

## **IMPACT INVESTING IN LIGHT OF COVID-19**

The term 'Impact Investing' might well have started cropping up more regularly within boardrooms around South Africa over the last few years, especially in conjunction with a company's corporate social investment approach or their social responsibility initiatives. But now, as the COVID-19 pandemic expands and life as we know it is changing in unimaginable ways, Impact Investing is a way for companies to have a fundamental impact on the increasing challenges we face in South Africa, particularly in terms of poverty, inequality and unemployment.

"More and more companies are realising the importance of being socially responsible to promote positive social returns. Many do so by utilising CSI spend but could also benefit from diversifying their approach through the mechanisms of grant making and impact investing," says Tracey Henry, Chief Executive Officer of Tshikululu Social Investments, South Africa's leading social investment fund manager and advisor.

"The effect Impact Investing has already had to date in South Africa in terms of education, health, social infrastructure, youth empowerment, the environment and skills development is already significant, but existing models are going to need to adapt for the foreseeable future as these needs, and the ripple effects of the coronavirus, escalate". Tracey says.

Traditionally, Impact Investing directs capital to enterprises that generate social or environmental benefits alongside financial return.

Many impact investment initiatives locally currently focus both on the United Nations Sustainable Development Goals for 2030 as an organising framework, as well as specific local needs as laid out in the National Development Plan. With the impact of the coronavirus additional immediate and longer-term needs have also been identified which includes the provision of personal protective equipment and a greater emphasis on food security.

According to Arabella Advisors, a US based company that provides strategic guidance for effective philanthropy, as Impact Investors consider how to respond to the COVID-19 crisis globally, ideally a balance between traditional models and a new, no-holds-barred approach is needed. They see this as identifying opportunities to leverage existing due diligence and established intermediaries while quickly meeting urgent capital needs through flexible investment structures and streamlined processes to meet new and emerging capital needs through more flexible investment structures.

But how does this translate into Impact Investing in South Africa? Can this approach be mirrored here? Tshikululu sees the traditional Impact Investment model adapting to the COVID-19 challenge as follows:

- Foundations playing in the Impact Investment space who have the available resources could increase their allocation of grant funding for the immediate relief of the most vulnerable. Although Impact Investing has become popular, it is not all social challenges that can be solved via impact investing, some cases require grant funding.
- Impact Investors could also look at blended finance structuring approaches, to lower perceived risk levels of investments that have the potential of generating both positive social impact alongside financial returns, in order to crowd-in additional capital.
- Expedition of due diligence and certain reporting criteria while still adhering to necessary risk assessments
- Supporting investees by adjusting terms, loan repayments and interest rates where needed, helping organisations to access much needed capital and being open to invest in new and innovative opportunities.

Some examples of what is working in the Impact Investment space globally includes companies such as private philanthropic initiative Open Road Alliance which is offering four loan products to organizations affected by COVID-19 for lost revenue from cancelled fundraising events, accelerating incoming emergency funds, co-investment to support social enterprises as well as deep impact low interest loans for organizations that deliver vital community services.

Another is The Bill & Melinda Gates Foundation, Wellcome and Mastercard who have together made up to \$125 million in seed funding available to speed-up the response to the COVID-19 epidemic by identifying, assessing, developing, and scaling-up treatments. They have committed to equitable access, including making products available and affordable in low-resource settings.

Closer to home, Vital Capital, an Impact Investor focused on companies in sub-Saharan Africa, has recently announced a new debt facility providing loans to promising businesses to help them get through the coronavirus pandemic while continuing to offer essential services. The Vital Impact Relief Facility offers loans, which seek risk-adjusted returns, to help fundamentally sound African businesses to withstand the economic effects of the virus and put them in a position to thrive once the pandemic has ended.

Ideally, we need to see more South African Impact Investors responding in similar ways.

“Social investment strategies need to be responsive to the challenges we are facing. Now more than ever, we need social investors to reflect on their current strategies and how they align to the country’s immediate and future needs,” Tracey says.

There is currently an unprecedented team effort taking place to help those most in need, and Tshikululu’s role is to facilitate the development of solutions that will have immediate as well as longer

term impact for society, by working in collaboration with multiples parties, from funders, social enterprises, civil society, non-profits and government.

Vital to any Impact Investment is the ability to measure its performance, particularly as more companies and social investors are becoming smarter about their investments. As experts in Impact Measurement and Management, Tshikululu foresees much more involvement within this specialised field going into 2020.

What remains undisputed is that Corporate South Africa has a huge part to play in assisting the most vulnerable in society as this pandemic continues to have such devastating effects on the country's most vulnerable.

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