Standards Board (SASB) Foundation	Sustainability Accounting Standards Board	77 Industry Standards identifying the minimal set of financially material sustainability topics and their associated metrics for the typical company in an industry	Businesses	Global	Sustainability	Standards
	Materiality Map		Investors			
UNDP	UNDP SDG Impact Standards	Set of standards for Bonds, PE Funds and Enterprises holding certified organisations to account for minimum thresholds of practice	Investors	Global	Impact	Standards
			Intermediaries			
			Assurers			
Methodologies Facilitate implementation of principles/standards and enable investors to determine success of practice						
60 Decibels	Lean Data	Mobile, voice-based customer data collection	Impact Investors	Global	Impact	Methodology
			Fund Managers			
			Social Enterprises			
IFC	IFC Sustainability Framework	Performance standards define IFC clients' responsibilities for managing their environmental and social risks	Funds	Global	Sustainability	Methodology
Impact Management Project (IMP)	Impact Management Project (IMP) Five Dimensions	Data categories against which impact can be measured	Impact Investors	Global	Impact	Methodology
			Fund Managers			
			Social Enterprises			
Impact Management project (IMP)	Impact Frontiers Collaboration	Handbook on Impact Finance Integration	Investors	Global	Impact	Methodology
			Enterprises			
Global Steering Group for Impact Investing (GSG)	Impact weighted accounts	Methodology to monetise impact	Investors	Global	Impact	Methodology
			Enterprises			

Sopact	Social Return on Investment (SROI)	Method for measuring values that are not traditionally reflected in financial statements, including social, economic, and environmental factors	Impact Investors	Global	Impact	Methodology
			Fund Managers			
			Social Enterprises			
The Balanced Scorecard Institute (BSI)	Balanced Scorecard	Management system	Companies	Global	Impact	Methodology
Toniic	SDG Framework	Tool to support impact investors to align their investments with the SDGs	Philanthropists	Global	Impact	Methodology
			Investors			
UNEP FI	Positive Impact Initiative (PII)	Think-and-do-tank within UNEP FI focused on closing the \$2.5 trillion SDG financing gap.	Financial Institutions	Global	Impact	Methodology
UNEP FI Positive Impact Initiative	Corporate Impact Analysis Tool	Tool enables users to perform a holistic analysis of companies, based on the reality of those companies' business activities and the needs of the countries in which they operate, whether for sourcing, production or sales	Banks	Global	Impact	Methodology
			Investors			
UNEP FI Positive Impact Initiative	Portfolio Impact Analysis Tool for Banks	Tool to help banks analyse the impacts associated with their retail (consumer and business banking) and wholesale (corporate and investment banking) portfolios.	Corporates	Global	Impact	Methodology
			Banks			
United Nations	UN Sustainable Development Goals (Global Goals)	17 goals to be achieved by 2030 which articulate a sustainable and better future for all	Investors	Global	Impact	Methodology
			All types of organisations			
Metrics and indicators Metrics and indicators are used to measure the outputs, outcomes and impact of an investment						
Global Impact Investing Network (GIIN)	IRIS Catalogue of Metrics	Aligns with over 50k standards bodies	Impact Investors	Global	Impact	Metrics
			Companies			

Global Impact Investing Network (GIIN)	IRIS+ Core Metrics Sets	Generally accepted core metric sets aligned to common impact themes and SDGs	Impact Investors	Global	Impact	Metrics
		Alignment with International Standard Industrial Classification of All Economic Activities (ISIC)	Companies			
		Alignment with SDG goals and targets				
		Alignment with 5 dimensions of impact				
IFI Partnership	Harmonized Indicators for Private Sector Operations (HIPSO)	38 reporting indicators that split up across 15 different sectors and industries	International Financial Institutions (IFI)	Global	Impact	Metrics
		15 HIPSO indicators are aligned to IRIS metrics				
B Lab	GIIRS	Impact evaluation and ratings system provides both company and fund impact ratings derived from the B Impact Assessment	Impact Investors	Global	Impact	Metrics
			Fund Managers			
			Social Enterprises			
Global Reporting Initiative	GRI Sustainability Reporting Standards	Global standards for sustainability reporting featuring a modular, interrelated structure, and represent best practice for reporting on a range of economic, environmental and social impacts.	Companies	Global	Sustainability	Metrics
Disclosure Frameworks whereby an investor or enterprise might actively disclose its sustainability- and impact related policies, practices, and performance data and information						
Task Force on Climate-related Financial Disclosures (TCFD)	TCFD	Voluntary, consistent climate-related financial risk disclosure framework that companies can use to provide information to investors, lenders, insurers, and other stakeholders	Companies	Global	Environment	Disclosure
United Nations	Paris Agreement	Landmark agreement to combat climate change and to accelerate and intensify the actions and investments needed for a sustainable low carbon future	Governments	Global	Environment	Disclosure

CDP Global	The Carbon Disclosure Project	Global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts	Investors	Global	Environment	Disclosure
			Companies			
			Governments			
Integrated Reporting Council (IRC)	Integrated Reporting	Report combining traditional, annual financial with ESG data	Listed companies	Global	Sustainability	Disclosure
Network Group of institutionally similar organisations committed to improving sustainable and impact investment practice						
IFC	Sustainable Banking Network	Voluntary community of financial sector regulatory agencies and banking associations from emerging markets committed to advancing sustainable finance in line with international good practice	Banks	Global	Sustainability	Network
Impact Management Project (IMP)	IMP Structured Network	13 Standard setting organisations coordinating efforts to provide complete standards for impact measurement, management and reporting	Investors	Global	Impact	Network
			Enterprises			
The Global Alliance	Global Alliance for Banking on Values (GABV)	Independent network of banks using finance to deliver sustainable economic, social and environmental development	Banks	Global	Sustainability	Network
UNEP FI	Sustainable Stock Exchanges Initiative (SSEI)	United Nations Sustainable Stock Exchanges (SSE) initiative, a UN Partnership Programme organised by UNCTAD, UN Global Compact, UN Environment Programme Finance Initiative (UNEP FI) and the UN-supported PRI.	Stock exchanges	Global	Sustainability	Network

Annex D Interview List³

1	Alexander Forbes
2	27Four Investment Managers
3	ABSA
4	DBSA
5	Discovery
6	E2
7	Edge Growth
8	Ethos
9	Futuregrowth
10	Goodwill Investments
11	Hlayisani Capital
12	Hollard
13	IDC
14	Innovation Edge
15	Investec Group
16	Leapfrog
17	Mergence Investment Managers
18	Metier
19	Motor Industry Retirement Funds
20	Old Mutual Alternative Investments
21	Phatisa
22	PIC
23	SAB Foundation
24	Sanlam
25	Standard Bank
26	Ugandan Development Bank
27	Yellowwoods Investments

³Some organisations have asked to remain anonymous

